

Extension and Expansion of Commercial Paper Notes Program

*City of San José Council and
San José Financing Authority Board*

Presenters:

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*Council/SJFA Agenda Item 1
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City's Existing Commercial Paper Program

- Well-Established Borrowing Program:
 - Borrow funds quickly and efficiently
 - Move quickly on projects or financing needs
 - Borrow short-term funds - pre-negotiated, flexible terms
- High ratings based on bank Letters of Credit (“LOCs”)
 - Each direct-pay LOC backs \$62.5 million of Notes plus interest
 - Program size of \$125 million of CP Notes
 - Each three year LOC expires February 2022
 - State Street
 - Series 1 (Tax Exempt) CP Notes
 - Series 1-T (Taxable) CP Notes
 - U.S. Bank
 - Series 2 (Tax Exempt) CP Notes
 - Series 2-T (Taxable) CP Notes

Commercial Paper Program Mechanics

- Outstanding up to 270 days, but may be “rolled”
- Amortized for up to seven years, per Council Debt Policy
- Based on strong City ratings, borrowing at short rates and the backing of highly-rated bank LOCs:

<u>Fees</u>	<u>Tax Exempt</u>	<u>Taxable</u>	<u>Basis</u>
LOC Costs	0.420%	0.420%	Note Principal + Interest
Dealer Fee	0.045%	0.045%	Note Principal
Other Fees	0.070%	0.070%	Note Principal
Coupon (90 Day)	0.100%	0.120%	Note Principal
TOTAL:	0.635%	0.655%	

- Funds drawn when needed, and no penalty to prepay
- Rates vary over time and depend on term of each CP Note roll
- Lower interest rate than long-term bonds, but interest rate risk

Proposed Changes to CP Program

Effective September 23, 2021

- Replace State Street and U.S. Bank LOCs with one expanded LOC from U.S. Bank
- Increase CP Note Capacity from \$125 million to \$175 million
- U.S. Bank backed Series 2 and Series 2-T Notes will have a combined maximum principal amount of \$175 million
- Terminate State Street LOC - eliminate Series 1 and 1-T CP Notes
- Total LOC size, including interest, increases to \$187.9 million
- \$50 million capacity added to program to fund San José Clean Energy's power supply purchases and operating costs (Council approval June 22, 2021)
- LOC expiration extended from February 2022 to March 2025
- Commitment Fee reduced: 0.42% to 0.38% (based on City ratings)

Utilization of CSJFA Commercial Paper

<u><i>CP Notes Already Issued</i></u>	<u>BEFORE</u>	<u>AFTER</u>
Central Service Yard Phase II	\$ 2.5	\$ 2.5
ESCO	7.1	7.1
Convention Center Exhibit Hall	8.4	8.4
Flood Improvements	0.9	0.9
Convention Center - South Hall	42.4	42.4
San José Clean Energy	<u>30.0</u>	<u>30.0</u>
Total Current CP Projects	\$ 91.3	\$ 91.3
<u><i>CP Notes Authorized but Not Issued</i></u>		
Fire Department Training Center/Emergency Operations Center	\$ 23.4	\$ 23.4*
San José Clean Energy	3.9	53.9
Flood Improvements	<u>6.4</u>	<u>6.4</u>
Total CP Authorized, Not Issued	\$ 33.7	\$ 83.7
Total Outstanding and Committed	\$ 125.0	\$ 175.0
CP Program Issuance Capacity – Current	\$ 125.0	\$ 175.0
Unutilized Issuance Capacity	\$ 0.0	\$ 0.0

*To be reduced by \$19.2 million when Lease Revenue Bonds are approved for Fire Department Training Center

Amended Documents Include

- Letter of Credit and Reimbursement Agreement
 - 4th Amendment
 - Increase U.S. Bank commitment from \$67.1 million to \$187.9 million
 - Extends expiration from February 2022 to March 2025
- Sublease
 - 7th Amendment
 - No additional facilities required to be pledged to site lease or sublease for additional lease revenues
- Amended and Restated Trust Agreement
 - 7th Supplement
 - Increase from \$125 million to \$175 million (Series 2/2T Notes only)
- Amended Fee Letter
 - Commitment fee decreases from 0.42% to 0.38%

City Council and Authority Board Recommendations

Adopt resolutions to:

- a. Authorize execution of financing documents:
 1. Amendment to a Letter of Credit and Reimbursement Agreement
 2. Increase the not-to-exceed aggregate principal amount to \$175 million
 3. Extend the stated expiration date and commitment Letter of Credit and Reimbursement Agreement to March 2025
- b. Authorize additional extensions to the Letter of Credit