

# Memorandum



DATE June 1, 2017

CITY OF DALLAS

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 Commercial Paper Programs – Update on Credit Agreements

Credit agreements supporting the issuance of commercial paper for both the City and Dallas Water Utilities will expire before the end of 2017. Specifically, Water Utilities' \$300 million Series E Commercial Paper Program will need a new credit facility no later than September 30. The credit agreement supporting the City's \$350 million General Obligation Commercial Paper Program also expires this year on December 2, 2017. This memorandum reports on discussions to date with the banks providing the existing facilities.

## Dallas Water Utilities Commercial Paper Programs

JPMorgan Chase Bank, N.A., has offered to continue providing the credit facility supporting DWU's \$300 million Series E conditions for an additional two-year period. The annual fee for the facility backing the existing program is 30 basis points, or 0.30 percent, and would remain the same. Pending successful negotiation of the terms and conditions of the credit agreement, DWU's co-financial advisors, Hilltop Securities and Estrada Hinojosa, recommend acceptance of the offer. Current quotes for comparable facilities from other banks are in the range of 0.40 – 0.45 percent. In addition, the Co-Financial Advisors recommend continuation of JPMorgan Chase as credit provider due to strong market acceptance of commercial paper notes supported by its credit lines.

DWU has used commercial paper to finance capital projects since 1987. Initially established at \$100 million, today's program consists of Series D and E with each series authorized at \$300 million. One or more highly rated financial institutions provide the credit facilities. JPMorgan Chase is the sole bank supporting DWU's Series E notes. State Street Bank and Bank of America Merrill Lynch share the credit facility behind Series D. The rating agencies rate commercial paper programs based on the rating of the banks providing the credit lines. However, the credit line fees adjust upward if the long-term rating

of the sponsoring entity falls. Although DWU's ratings from all three rating agencies remain strong (Moody's: Aa1; S&P: AAA; Fitch: AA+), Moody's recently assigned a negative outlook to DWU based on the challenges facing the City in resolving the police and fire pension fund financial instability.

### General Obligation Commercial Paper Program

JPMorgan has separately offered to continue providing the credit facility supporting the City's \$200 million Series 2010A general obligation commercial paper notes and, in addition, to become the provider of the \$150 million line for the Series 2010C notes. The current provider of the \$150 million credit line for Series 2010C is Wells Fargo Bank. The offer includes providing \$350 million in a credit facility supporting the commercial paper program for two or three years at the City's choice, and the option for JP Morgan to directly purchase commercial paper notes at a fixed spread to an index.

The offer also includes an amendment to the current fee structure of the credit facility which will decrease the annual fee from 65 basis points (0.65) to 40-45 basis points (0.40-0.45) depending upon the term of the facility. The existing credit facilities allow a fee increase of 20 basis points (0.20) to be imposed if the City's general obligation bond rating is further reduced by any of the rating agencies rating the City's long term debt from its current level. With the recent rating changes experienced by the City (the general obligation rating is currently A1/AA-/AA), the City incurred a fee increase of 0.20 to .65 percent in January 2017.

A new feature of this offer would permit JPMorgan Chase to directly purchase commercial paper notes at a fixed spread to an index subject to a 40 - 45 basis points fee (0.40-0.45) depending on the term of the facility. Guaranteed note placement provides stability to the commercial paper program and to the financing of the capital improvement program in a market with current concerns about the City's credit. The City's Financial Advisor for general obligations, PFM, recommends acceptance of the JPMorgan Chase offer to maintain and consolidate support of the general obligation commercial paper program and is working with staff in assessing the financial impact of the term options and note purchase program.

### Next Steps

Staff recommends continuing the negotiations with JPMorgan for maintenance and consolidation of its credit facilities for both commercial paper programs. We will brief the BFA Committee in August after we negotiate the credit agreements and complete our analysis of the offers. With Committee approval of final staff recommendations, the items would be placed on the September 13 agenda for City Council consideration.

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Please let me know if you need additional information.



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Chief Financial Officer

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