

Memorandum



CITY OF DALLAS

DATE January 23, 2009

TO Members of the Finance, Audit & Accountability Committee
Chair, Mitchell Rasansky; Vice-Chair, Jerry Allen; Mayor Pro Tem Elba Garcia; Vonciel Jones Hill; Angela Hunt; Ron Natinsky; and David Neumann

SUBJECT Dallas Water Utilities Commercial Paper Program Expansion

On Monday, January 26, 2009 you will be briefed on the Dallas Water Utilities Commercial Paper Program. A copy of the briefing is attached for your review.

Please contact me if you need additional information.

A handwritten signature in black ink, appearing to read 'D. Cook'.

David Cook
Chief Financial Officer

Attachment

- C: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Ryan S. Evans, First Assistant City Manager
Forest Turner, Interim Assistant City Manager
A. C. Gonzalez, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Ramon F. Miguez, P.E., Assistant City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig Kinton, City Auditor
Jeanne Chipperfield, Director, Budget & Management Services
Jody Puckett, Director, Dallas Water Utilities

Dallas Water Utilities Commercial Paper Program Expansion

Finance, Audit and Accountability Committee
January 26, 2009



Purpose

- Provide update on implementation of Dallas Water Utilities' increased commercial paper program from \$300m to \$600m
- Seek committee's recommendation of the February 11th ordinance establishing the expanded program, award of contracts to implement program, and resolution to establish parity between the existing commercial paper program and the new program.

Commercial Paper Program

- Commercial Paper:
 - Provides short term financing of capital projects and is sold as needed to pay contract costs
 - Provides a “blended” mix of short-term and long-term financing
 - Proceeds are invested in tax-exempt money market funds until needed for contract payments
 - Interest rate is 1.86% on average
 - Most recent commercial paper interest rate was 0.65% (January 5, 2009)
- City of Dallas Commercial Paper Program:
 - Current program is authorized for \$300m
 - Series B limit was increased to \$200m effective August 25, 2004
 - Series C limit was increased to \$100m effective August 25, 2004
 - Program expires September 30, 2014

Background

- A larger program would provide:
 - more flexibility in the timing and size of bond sales
 - maintain the award schedule for capital improvement projects and
 - provide a greater shift to short-term debt in the financing “blend”
- Program requires:
 - Liquidity Facility contract
 - Remarketing Agent contract
 - Issuing/Paying Agent contract
- “D” Program revenue pledge will have parity with the existing “B” and “C” programs

Background

- On August 12, 2008, the Finance, Audit and Accountability Committee was briefed on the proposed increase of the commercial paper program and a recommended update to the Financial Management Performance Criteria (FMPC).
- On September 24, 2008, City Council authorized a revision to the FMPC to increase the limit of tax-exempt commercial paper from 10% to 20% of the 10-year capital improvement program in effect at the time of the commercial paper authorization
 - Current 10-year capital improvement program is \$3.3b
- Recommended program size is \$600m
- The FY 2008-09 DWU Adopted Budget assumes the additional \$300m CP Program

Current Program

- Current Program is backed by 2 credit agreements with Bank of America which provide liquidity assurance
 - Series B
 - 9/28/08 thru 9/28/09 at 20 basis points of commitment (\$409,863)
 - 9/29/09 thru 9/28/11 at 40 basis points of commitment (\$859,178)
 - Series C
 - 9/28/08 thru 9/28/11 at 40 basis points of commitment (\$429,589)
- J. P. Morgan and Siebert Brandford Shank & Co., LLC are the current commercial paper co-dealers
- U. S. Bank is the current paying agent

Liquidity Provider

- Proposals requested from financial institutions to provide liquidity.
 - Advertised on July 10 and 17
 - Opened on August 7
- City received proposal from 1 syndicate
 - Syndicate members include US Bank N.A., California State Teachers' Retirement System and California Public Employees' Retirement System
 - Lead Agent Bank is US Bank, N.A.
- Single proposal requires review by City Auditor's Office
 - Preliminary review completed
- Requested ratings from Moody's and Standard & Poor's

Liquidity Provider

- Commitment for \$300m program is \$326.6m
 - Annual fees include
 - Liquidity Facility
 - “Used” rate (commercial paper drawn against the program) – 75 basis points of commitment; \$2,449,726
 - “Unused” rate (commercial paper not drawn against the program) – 68.5 basis points of commitment; \$2,237,416
 - Draws and Amendments (if needed)
 - \$4,750

Remarketing Agent

- RFP for dealer/remarketing agent for additional \$300m
 - Advertised on July 31
 - Opened on August 7
- City received 6 proposals to serve as dealer/remarketing agent
 - Bank of America
 - Barclays Capital
 - Citi
 - J. P. Morgan
 - Loop Capital
 - M R Beal

Remarketing Agent

- Proposers offering the lowest cost and most favorable terms for the City to serve as co-dealers was Bank of America and M R Beal (MWBE)
 - Bank of America
 - 5 bps points of outstanding balance per annum (up to \$150,000)
 - M R Beal
 - 4.5 bps of outstanding balance per annum (up to \$135,000)

Increased Program

- Issuing/Paying Agent
 - US Bank is the paying agent for the current program and agreed to amend the existing contract to reflect the increase in the program size.
 - \$3,450 fee annually

Recommendation

- Approval of the February 11th ordinance to establish the expanded program, award of contracts for liquidity facility, remarketing agent and paying agent and resolution to establish parity between the existing commercial paper program and the new program.

Appendix

- Estimated Issuance Costs Page 14
- Estimated Annual Fees Page 15

Estimated Issuance Costs

One-Time Costs

Bond Counsel (McCall, Parkhurst & Horton and Escamilla & Poneck)	\$187,500
Co-Financial Advisors (First Southwest and Estrada Hinojosa)	205,800
Liquidity Facility (Syndicate)	483,288
Rating Agencies (Moody's and S&P)	28,700
Syndication Agent	20,000
Total	\$925,288

Estimated Annual Fees

Liquidity Facility (Syndicate) (“used” rate)	\$2,449,726
Amendment and Draw Fees (Syndicate)	4,750
Issuing and Paying Agent (US Bank)	3,450
Dealer (Bank of America and MR Beal)	285,000
Rating Agencies (Moody’s and S&P)	22,850
Total	\$2,765,776