

Memorandum



CITY OF DALLAS

DATE February 12, 2016

TO Members of the Budget, Finance & Audit Committee: Jennifer S. Gates (Chair), Philip T. Kingston (Vice Chair), Erik Wilson, Rickey D. Callahan, Scott Griggs, Lee M. Kleinman

SUBJECT General Obligation Commercial Paper Program - Amendment and Extension of Credit Agreements

The City Council agenda for February 24, 2016 includes a resolution for your consideration amending the ordinance authorizing the City of Dallas General Obligation Commercial Paper Notes, Series 2010A and Series 2010C. These amendments include the extension of \$350 million in lines of credit supporting the commercial paper program for one year to December, 2017. The existing lines of credit will expire on December 2, 2016.

Also included is an amendment to the fee structure of the credit lines, which will increase the annual fee from 45 basis points (0.45%) to 50 basis points (0.50%). Unless amended, the existing credit line agreements allow a fee increase of 15 basis points to be imposed if the City's general obligation bond rating is reduced by any of the agencies rating the City's long term debt. The City's general obligation bond rating declined to Aa2 from Aa1 by Moody's and to AA from AA+ by Standard and Poor's in the fall of 2015. The credit line banks, JP Morgan and Wells Fargo, offered to reduce the amount of the fee by 5 basis points in conjunction with the one-year extension of the credit lines after a lengthy period of discussion with the City and its Co-Financial Advisors.

The current 45 basis point annual fee (0.45%) under the existing credit line agreements has remained in place while the amendment discussions were ongoing. As a result of the credit banks' written offer provided to the City in early February, the options under consideration are:

1. Accept the full amount of the fee increase to 60 basis points (0.60%) as allowed under the existing credit lines and solicit new agreements later this year to replace the current agreements which expire in December, 2016. Acceptance of the full fee increase does not require City Council action.
2. Approve the proposed amendments, including the one-year extension of the agreements to December, 2017 and the 50 basis point fee (0.50%) as offered by the current credit line banks.

A cost comparison of the two fee structures from the effective dates of each fee increase to December, 2016 is attached. Also attached is a schedule of the estimated costs associated with the extension of the credit lines under Option 2.

General Obligation Commercial Paper Program - Background

In 2010, City Council approved an ordinance establishing a \$350 million general obligation commercial paper program as interim financing for the City's capital improvements. Commercial paper issuance is supported by lines of credit from highly rated banks. These lines of credit assure investors that the notes will be paid in the unlikely event that a note cannot be sold to another investor at maturity. This program is currently supported by lines of credit from JPMorgan Chase (\$200 million for Series 2010A Notes) and Wells Fargo Bank (\$150 million for Series 2010C Notes). U.S. Bank originally provided a line of \$100 million for Series 2010B Notes but declined to renew its line upon expiration in 2013. The existing credit line agreements were approved by the City Council in June, 2013. In addition to the credit line banks, U.S. Bank is the issuing and paying agent for the program, and Jefferies L.L.C. is the program's commercial paper dealer. The program authorization expires on December 1, 2030.

Commercial paper provides interim financing for the City's capital projects. The use of commercial paper permits more cost efficient use of capital as short-term debt is issued to closely match the amount and timing of the award of capital project contracts. Commercial paper notes are normally sold at interest rates that are lower than rates available at the same time on long-term debt. Outstanding commercial paper is periodically reduced by refinancing with long-term debt.

Please contact me if you need additional information.


Jeanne Chipperfield
Chief Financial Officer

Attachments

c: Honorable Mayor and Members of the City Council
A.C. Gonzalez, City Manager
Warren M.S; Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Mark McDaniel, Assistant City Manager
Eric D. Campbell, Assistant City Manager
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager

Schedule I
General Obligation Commercial Paper Program
Liquidity Fee Options

	<u>Option 1</u>	<u>Option 2</u>	<u>Variance</u>
<u>FY 2015-16</u>	<u>0.60%</u>	<u>0.50%</u>	
1st FY Qtr (10/01/15-12/31/15)	432,274 ⁽¹⁾	432,274 ⁽¹⁾	-
2nd FY Qtr (01/01/16-03/31/16)	563,836	475,084	88,752
3rd FY Qtr (04/01/16-06/30/16)	570,100	480,304	89,796
4th FY Qtr (07/01/16-09/30/16)	576,365	480,304	96,061
Total	<u>2,142,575</u>	<u>1,867,967</u>	<u>274,609</u>
<u>FY 2016-17</u>	<u>0.60%</u> ⁽²⁾	<u>0.50%</u> ⁽²⁾	<u>Variance</u>
1st FY Qtr (10/01/16-12/02/16)	394,685	328,904	65,781
Total	<u>2,537,260</u>	<u>2,196,871</u>	<u>340,390</u>

(1) LOC fee calculated using 0.45% (annual fee under existing agreement)

(2) Current LOC agreement expires December 2, 2016.

Schedule II
General Obligation Commercial Paper Program
Series 2010A and Series 2010C

<u>ESTIMATED CLOSING COSTS (OPTION 2)</u>	<u>Council Action</u>
	<u>2016</u>
Co-Bond Counsel	
Bracewell & Giuliani L.L.P. (Vendor # VS0000056820)	\$7,500
Co-Financial Advisors	
First Southwest Company (Vendor #193056)	24,000
Estrada Hinojosa (Vendor #259910)	16,000
Liquidity Facility Syndicate Legal Counsel	7,500
Printing Fees	2,500
Rating Fees	
Fitch Ratings (Vendor #14720)	25,000
Standard & Poor's (Vendor #954974)	5,000
Moody's Investors Service (Vendor #951236)	<u>5,000</u>
Total Estimated Upfront Closing Costs	<u>\$92,500</u>
Total MWBE Participation as % of Total Issuance Costs:	17.3%