



Agenda Item No. 5

To: Finance-Auditing Committee/Committee of the Whole
Meeting of June 11, 2009

From: Joseph M. Wire, Auditor-Controller
Celia G. Kupersmith, General Manager

Subject: **APPROVE ACTIONS RELATIVE TO THE RENEWAL OF THE
COMMERCIAL PAPER LINE OF CREDIT AGREEMENT WITH JP
MORGAN CHASE BANK**

Recommendation

The Finance-Auditing Committee recommends that the Board of Directors approve the following actions relative to the Line of Credit Agreement (Agreement) with JPMorgan Chase Bank, National Association (JP Morgan), for the Commercial Paper Program (CP Program):

- 1) Authorize execution of a 364-day extension of the Agreement with JP Morgan, at the cost of 1.305%, or an approximate annual fee of \$995,000 for the period of July 6, 2009, to July 5, 2010.
- 2) Approve the following conforming amendments to the Agreement with JP Morgan:
 1. Amend Section 1.01 to reflect the change in defined terms for the;
 - a. Base rate as the higher of i) JP Morgan's prime rate plus 1.5%, per annum ii) Fed funds plus 2% per annum; or iii) 8.5% per annum;
 - b. Bank rate in the event of a default as the base rate plus 3% per annum.
 2. Amend Section 2.06 to reflect all fees associated with the Agreement;
 - a. Commitment fee of 1.305% per annum subject to 20 basis point increases in the event of each downgrade in the District's credit rating and a 1.25% per annum increase to the Commitment Fee for the duration of any Event of Default or withdrawal/suspension of the District's credit rating;
 - b. \$500 per drawing fee;
 - c. An early termination fee equivalent to the remaining unpaid undrawn commitment fee should the District terminate the Agreement by replacing JP Morgan with an Alternate Provider. There will be no termination fee should the District terminate the agreement due to JP Morgan's short-term rating falling below level of "P-1" by Moody's, below "A-1" by S&P, or below "F1" by Fitch;
 3. Amend Section 5.06 to reflect certain requirements in disclosure of information;
 4. Amend Section 7.02 to add legal stipulations defining governing law and waiver of jury trial; and,
 5. Amend Article VII to add Sections 7.12 and 7.13 regarding the USA Patriot Act and possible assignment to Federal Reserve Bank, respectively.

Summary

The terms of the District's CP Program require that a line of credit (LC) agreement be in place during the course of the program. This is to assure creditors that there are sufficient funds to repay principal and interest in full upon each maturity date in the event that the remarketing agents cannot find new investors to "roll-over" the CP notes in a timely fashion. From the inception of the CP Program, JP Morgan has been selected as the most cost-effective way to satisfy this liquidity requirement. JP Morgan was originally selected and continues to be selected because it is a world leader in providing financial liquidity agreements for public sector entities like the District. JP Morgan remains one of the stronger banks with a Standard & Poor's long-term debt credit rating of A+.

In May 2008, with the approval from the Board, the \$76.2 million line of credit agreement with JP Morgan was renewed with a term of 364 days through July 5, 2009, at a cost of 0.325%, or an annual cost of approximately \$250,000. The proposed 364-day renewal would take effect on July 6, 2009, and run through July 5, 2010, at a cost of 1.305%, or an annual cost of approximately \$995,000.

As has been done with each year of the program, the District's financial advisor, Public Financial Management Inc. (PFM), surveys current market conditions and the results of recent credit RFPs put out by similar public entities to determine the market rate. That information is used by the Auditor-Controller to negotiate terms with JP Morgan. The current environment for bank liquidity and lines of credit remains very challenging and extremely costly. The financial institutions that provide these services have been reduced in number due to the troubles impacting those institutions and their diminished balance sheets. With decreased supply and the increasing cost of funds for liquidity banks, the cost of liquidity facilities has increased three to five times over the last 18 months. As an example, after sending an RFP out to 24 banks without one response, PFM recently renewed a 364-day, \$200 million line of credit with an AAA rating (versus the District's AA-/A+ rating) at 105 basis points.

Given this environment, Staff explored the option of establishing a new line of credit with an alternate provider. Due to the scarcity in interest from potential facility providers, Staff, District Legal Counsel, and PFM believe that the proposed renewal is the most cost-effective alternative without taking on additional transaction costs (estimated to be well over \$100,000). It would be unlikely that an interested alternative provider (if any) would be less than 13.5 basis points (equivalent to the minimum estimated transaction costs of \$100,000) than the proposed JP Morgan renewal.

Staff is also seeking approval of conforming amendments to the Agreement with JP Morgan as outlined in the recommendation.

Fiscal Impact

Renewal of the agreement as recommended would cost approximately \$995,000 for the 364-day term of agreement. There is adequate funding in the proposed FY 09/10 operating budget relative to the Commercial Paper Program to absorb the \$745,000 increase in costs for this renewal.