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FINANCE & BUDGET COMMITTEE
FEBRUARY 17, 2005

SUBJECT: TAXABLE COMMERCIAL PAPER PROGRAM

ACTION: AWARD A CONTRACT FOR A LETTER OF CREDIT

RECOMMENDATION

Award a five-year contract to Bank of America N.A. to provide a $150 million direct pay letter of credit (LOC) for an amount not to exceed $1,340,000, including legal fees and other related expenses.

RATIONALE

The current three-year letter of credit contract with Landesbank Hessen-Thuringen (Helaba) will expire in late May 2005. Because the taxable commercial paper (TCP) program provides a source of flexible, low cost financing it is beneficial to continue operation of the program. The letter of credit must be replaced in order to continue operation of the program. The use of a 5-year facility is being recommended to lock-in the very attractive pricing currently available in the market and to avoid the need to replace the facility during a period of reduced competition and likely higher prices anticipated over the next several years. The number of competitors providing these letters of credit will be significantly reduced in July 2005, after the German landesbanks lose their current financial backing (guaranty) provided by the German States. With the loss of their financial backing the landesbanks' credit ratings will fall to unacceptably low levels for this purpose.

BACKGROUND

The primary use of the program is to provide interim financing for capital projects that are not eligible for tax-exempt financing until grant reimbursements or other funding are received, or until long-term financing is arranged. The TCP program size is $150 million with a current outstanding balance of approximately $78 million.

Commercial paper is a short-term debt instrument that can be issued for maturities of from 1 to 270 days. Amounts borrowed typically remain outstanding longer than the maturity of the notes. As notes mature, new notes are simultaneously issued, i.e., rolled over. The TCP program is backed by a $150 million direct-pay LOC that is secured by a pledge of 80% of Prop C sales tax revenues. The LOC is a necessary component of the TCP program. The LOC provides guaranteed liquidity to the investors when their notes mature. Additionally, the LOC provides a safety net in the form of a term loan in the unlikely event the notes cannot be remarketed, precluding any requirement to immediately repay the entire outstanding amount from cash. As a result of the LOC bank's guaranty of payment to the note holders the TCP notes enjoy the more favorable short-term credit ratings of the LOC, allowing the TCP program to maintain the highest short-term ratings of P-1 and A-1 from Moody's and from Standard & Poor's, respectively.

FINANCIAL IMPACT

Funding of $460,000 for this service is included in the FY05 budget in cost center #0521, Treasury Non-Departmental under project # 610307, Prop C Debt Service. Since this is a multi-year contract, the cost center manager and Executive Officer, Finance and Treasurer will be accountable for budgeting the cost in future years. In FY04, $353,000 was expended on this line item.

The proposal price of approximately $1.34 million shown in Attachment A is calculated based on the criteria set forth in the RFP to ensure comparability among proposers. The proposed pricing is significantly better than pricing for the existing facility, providing utilized/unutilized rates of 17.5/12.0 basis points compared with the prior pricing of 40.0/18.0 basis points. The recommended amount reflects a not-to-exceed value assuming full utilization of the program over the contract period, but does not assume any interest cost from unreimbursed draws or from term loans, as these costs would not normally be incurred. Fee pricing is based on the Prop C senior lien bonds retaining their current long-term credit rating. Any downgrade of the rating would result in an automatic increase in the fee in accordance with the proposed schedule.

ALTERNATIVE CONSIDERED

The Board could elect to not replace the expiring letter of credit. This action would force the shut down of the taxable commercial paper program and would require the retirement of the $78 million of outstanding commercial paper notes. The repayment would need to be paid from unrestricted cash sources or a draw on the existing LOC. Such a draw on the LOC would result in the generation of a high cost loan from the bank. This alternative is not recommended.

ATTACHMENT

A. Summary of Responses from Proposer

Prepared by: Michael J. Smith, Assistant Treasurer

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Executive Officer, Finance and Treasurer

Roger Snoble
Chief Executive Officer

Attachment A

Summary of Responses from Proposer

Bank	5-Year Total	5-Yr. Average
Bank of America	1,338,439	267,688
Dexia	1,952,377	390,475
Lloyds TSB	2,003,167	400,633
Helaba	2,210,781	442,156
BNP Paribas	2,645,123	529,025
Bayerische Landesbank and Landesbank Baden-Wurttemberg	2,649,719	529,944

Note - The 5-Year Total assumes the facility will be fully utilized and that the current credit rating on the Prop C senior lien bonds will be maintained long-term credit ratings on the senior lien Prop C bonds, and that no interest cost will be incurred for unreimbursed draws or for term loans.