



Recommendation for Action

File #: 20-2672, **Agenda Item #:** 71.

8/27/2020

Posting Language

Approve an ordinance authorizing the issuance of Taxable Commercial Paper Notes in a maximum principal amount at any one time outstanding of \$100,000,000 to provide short term loans for interim financing on utility projects; and approve the execution of all related agreements, including a Dealer Agreement with Goldman, Sachs & Co., an Issuing and Paying Agent Agreement with U.S. Bank N.A., a Revolving Credit Agreement and a Fee Letter with Barclays Bank PLC, related to the City's Combined Utility Systems Taxable Commercial Paper Notes, and approve and authorize all related documents, agreements, and fees.

Lead Department

Treasury

Fiscal Note

This item has no fiscal impact

Prior Council Action:

On May 13, 1998 Council approved the establishment of a \$60 million taxable Commercial Paper program and the related Letter of Credit with Landesbank Hessen-Thuringen Girozentrale (the "Bank"). On June 29, 2000, Council approved an increase in the taxable program from \$60 million to \$160 million and the related increase in the Letter of Credit with the Bank. The Letter of Credit was reduced from \$160 million to \$50 million on April 1, 2003. On August 28, 2003, September 30, 2004, and June 23, 2005 the Council approved extensions to the Letter of Credit Reimbursement Agreement between the City of Austin and the Bank. On June 23, 2011 Council approved a new Letter of Credit between the City and JPMorgan Chase Bank, National Association ("JPMorgan"). On August 28, 2014 Council approved a new Letter of Credit between the City and Citibank, National Association. On August 31, 2017, the City Council approved an ordinance, which replaced the previous Commercial Paper Note structure with a new Taxable Program Notes structure, in an aggregate principal amount of \$75,000,000, and authorizing the issuance of commercial paper notes and direct purchase notes, and replaced the existing Letter of Credit and Reimbursement Agreement with a Revolving Credit Agreement, in support of the commercial paper notes, and a Note Purchase Agreement, in support of direct purchase notes, each of which were provided by JPMorgan.

For More Information:

Belinda Weaver, Treasurer, 512-974-7885

Additional Backup Information:

The City's taxable commercial paper program was established in 1998. The commercial paper program allows the City to issue short term debt for qualifying Capital Improvement Program projects to minimize borrowing costs. At various times during the life of the commercial paper program, when market conditions are favorable, Council is asked to issue long-term refunding bonds to retire all or a portion of the outstanding commercial paper notes. A necessary component of the commercial paper program is liquidity, either in the form of a Letter of Credit (LOC), which serves two functions: first, to provide liquidity for the commercial paper securities in the event there are no buyers in the market for the City's commercial paper, and secondly, as a guarantor for the commercial paper should the City be unable to make debt service payments on the commercial paper;

or a Line of Credit (Line), which provides liquidity support and is less costly to the City than a LOC. In 2017, in connection with the creation of the Taxable Program Note structure, the existing LOC was replaced by a Line obtained from JPMorgan. Both a LOC and a Line typically have an expiration date of one to four years, at which point the City must renew, extend or replace the existing facility. The current Line, which expires October 9, 2020, totals \$81,657,535 (\$75,000,000 in principal and \$35,506,850 in interest). It is administered by JPMorgan. The firm receives an annual fee equal to 25 basis points on the maximum amount of the LOC.

Staff and the City's financial advisor, PFM Financial Advisors LLC, solicited bids to replace the expiring LOC. There were few responses to the solicitation, primarily due to the fact that COVID-19 has had a major impact on the credit market as municipal finances across the country are challenged. The majority of financial institutions are only working with existing clients, and if they are extending credit to new clients, the additional risk is reflected in their fees. It is staff's recommendation that the City accept the two-year bid of 67.5 basis points offered by Barclays Bank PLC, which was the lowest priced offer received.

This Council request, if approved, will allow the City of Austin to replace the expiring Line in anticipation of the October 9 expiration date and restructure the existing Taxable Program Notes by creating a program authorizing the sale of taxable commercial paper notes only, and increase the taxable commercial paper program from \$75,000,000 to \$100,000,000. In order to take advantage of the lower borrowing costs associated with commercial paper versus the borrowing costs associated with long-term debt, and to reduce the frequency with which the utilities must issue long-term revenue bonds to refund short-term commercial paper issuances, the program is being increased by \$25,000,000 to a total of \$100,000,000 in outstanding principal. If Council approves, the City will enter into a Revolving Credit Agreement with Barclays Bank PLC providing a Line in an amount equal to outstanding principal of \$100,000,000, plus the required interest component. The facility fee rate for the new Line is proposed at 67.5 basis points for the entire \$100 million.

In addition to the ongoing Line fee, there will be certain one-time costs associated with execution of this transaction. The estimated total for these fees is \$350,000 and will be paid to the following entities acting in the capacity noted:

- Chapman and Cutler-Bank Counsel
- McCall, Parkhurst & Horton L.L.P.-City Bond Counsel
- Norton Rose Fulbright US LLP -City Disclosure Counsel
- PFM Financial Advisors LLC-Financial Advisor
- Fitch-Rating Agency
- Moody's-Rating Agency
- Standard & Poor's-Rating Agency
- State of Texas Attorney General

Strategic Outcome(s):

Government that Works for All.