

Memorandum



CITY OF DALLAS

DATE October 16, 2017

Members of the Government Performance & Financial Management Committee:
TO Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson, Lee M. Kleinman,
Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **General Obligation Commercial Paper Program**

The City Council agenda for October 25, 2017 includes a resolution for your consideration amending, restating, and authorizing various agreements that support the City of Dallas \$350 million General Obligation Commercial Paper Program (GO CP). The current revolving credit agreements for this series expire on December 2, 2017, which provides the opportunity to address current challenges to the cost and efficiency of the program's operations.

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. Contracts are awarded using commercial paper as a funding source. Notes are issued to pay project costs as invoices are received. Notes are typically sold at lower interest rates than longer-term bonds. The notes are periodically refinanced with longer-term bonds.

Commercial paper issuance is supported by lines of credit from highly rated banks. The current program is supported by a \$200 million credit agreement from JPMorgan Chase and a \$150 million credit agreement from Wells Fargo Bank. These lines of credit assure investors that the commercial paper notes will be paid in the event that a note cannot be sold to another investor at maturity. The rating agencies rate commercial paper programs based on the rating of the banks providing the credit lines, although the credit rating and outlook of the commercial paper issuer affects the marketability of the notes as well as the rating of the credit bank.

For example, in early 2017 Jefferies L.L.C., the dealer for the City's commercial paper program, began to have trouble selling the general obligation commercial paper notes because of the City's credit rating, which had been lowered due to rating agency concerns about the potential impact of financial problems of the City's police and fire pension fund. The majority of tax-exempt commercial paper buyers are money market mutual funds, which by regulation must observe minimum credit quality standards in the management of their investment funds. The City's general obligation rating is currently A1/AA-/AA.

In addition to potentially reducing the future marketability of the GO CP notes, the City also incurred an increase in the annual fee on the GO CP line of credit from 0.45 percent to 0.65 percent. The fee increase affected the credit lines from both banks. Recommendations to resolve both issues are presented below.

CREDIT AGREEMENT EXTENSION AND NOTE PURCHASE PROGRAM

JPMorgan Chase Bank, N.A., has offered to continue providing the credit line supporting the City's \$200 million GO CP notes and, in addition, to assume the \$150 million credit line previously offered by Wells Fargo Bank. The offer includes an amendment to the current fee structure, which will decrease the annual fee from 0.65 percent to 0.45 percent for three years. An additional feature of this offer permits JPMorgan Chase to directly purchase notes at a fixed margin above an adjusted index. Guaranteed note placement provides stability to the commercial paper program and to the financing of the capital improvement program in a market that has not been consistently stable. The ability to access the note program requires the participant to maintain a minimum amount of outstanding notes at 1 percent of the total credit line. This minimum amount is available for contract authorization and is not subject to the annual fee. The following analysis demonstrates the benefit of JPMorgan Chase's offer when compared to current pricing.

Commercial Paper Fee (Current)	Commercial Paper/ Note Purchase Agreement Fee (New)	Note Purchase Interest Estimate (1% Portion)	Commercial Paper/ Note Purchase Total Cost
\$2,281,319.44	\$1,563,581.25	\$40,853.35	\$1,604,434.60

The City's Financial Advisors recommend continuation of JPMorgan Chase as credit provider due to strong market acceptance of commercial paper notes supported by its credit lines. Attached is a schedule of the estimated costs associated with this extension.

Please let me know if you need additional information.

M. Elizabeth Reich
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of the City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Billerae Johnson, City Secretary (Interim)
Daniel F. Solis, Administrative Judge
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Jo M. (Jody) Puckett, P.E., Assistant City Manager (Interim)
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Raquel Favela, Chief of Economic Development & Neighborhood Services
Nadia Chandler Hardy, Chief of Community Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors

Schedule I

General Obligation Commercial Paper Program

COST OF ISSUANCE/ CLOSING COST

Rating Agency (Closing Cost)

Fitch Ratings	\$ 30,000
S&P Global	18,000

Co-Bond Counsel

Bracewell	\$ 175,000
West & Associates	100,000

Financial Advisors

PFM	\$50,000
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Disclosure Counsel

Andrews Kurth	\$131,250
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Liquidity Facility Bank Attorney Fees

Chapman & Cutler LLP	\$60,000
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Attorney General Fee

\$9,500

Printing Fee

\$2,250

Total Estimated Upfront Closing Cost

\$ 576,000

ANNUAL FEES

Liquidity Facility and Note Purchase Fees

JPMorgan Chase	\$ 1,604,435
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Issuing and Paying Agent Bank Fees

US Bank	\$3,000
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Rating Agencies (Annual surveillance)

Fitch Ratings	\$ 18,000
S&P Global	18,000

Total Estimated Annual Fees

\$1,643,435

Total (Annual Fees plus Closing Cost)

\$2,219,435

Grand Total (Three-Year Agreement plus Closing Cost)

\$5,506,305