

# Memorandum



CITY OF DALLAS

DATE May 30, 2014

TO Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair),  
Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

SUBJECT Dallas Water Utilities Commercial Paper Program Selection of Service Providers

The Monday, June 2<sup>nd</sup> Budget, Finance and Audit Committee agenda will include a briefing on the Dallas Water Utilities Commercial Paper Program Selection of Service Providers

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "Jeanne Chipperfield".

Jeanne Chipperfield  
Chief Financial Officer

## Attachment

c: Honorable Mayor and Members of City Council  
A.C. Gonzalez, City Manager  
Warren M.S. Ernst, City Attorney  
Craig D. Kinton, City Auditor  
Rosa A. Rios, City Secretary  
Daniel F. Solis, Administrative Judge  
Ryan S. Evans, Interim First Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Charles M. Cato, Interim Assistant City Manager  
Theresa O'Donnell, Interim Assistant City Manager  
Shawn Williams, Interim Public Information Officer  
Elsa Cantu, Assistant to the City Manager

# CITY OF DALLAS

## DALLAS WATER UTILITIES COMMERCIAL PAPER PROGRAM SELECTION OF SERVICE PROVIDERS

BUDGET, FINANCE & AUDIT  
COMMITTEE

June 2, 2014



# 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 (DWU refunding bonds)

# COMMERCIAL PAPER PROGRAM BACKGROUND

- Dallas Water Utilities has successfully used commercial paper to finance capital projects for over 25 years
- Initial \$100 million program established in 1987
- By 2004, program had been expanded to \$300 million
  - Series B (\$200 million)
  - Series C (\$100 million)
  - Series B and C will be combined as the Series E \$300 million program
- In 2009, Series D program was approved for an additional \$300 million

# 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 Issuing and Paying Agent bank sends principal and interest payments to investors when notes mature
  - CP Liquidity Facility (revolving line of credit) required to support the notes from one or more highly rated financial organizations (Liquidity Facility Provider)
    - Revolving 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 Facility Providers

# COMMERCIAL PAPER PROGRAM SERVICE PROVIDER SELECTION PROCESS

- RFP issued for Commercial Paper Dealer, Liquidity Facility Provider, and Issuing and Paying Agent for Series E
  - 8 responses for Commercial Paper Dealer
  - 5 responses for Liquidity Facility Provider
  - 1 response for Issuing and Paying Agent Bank

# COMMERCIAL PAPER PROGRAM SERVICE PROVIDER SELECTION PROCESS

- Evaluation committee reviewed and evaluated the proposals:
  - Dallas Water Utilities
  - Office of Financial Services
  - City Controller's Office
  - First Southwest Company, Co-Financial Advisor
  - Estrada Hinojosa, Co-Financial Advisor

# COMMERCIAL PAPER PROGRAM SERVICE PROVIDER SELECTION PROCESS

## ■ Selection Criteria

- 30% Lowest cost, consistent with other criteria
- 30% Ability to meet service requirements
- 20% Proposed responsiveness
- 20% Overall services and resources available



# COMMERCIAL PAPER PROGRAM

## COMMERCIAL PAPER DEALER

- Recommend award of the Series E commercial paper dealer contract to J.P. Morgan Securities LLC
  - Most favorable response of the 8 received based on responsiveness, ability to meet service requirements, and overall services and resources available
    - J.P. Morgan Securities LLC currently serves as commercial paper dealer for the Series B and C programs for a fee of 3.9 basis points, based on the outstanding balance of commercial paper
    - Proposed dealer fee is also 3.9 basis points, representing no change from the current fee.

# COMMERCIAL PAPER PROGRAM LIQUIDITY FACILITY

- Recommend award of the Series E liquidity facility provider to JPMorgan Chase Bank
  - Most favorable terms of the 5 responses received
  - Financial Advisors recommend implementing a three-year revolving credit agreement at an annual fee of 30 basis points (\$980,000), based on the commitment amount
    - Current annual fee is 57.5 basis points (\$1,878,334)
    - New fee represents annual savings of \$898,334
  - Rating of the City's commercial paper program will be based on the short-term rating of JPMorgan Chase Bank:
    - Moody's P-1
    - Standard & Poor's A-1
    - Fitch F-1

# COMMERCIAL PAPER PROGRAM ISSUING AND PAYING AGENT

- Recommend award of issuing and paying agent contract to US Bank
  - 1 response received
  - US Bank currently serves as issuing and paying agent for the existing Series B and C commercial paper programs
  - US Bank's proposal includes small fee increases that will raise the annual cost of this service by an estimated \$330

# RECOMMENDATION

- Approval of ordinance on June 25<sup>th</sup> City Council agenda to establish Series E commercial paper program, including award of service contracts for commercial paper dealer, liquidity facility provider, and issuing and paying agent

# Appendix

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

# SERIES E COMMERCIAL PAPER PROGRAM ANNUAL COSTS (estimated)

Liquidity Facility Fees, – JPMorgan Chase	\$980,000
Issuing and Paying Agent – US Bank	\$4,080
Dealer Agent Fee – JPM Securities LLC	\$139,500
Ratings Fee – Moody’s/S & P	\$42,000
CUSIP Numbers	\$1,000
<b>TOTAL</b>	<b>\$1,166,580</b>

# SERIES E COMMERCIAL PAPER PROGRAM CLOSING COSTS

Bond Counsel (McCall Parkhurst & Horton/Escamilla & Poneck)	\$230,850
Financial Advisors (First Southwest Co./Estrada Hinojosa & Co.)	\$175,000
Liquidity Facility Bond Counsel (Andrews Kurth)	\$47,500
Ratings Fee – Moody’s/Standard & Poor’s	\$42,000
Attorney General Fee	\$9,500
Misc. Expenses	\$2,500
<b>TOTAL</b>	<b>\$507,350</b>