

Memorandum



CITY OF DALLAS

DATE October 22, 2010

TO Members of the Budget, Finance & Audit Committee:
Chair Jerry R. Allen, Vice-Chair Ann Margolin, Vonciel Jones Hill, Angela Hunt,
Delia D. Jasso, Ron Natinsky, David A. Neumann

SUBJECT General Obligation Commercial Paper Program Selection of
Service Providers

The October 25, 2010 Budget, Finance & Audit Committee meeting agenda includes a briefing on the General Obligation Commercial Paper Program. Attached is a copy of the briefing.

Please let me know if you need additional information.

A handwritten signature in cursive script that reads "Jeanne Chipperfield".

Jeanne Chipperfield
Chief Financial Officer

Attachment

c: Honorable Mayor & Members of the City Council
Mary K. Suhm, City Manager
Deborah A. Watkins, City Secretary
Tom P. Perkins, City Attorney
Craig D. Kinton, City Auditor
Ryan S. Evans, First Assistant City Manager
A.C. Gonzalez, Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
Deborah A. Watkins, City Secretary
Frank Libro, Public Information Office
Helena Stevens-Thompson, Assistant to the City Manager

CITY OF DALLAS

GENERAL OBLIGATION COMMERCIAL PAPER PROGRAM SELECTION OF SERVICE PROVIDERS

BUDGET, FINANCE & AUDIT
COMMITTEE

October 25, 2010



COMMERCIAL PAPER PROGRAM BACKGROUND

- Provides an alternative funding option for capital programs
- Allows “just-in-time-borrowing”
 - Contracts for eligible projects are awarded based on the authorization to issue commercial paper
 - Commercial paper is issued as invoices for project expenditures are paid
- Serves as an interim financing mechanism
- Reissued at maturity until retired with permanent financing (GO refunding bonds)

COMMERCIAL PAPER PROGRAM BACKGROUND

- Dallas Water Utilities has successfully used commercial paper to finance capital projects for over 20 years
- Commercial paper is used for capital project financing by many cities in Texas, including Austin and Houston

COMMERCIAL PAPER PROGRAM BACKGROUND

- Commercial paper program requires three service contracts
 - CP Dealer sells the notes to investors
 - Majority of investors are mutual funds
 - Notes mature in 1 to 270 days (60-day average maturity)
 - CP Liquidity Facility (line of credit) required to support the notes from one or more highly rated banks (Liquidity Provider)
 - Line of credit can be used if notes cannot be remarketed by CP Dealer
 - Rating agencies rate the CP program based on the rating of the Liquidity Provider banks
 - CP Issuing and Paying Agent bank sends principal and interest payments to investors when notes mature

COMMERCIAL PAPER PROGRAM PROCESS

- RFP issued for Commercial Paper Dealer, Liquidity Provider, and Issuing and Paying Agent
 - 9 responses for Commercial Paper Dealer and Remarketing Agent
 - 3 responses for Liquidity Provider
 - 3 responses for Issuing and Paying Agent Bank

COMMERCIAL PAPER PROGRAM CONTRACTED SERVICES

- Evaluation team reviewed responses and submitted recommendations to Business Development and Procurement Services
 - Team members represented City departments and the City's Co-Financial Advisors:
 - Executive General Manager, City Manager's Office
 - Interim Assistant Director of Business Operations, Water Utilities
 - Assistant Director/Treasury Manager, City Controller's Office
 - First Southwest Company, Co-Financial Advisor
 - Estrada Hinojosa, Co-Financial Advisor

COMMERCIAL PAPER PROGRAM CONTRACTED SERVICES

■ Evaluation Criteria

- Firms invited to propose for one or more of the program services
- Evaluation based on:
 - Cost, consistent with other criteria
 - Demonstrated ability to meet service requirements
 - Proposal responsiveness
 - Most favorable terms and conditions (liquidity provider)
 - Minority Women and Business Enterprise (M/WBE) participation

COMMERCIAL PAPER PROGRAM

COMMERCIAL PAPER DEALER

- Recommend award of commercial paper dealer and remarketing agent contract to Jefferies
 - Investment banking firm in existence for 48 years
 - Lowest annual fee of 9 responses received
 - 4 basis points, based on the outstanding balance of commercial paper
 - Recently expanded commercial paper trading through hiring experienced staff from Bear Stearns and JPMorgan Chase
 - Locations include Dallas office
 - References include Texas Public Finance Authority

COMMERCIAL PAPER PROGRAM LIQUIDITY FACILITY

- Recommend award of liquidity facility provider to syndicate led by JPMorgan Chase
 - Most favorable terms of the 3 responses received
 - Financial Advisors recommend implementing a three-year liquidity agreement at an annual fee of 57.5 basis points, based on the commitment amount
 - Rating of the City's commercial paper program will be based on the short-term rating of the liquidity providers. Each syndicate member is rated in the highest category:

■ JPMorgan Chase	P1/A1/F1+
■ US Bank	P1/A1/F1+
■ Wells Fargo	P1/A1/F1+

COMMERCIAL PAPER PROGRAM ISSUING AND PAYING AGENT

- Recommend award of issuing and paying agent contract to US Bank
 - Lowest cost of the 3 responses received, based on a minimum of 60 transactions annually
 - Dallas Water Utilities' commercial paper program experienced in excess of 100 transactions annually in 2008 and 2009
 - US Bank currently serves as issuing and paying agent on the DWU commercial paper program

RECOMMENDATION

- Approval of ordinance on November 10th City Council agenda to establish general obligation commercial paper program, including award of service contracts for commercial paper dealer and remarketing agent, liquidity facility, and issuing and paying agent

Appendix

- Commercial Paper Dealer Annual Cost (estimated) – Page 13
- Commercial Paper Program Closing Costs – Page 14

COMMERCIAL PAPER PROGRAM

ANNUAL COSTS (estimated)

Liquidity Facility Fees, Amendment and Draw Fees (if needed) - JPMorgan	\$2,166,000
Issuing and Paying Agent - US Bank	\$3,750
Dealer Agent Fee - Jefferies	\$136,500
Ratings Fee – Moody's/S & P	\$23,300
CUSIP Numbers	\$1,000
TOTAL	\$2,330,550

COMMERCIAL PAPER PROGRAM CLOSING COSTS

Co-Bond Counsel (V&E/ West & Assoc.)	\$225,000
Co- Bond Financial Advisor (FSW/EH)	\$237,000
Liquidity Facility Syndicate Bond Counsel	\$50,000
Ratings Fee – Moody’s/S & P	\$29,600
Attorney General Fee	\$28,500
TOTAL	\$570,100