



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: November 4, 2016 REPORT NO. 16-090

ATTENTION: Budget and Government Efficiency Committee

SUBJECT: Authorization for the Public Facilities Financing Authority of the
City of San Diego Subordinated Water Revenue Commercial Paper
Notes Program

REQUESTED ACTION:

Forward the proposal for establishing the Subordinated Water Revenue Commercial Paper Notes Program to City Council for consideration and approval in accordance with the timeline established for the program.

STAFF RECOMMENDATION:

Forward the requested action for City Council's consideration and approval.

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

I. **Background**

Below is an overview of commercial paper, discussion of current market conditions, specific parameters and plan of finance for the Water Revenue Commercial Paper Notes program, and analysis of financial considerations. Debt Management will be issuing a companion report to the City Council to discuss the legal documentation to establish the program subsequent to Committee review. Attachment 1 provides a complete listing of the legal documents to be authorized by the City Council to implement the Commercial Paper Program.

The Chief Financial Officer and the Water Utility have undertaken a multi-part process to streamline cash management in the Capital Improvement Program ("CIP") as efficiently and effectively as possible and to promote a more efficient use of available cash to complete projects. Staff is seeking authorization for a Commercial Paper Program for the Water Utility Fund, which is a strong cash management tool and will provide a "just in time" seamless funding source for several large scale Water System projects.

The authorization will allow the Water Utility to issue short-term debt to fund water capital needs, which will ultimately be refinanced into long-term bonded debt as the capacity nears the not to exceed levels that will be authorized by City Council. *This commercial paper program will be used for the Water System projects only.* The Commercial Paper Program will allow the Water Utility to take advantage of the low short-term borrowing rates and gives the Water

Utility greater financial flexibility. The Commercial Paper Program will enable the Water Utility to:

- Have quick access to the market and the flexibility to tailor borrowings to both market conditions and specific cash requirements,
- Only borrow amounts when funds are required (as capital project spending occurs),
- Immediately receive proceeds from the sale of Commercial Paper, and
- Avoid negative arbitrage and the risk of over-borrowing and incurring additional interest costs.

The Public Utilities Department has an active Water System CIP which supports the water system infrastructure for reliable water supply, the recycled water system, and other critical water projects. From time to time, bonds have been issued and state loans have been obtained to finance portions of the Water System’s CIP. In June 2016, the Water Utility issued new Water Bonds with \$80 million of proceeds and the Public Utilities Department projects to expend these funds by February 2017. As of October 31, 2016, the Water System has \$665 million in outstanding bonds and approximately \$60 million in outstanding Drinking Water State Revolving Fund (“SRF”) loans. Currently, funding for water projects are provided by a variety of sources which includes long-term bond financing, paygo, SRF loans, and grants to complete various Water System capital projects citywide.

II. Discussion

A. Commercial Paper Overview

Commercial paper is a short-term security which can be used as a cash management tool and to bridge capital funding gaps and delays. It is used by most agencies with large capital programs, such as SANDAG, San Diego County Water Authority, Los Angeles Department of Water and Power and the San Francisco Public Utilities Commission.

Key Features

Authorized amount	<ul style="list-style-type: none"> • City Council specified amount that limits the total size of the Commercial Paper program specific to Water Utility
Short-term maturity	<ul style="list-style-type: none"> • Notes will have a maximum maturity of 270 days • Determined for each note at the time it is sold • Commercial Paper Notes are rolled until taken out with bonds
Liquidity support	<ul style="list-style-type: none"> • Provided by 2 highly-rated commercial bank credit facilities (“credit banks”) with irrevocable direct-pay Letters of Credit (“LOC”)
Credit ratings	<ul style="list-style-type: none"> • Requires at least two short-term credit ratings • Based on the credit of the credit banks
Amount outstanding	<ul style="list-style-type: none"> • Water Utility may have any amount from \$0 to the total authorized amount outstanding at any time

