

Memorandum



CITY OF DALLAS

DATE November 21, 2008

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 Dave Neumann

SUBJECT **Update on Dallas Water Utilities
Expanded Commercial Paper Program**

The Dallas Water Utilities Commercial Paper (CP) Program provides interim financing for capital improvement projects at short-term interest rates. Commercial paper is sold as needed to pay contract costs and is later retired through revenue bond refunding issues. This use provides a “blended” mix of short-term and long-term financing. The average rate on currently outstanding CP is 2.16%. On October 16th, the most recent commercial paper issuance, interest rates were 2.0% and 2.2%.

The existing \$300m CP program matures on September 30, 2014. The current program is backed by 2 credit agreements with Bank of America, which provide liquidity assurance. Series “B” is authorized for \$200m and Series “C” is authorized for \$100m. J. P. Morgan and Siebert Brandford Shank & Co., LLC are the current commercial paper co-dealers. US Bank is the current paying agent.

On August 12, 2008, the Finance, Audit and Accountability Committee recommended staff proceed with plans to increase the existing Commercial Paper Program. A larger program would maintain the award schedule for capital improvement projects; provide more flexibility in the timing and size of bond sales, and shift more of the financing to short term rates. Implementation of the expanded program required an update to the Financial Management Performance Criteria (FMPC) and contract awards for liquidity assurance, remarketing agent(s) and an issuing/paying agent.

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. Dallas Water Utilities’ (DWU) current 10-year capital improvement program is \$3.3 billion. The recommended program size is \$600m and the FY 2008-09 DWU adopted budget assumes the additional \$300m CP program (Series “D”).

Budget and Management Services (BMS) and Purchasing staff, with the assistance of the City’s co-financial advisors, First Southwest Company and Estrada Hinojosa, requested proposals for financial institutions to provide a liquidity facility and proposals to serve as dealer/remarketing agent.

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The Request for Proposal (RFP) for the liquidity provider for the additional \$300m was advertised on July 10 and 17 and was opened on August 7. The one proposal received to provide a credit facility was submitted by a commercial bank syndicate. Syndicate members include US Bank, the California State Teachers' Retirement System (CALSTERS) and the California Public Employees' Retirement System (CALPERS). The lead agent is US Bank. The commitment for the \$300m program is \$322,191,781. Annual fees include liquidity at 62 basis points (bps) of the commitment, a maximum of \$1,997,589 if used; otherwise, if not used, 54 bps of the commitment, a maximum of \$1,739,836. A syndication agent fee of \$20,000 is also included. The recommended contract term is for 3 years. An evaluation committee consisting of staff from BMS, City Controller's Office Cash and Investment Division, DWU and Purchasing and one member from each of the City's co-financial advisors reviewed the proposal. Consistent with other single proposal submissions, a review by the City Auditor's Office is underway.

The RFP for dealer/remarketing agent was advertised on July 31 and August 7 and was opened on August 21. The City received 6 proposals to serve as dealer/remarketing agent: Bank of America, Barclays Capital, Citi, J. P. Morgan, Loop Capital and M R Beal. Proposals were reviewed by an evaluation committee consisting of staff from BMS, Purchasing, DWU and one member from each of the City's co-financial advisors. The proposer offering the lowest cost and most favorable terms to serve as co-dealers is Bank of America at 5 bps per year of the average outstanding CP balance, not to exceed \$150,000 and M R Beal (MWBE) at 4.5 bps per year of the average outstanding CP balance, not to exceed \$135,000.

US Bank, the paying agent for the current program, has agreed to amend the existing contract to reflect the increase in the program size. Paying agent fees related to the new program will not exceed \$3,450 per year.

Approval of the ordinance to establish the Series "D" program for a 10 year period and authorize contract awards for liquidity facility, remarketing agent and paying agent is scheduled for City Council consideration on December 10. Following City Council authorization, an additional 30 days is required to secure approval from the State of Texas Attorney General's Office (AG). Series "D" CP will be available to award contracts in January 2009 after AG approval and the closing. A schedule of closing costs and fees is attached.

If you have questions or additional information is needed, please let me know.



David Cook
Chief Financial Officer

Attachment

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

Dallas Water Utilities \$300 Million Commercial Paper Program - Series "D"
Proposed Closing Date - January, 2009

CLOSING COSTS

Co-Bond Counsel	\$187,500
Co-Financial Advisors	205,800
Liquidity Facility	459,490
Rating Agencies	28,700
Issuing and Paying Agent	<u>2,950</u>

Total Estimated Upfront Closing Costs \$884,440

ANNUAL FEES

Liquidity Facility	\$1,997,589
Issuing and Paying Agent	3,450
Syndication Agent Fee	20,000
Dealer	285,000
Rating Agencies	<u>22,850</u>

Total Estimated Annual Fees \$2,328,889

Grand Total \$3,213,329