



Recommendation for Action

File #: 20-2673, **Agenda Item #:** 72.

8/27/2020

Posting Language

Approve an ordinance authorizing the issuance of Tax Exempt Program Notes, to be issued in the form of commercial paper notes and direct purchase notes, in a maximum principal amount at any one time outstanding not to exceed \$400,000,000, 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., an Amended and Restated Revolving Credit Agreement, an Amended and Restated Note Purchase Agreement and a Fee Letter with JPMorgan Chase Bank, National Association, related to the City's Combined Utility Systems Program 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 March 23, 2004, the City Council approved the execution of a Reimbursement Agreement for the issuance of a Credit Facility to be provided by Morgan Guaranty Trust Company (doing business as JPMorgan Chase Bank, National Association or "JPMorgan"). On March 22, 2007, February 25, 2010, and February 10, 2011 the Council approved extensions to the Letter of Credit and Reimbursement Agreement with JPMorgan as administrator for credit enhancement services to be provided by JPMorgan, State Street, and Bank of America. On November 8, 2012 the City Council approved an ordinance, which replaced the previous Letter of Credit and Reimbursement Agreement with a new Letter of Credit and Reimbursement Agreement, which removed Bank of America as a facility provider. On August 28, 2014 the City Council approved an ordinance, which replaced the previous Letter of Credit and Reimbursement Agreement with a new Letter of Credit and Reimbursement Agreement, which removed JPMorgan and State Street as the facility provider. On August 31, 2017, the City Council approved an ordinance establishing the Program Notes structure, consisting of commercial paper notes and direct purchase notes, which replaced the previous Letter of Credit and Reimbursement Agreement with a new Revolving Credit Agreement in support of commercial paper notes, and a Note Purchase Agreement in support of the purchase and sale of direct purchase notes, to be provided by JPMorgan.

For More Information:

Belinda Weaver, Treasurer, 512-974-7885

Additional Backup Information:

On November 21, 1996, Council approved a \$350 million tax-exempt commercial paper program for the Water/Wastewater and Electric Utilities. The commercial paper program provides lower borrowing costs, eliminates the need for an arbitrage calculation and allows greater flexibility for the utility systems in managing cash needs. 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 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 \$435,506,850 (\$400,000,000 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 Line.

Staff and the City's financial advisor, PFM Financial Advisors LLC, solicited bids to replace the expiring Line. 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 exercise an extension to our existing agreement with JPMorgan.

This Council request, if approved, will allow the City of Austin to extend the existing Line with JPMorgan. If Council approves, the City will enter into a Letter of Credit Reimbursement Agreement with JPMorgan in an amount equal to outstanding principal of \$400,000,000, plus the required interest component. The facility fee rate for the new Line is proposed at 70 basis points for the entire \$400 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.