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| Commercial Paper Dealers | <ul style="list-style-type: none">• Investment banks selected to periodically market the Water Utility's commercial paper notes to prospective investors• Uses an Offering Memorandum to market the Commercial Paper Notes. This disclosure document is different from Official Statements in that it mostly describes the financial position of the credit bank, instead of the Water Utility |
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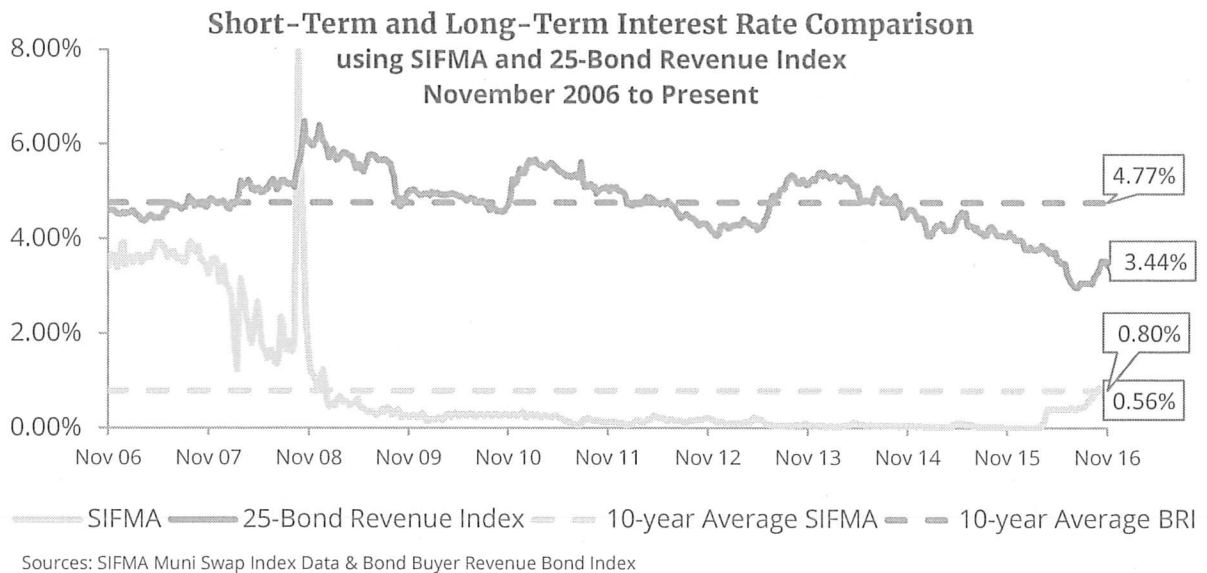
The Water Revenue Commercial Paper Notes can be issued with maturities ranging up to 270 days. The length of the notes are dependent on market conditions. The interest rate is set for the term of each note and interest is paid only at maturity. The principal and interest on each maturing note may be paid from a new commercial paper note (a "rollover"), from the proceeds of long-term bonds ("take out"), or from other funding sources, such as the Water Utility Fund operating budget.

These variable short term periods allows a commercial paper dealer to remarket the commercial paper notes to investors with specific needs, while securing short-term interest rates advantageous to the Water Utility. However, the continuous remarketing requires an available source of funds to repay the investor when the commercial paper notes mature. In order to provide this available source of funds, the commercial paper program requires a letter of credit ("LOC") from a commercial bank, which provides credit enhancement and liquidity for the program. The LOC guarantees liquidity to investors when their notes mature for payment of principal and interest. As a result of the credit bank's guaranty of payment, commercial paper programs hold the short-term credit ratings of the LOC credit bank.

B. Short-Term Market Trends and Current Capital Market Conditions¹

Capital Market Conditions. A key factor for the commercial paper market is short term interest rates. The graph below compares the SIFMA index (short term rate index) with the 25-bond revenue index (long term bond index). The SIFMA index will accurately reflect general municipal market sentiment and enable the City to estimate where its commercial paper "should" trade based on historical relationships. The SIFMA index has been consistently lower than the 25-bond revenue index except for approximately 2 weeks during the last 25 years (those two weeks occurred during the financial crisis in 2008).

¹ Per Office of the Independent Budget Analyst Report 15-06 recommendations, which were adopted in the Debt Policy, to provide an overview of capital market conditions, risk considerations and evaluation of market conditions before issuance of notes.



Money market fund reform has impacted short-term rates with significant volatility over the last few weeks. SIFMA has increased this year from 0.01% to a high of 0.87%, and is currently 0.56%. This has been driven by both seasonal market outflows as well as a sharp decline in tax-exempt Money Market Fund assets by \$124 billion since the beginning of 2016.

There is evidence of the current short term market stabilizing with lower inventory levels compared to that of the last few weeks. With the likelihood for short term rate increases by the Federal Reserve (the market currently forecasts a 66% probability of a rate hike in December), it is not expected that the short-term rates will return to pre-money market reform levels in the near term, unless there is some extraordinary market event. However, the market may have already priced in most of the expected December rate increase. Looking forward to the next 1-2 years, while it is not possible to predict interest rates with certainty, it is likely that short term interest rates will continue to be less than long term interest rates which would result in the Water Utility incurring a lower cost of financing during the commercial paper period compared to long term bonds.

