

Mayor and Council Communication

DATE: 06/27/23

M&C FILE NUMBER: M&C 23-0604

LOG NAME: 13STORMWATER EXTENDABLE COMMERCIAL PAPER PROGRAM

SUBJECT

(ALL) Adopt Ordinance Authorizing an Extendable Commercial Paper Program with JP Morgan Securities LLC in an Aggregate Outstanding Principal Amount Not to Exceed \$100,000,000.00 at Any One Time, Authorizing Execution of Dealer, Paying Agent/Registrar, and Other Agreements for the Program and Ordaining Other Matters Related Thereto; Adopt Ordinance Authorizing Issuance and Sale of City of Fort Worth, Texas Drainage Utility Revenue Refunding Bonds in an Amount Up to \$100,000,000.00 to Allow for Refinancing of Outstanding Commercial Paper; and Adopt Appropriation Ordinances

RECOMMENDATION:

It is recommended that the City Council:

1. Adopt the attached ordinance authorizing a 20-year extendable commercial paper program with JP Morgan Securities LLC in an aggregate outstanding principal amount not to exceed \$100,000,000.00 at any one time and with an annual cost of \$20,500.00, as a liquidity and appropriation facility for the implementation of Stormwater capital projects, including the Central City drainage improvements; authorizing execution of Dealer, Paying Agent/Registrar, and other Agreements for the program; authorizing certain officers and employees to act on behalf of the City in the selling and delivery of the obligations; and resolving other matters incident and related to the issuance, sale, security and delivery of the obligations;
2. Adopt the attached ordinance authorizing issuance and sale of City of Fort Worth, Texas Drainage Utility Revenue Refunding Bonds in an aggregate principal amount not to exceed \$100,000,000.00 to allow outstanding commercial paper to be refunded/refinanced for a longer term if needed;
3. Adopt the attached appropriation ordinance, increasing appropriations in the Stormwater Commercial Paper Fund in the amount of \$100,000,000.00, to support contracting authority under the callable commercial paper program;
4. Adopt the attached appropriation ordinance, increasing appropriations in the Stormwater Utility Fund in the amount of \$200,000.00, from available unreserved net position, for the purpose of paying costs of issuance related to the extendable commercial paper program, with such amount subject to reduction to conform to final figures reflected in the closing documents.

DISCUSSION:

The purpose of this Mayor and Council Communication (M&C) is to take actions to establish a cost-effective liquidity program to assist with the award of contracts for the City of Fort Worth's (City) stormwater capital projects that will be financed via long-term debt or subject to reimbursement – such as the Central City drainage improvements – to enable an efficient, cost-effective and timely implementation of capital improvements.

City staff and our financial consultants are recommending the authorization of an Extendable Commercial Paper (ECP) program, offered through JP Morgan Securities LLC which provides a source of appropriation authority and capital at a low cost to the City.

The ECP program offers considerable benefits, including \$100,000,000.00 of appropriation authority at a relatively low annual cost. The ECP may be issued without the need for bank liquidity support and is structured in a manner that upon initial issuance, the ECP will have a maturity date not to exceed 270 days, including any extensions. Under this structure, if the City were to issue commercial paper and its maturity date were approaching, the City would have several options at the stated maturity date: a) to replace the ECP with new ECP notes similarly structured or b) to issue long-term debt. The extendable feature would be used in the instance that the dealer cannot successfully remarket the ECP on a stated maturity date. If that happens, the ECP notes will begin to accrue interest at a penalty rate until the extended maturity date. At the extended maturity date, the City may attempt another remarketing of the ECP or issue long-term debt to refund the ECP notes. ECP notes may be issued from time to time in an aggregate principal amount outstanding at any one time not to exceed \$100,000,000.00.

Unlike the City's existing GO and Water Sewer commercial paper programs, the Stormwater System plans to actually issue some amount of short-term commercial paper notes – particularly to support the timely delivery of Central City projects. Issuing some commercial paper notes will support cash flow needs and the timing constraints of the Central City capital projects while minimizing delay on other critical stormwater capital projects.

For the Central City projects that will be reimbursed by Tarrant Regional Water District (TRWD), the ECP appropriation authority will be utilized to support the execution of the large-dollar contract amount for each project, but ECP will actually be issued only to the extent needed to make monthly payments equal to the amount of invoices accrued through each period. Toward the end of each fiscal year, TRWD will provide an annual reimbursement, which will be applied to the balance of outstanding commercial paper notes.

While outstanding, commercial paper notes will accrue some interest costs. Stormwater currently estimates that approximately \$50,731,000.00 in total project costs for which commercial paper will be issued. Based on construction draw schedules, it is estimated approximately \$1,500,000.00 in total interest costs at the completion and delivery of the Central City drainage projects.

In addition to facilitating delivery of the Central City projects, the City plans to use this program as appropriation authority in conjunction with

Council-adopted reimbursement resolutions to facilitate the initial award of capital improvement contracts that would ultimately be financed by longer term bonds issued after the projects have commenced. This practice will largely mirror what is done for the water utility. Staff plans to use the appropriation authority the ECP provides to support execution of large-dollar contracts with the smaller interim progress payments anticipated to be paid out of current revenues and pooled cash. When future stormwater bonds are issued, proceeds would be used to reimburse the source of the interim payments.

As is required by Chapter 1371 of the Texas Government Code, the ECP program must be investment grade rated. The Utility System's long-term credit worthiness and strong market access resulted in the program being awarded S&P's highest short-term rating of A-1+.

In conjunction with the execution of the commercial paper program, the M&C package includes an ordinance authorizing the sale of drainage utility revenue refunding bonds up to the \$100,000,000.00 authorized under the ECP program. In the event ECP were issued and could not be retired at its 270-day maturity or refunded with new ECP, this ordinance would allow the City to refund the issued paper with drainage utility revenue refunding bonds, if needed. Because such refunding authority is based on time-limited delegated authority, the ordinance would require annual re-adoption.

The second attached appropriation ordinance utilizes a portion of the Stormwater's net position to pay the costs of setting up this program, including charges of the City's financial advisors and outside bond attorneys. Because the ECP program involves setting up a structure and framework but no initial issuance is anticipated, there are no debt proceeds to pay such "costs of issuance," which is the standard practice when the City actually issues debt. Also, given the differences between this program framework and a standard bond issuance, modified services agreements with the financial advisors and bond attorneys may be required and are authorized by the ECP ordinance.

Following Mayor and Council authorization and the successful close and implementation of the program, Stormwater will submit other M&Cs and appropriation ordinances to appropriate capital projects to the commercial paper fund.

A Form 1295 is not required because: This contract legally does not require City Council approval.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that funds are currently available in net position of the Stormwater Utility Fund and upon approval of the above recommendations and adoption of the attached appropriation ordinances, funds will be available in the Stormwater Commercial Paper Fund and the Stormwater Utility Fund. Prior to an expenditure being incurred, the Transportation & Public Works Department has the responsibility of verifying the availability of funds.

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Expedited