Buyers of Commercial Paper. The buyers of commercial paper are considered short-term investors, because their investments in commercial paper mature in 270 days or less. One of the attractive features commercial paper offers to an investor is individual maturities can be matched to the specific timing needs of an investor (such as 30 days, or 115 days). Buyers of commercial paper include major corporations and money market funds. Commercial paper is attractive to money market funds because it complies with the maturity limitation imposed on such funds, and the flexibility in setting the maturity of commercial paper may help the money market fund achieve or maintain the average maturity it is seeking. Money market funds are likely to continue to buy a given issue of commercial paper as it rolls over, and thus may own an issue for an extended period of time.

C. Risks of Commercial Paper

Capital Market Risks. Just like the market for any other security, supply and demand determine commercial paper note yields. The yield of a specific note depends on the maturity length, the amount financed, and the level of other money market rates and the credit rating of the LOC credit bank. For the issuer, market risks which can arise – driven by the capital markets – could cause the commercial paper note yields to rise.

Remarketing Risk. Commercial paper is subject to rollover remarketing risk—the risk that a note cannot be remarketed to a buyer at a reasonable rate of interest. Although the commercial paper market is often a stable source of financing, there have been some instances like the financial crisis of 2008 where bank troubles and investor concerns adversely impacted the commercial paper market making it difficult and/or expensive to remarket notes. At that time, many issuers were unable to remarket or rollover their notes, causing supporting LOC credit banks to pay principal and interest to noteholders and then offering loans to issuers to repay the LOC credit bank for the immediate liquidity. Although the 2008 financial crisis may have been an aberration and commercial paper markets subsequently returned to normal, it is possible that there could be another financial or market crisis that could hinder the Water Utility's ability to efficiently remarket its commercial paper notes. However, if the market for commercial paper does seize up for any reason, the Water Utility has the ability to turn commercial paper debt into a bank loan with the LOC credit bank until those notes can be remarketed.

Interest Rate Risk. There is concern of whether to lock in bond interest rates now or wait two years to lock in a 30-year borrowing rate. The risk is that the 30-year borrowing rate will be higher in two years than it is today. While commercial paper rates remain significantly lower than long term bond interest rates, they still run the risk of increasing in the future (see Fiscal Considerations for discussion). In addition, occasionally an inverse yield curve exists, where short term rates are higher than long-term rates. When this does occur, market forces usually soon correct this situation but it may alter financial decision making while the condition is present.

Letter of Credit Risks. In relying on the LOC credit bank's credit rating for each commercial paper note, the issuer runs the risk of the LOC's credit rating being reduced, withdrawn or suspended. The Water Utility also runs the risk of higher interest costs due to the bank's rating changes. Over the past ten years, some issuers have faced the need to replace LOC banks with declining creditworthiness. While this process has generally gone very smoothly and ample credit capacity has been available in the municipal market, it is possible that a LOC bank may have deteriorating credit and no replacement bank can be found. In that case, the City would likely face paying higher interest rates until the situation is corrected by finding another LOC bank or taking out the CP notes with fixed rate debt or another funding source. Additionally, although this situation has not occurred, if the LOC credit bank refuses to honor a request for payment to investors for maturing notes, the Water Utility Fund will need to pay principal and interest on all outstanding Commercial Paper Notes immediately.

D. Parameters of Water Revenue Commercial Paper Notes Program²

Updates to the City's Debt Policy (Section 3.15) were adopted in March 2015 for commercial paper borrowing as a short-term cash management tool. Consistent with the requirements of the Debt Policy, the following items are parameters that the Water Utility will establish for commercial paper through legislative authorization and administrative policies and procedures for the program.

- **Interest rate cap.** Following the Debt Policy guidelines, the Resolution to be approved by City Council will establish that commercial paper notes can be issued from time to time, provided that as to each such issuance, the interest rate on commercial paper notes may not exceed the lesser of 11% per annum or the maximum rate per annum permitted by law (currently 12%). Interest rates are not expected to reach these levels as the commercial paper current interest rates are 0.56% and the ten year average is 0.80% (since November 2006).
- **Maximum maturity of notes.** The maximum maturity of notes issued will be 270 days. Staff expects to issue notes up to 90-120 day range, depending on market conditions. Recent trends indicate commercial paper investors have exhibited a marked preference for maturities around 90 days.
- **Sizing and timing new note issuances.** Following the Debt Policy guidelines, the total commercial paper program is limited to an amount not to exceed 110% of the dollar value of the next planned long term borrowing for capital projects, described below under "Plan of Finance."

New commercial paper notes will be issued on a monthly basis to reimburse the prior month's capital expenditures initially funded with cash. The minimum amount of each commercial paper issuance are anticipated to be \$2,000,000 or more to minimize the amount of processing time and costs associated with a new note. The commercial paper dealers and authorized City staff will determine the maturity of each new note. Generally, commercial paper dealers provide maturity indications based on investor requests, market conditions, and/or scheduled economic indicators.

- **Tracking activity and reporting.** Debt Management Department will monitor and track new note issuances and rollover activity, interest rates, and costs on an ongoing basis. A quarterly memorandum will be provided to the City Council by Debt Management describing all outstanding notes and associated capital project financing activity, following the guidelines of the Debt Policy. Once a long term bond has been issued to refinance outstanding notes, pursuant to the Debt Policy, the Municipal Advisor of this transaction will work with staff to develop a retrospective analysis of all costs associated with using commercial paper borrowing in conjunction with long term bonds as compared to the alternative of issuing long term debt to finance capital projects in place of commercial paper borrowing.

² Office of the Independent Budget Analyst Report 15-06 provided recommendations, which were adopted in the Debt Policy, for sizing, not-to-exceed caps, and ongoing reporting which are addressed in program's parameters.

- **Budgeting costs.** All interest costs and ongoing fees related to the administration of commercial paper are to be budgeted and paid out of a newly established Commercial Paper Payments and Fees commitment item within the Water Utility Operating Budget. Debt Management Department will assist Public Utilities Department in preparing estimates of commercial paper-related interest expenses and fees based on estimates of commercial paper draws for eligible project costs provided by Public Utilities Department. Staff will use interest rate assumptions that are higher than the then-current market rates, and document those assumptions so that they are easy to identify at a later date.
- **Policies and Procedures for issuing Commercial Paper Notes.** A comprehensive Commercial Paper Policies and Procedures Manual is being developed by the Debt Management Department, Office of the City Comptroller, Public Utilities Department, Office of the City Treasurer and Financial Management Department to document the policies and procedures that City staff will utilize in the day to day management of the commercial paper program and the other parties involved in the issuance and administration of the program.
- **Future Council Authorizations.** Debt Management will return to City Council to seek authorization for long-term bonds to take out commercial paper when the amount of notes outstanding nears maximum capacity. Additionally, Debt Management will return to City Council to seek approval or renewal of Letter of Credits and Dealer Agreements upon expiration or termination of each respective agreement. Should Public Utilities Department require an increase in the total capacity of the program, Debt Management will return to City Council for authorization to change program limits.

E. Plan of Finance

- **Issuer:** Public Facilities Financing Authority of the City of San Diego (“Authority”).
- **Authorized Amount:** up to \$250 million outstanding at any time.
- **Commercial Paper Term:** this program will be an ongoing program. The authorization is currently sized to cover the next two years of Water System CIP needs.
- **Projects:** The Public Utilities Department projects that approximately \$243 million is needed to fund the next two years of the Water System’s CIP projects. The commercial paper proceeds of up to \$250 million is projected to be utilized for the following CIP needs by asset category:
 - Pure Water \$ 56 million
 - pipeline projects¹ \$ 54 million
 - pipeline transmission projects \$ 60 million
 - pump station projects \$ 10 million
 - storage projects¹ \$ 14 million
 - other projects² \$ 25 million
 - water treatment plant projects \$ 31 million

¹ Includes projects where funding changed from SRF financing to commercial paper financing (Pacific Beach Pipeline and Miramar Clearwells).

² Includes the Advanced Metering Infrastructure (“AMI”) project.

- **Structure:** The Water System-supported Water Revenue Commercial Paper Notes will be issued under the 2009 Master Indenture and the 2009 Amended and Restated Master Installment Purchase Agreement. Water System revenue is the repayment pledge.
- **Ratings:** Moody's and Fitch will issue short-term ratings for the Water Revenue Commercial Paper Notes. These ratings are based on the credit quality and strength of each LOC credit bank supporting the program.
- **Tax Status:** The commercial paper notes will be issued tax-exempt. Interest on the commercial paper notes will not be included in gross income for federal income tax purpose and will be exempt from present State of California personal income taxes.
- **Interest Payments:** The Commercial Paper Program is structured so that the Water Utility Fund will pay interest expenses on an ongoing basis as each note matures.
- **Principal Payments:** Principal on the commercial paper notes will be paid solely from funds drawn under the LOC. The Water Utility's intent is to take out outstanding commercial paper notes with long-term bonds.
- **Security and Repayment:** Under the terms of the financing documents, the commercial paper notes are limited obligations of the Authority payable solely from the Installment Payments made by the Water Utility Fund. The Installment Payments are secured by and payable solely from the Net System Revenues of the Water System. Net System Revenue is the income derived from the operation of the Water System (primarily water rates and charges) less the maintenance and operation costs. Such Installment Payments with respect to the commercial paper notes will be made on a subordinated basis, on parity with the outstanding Subordinated 2012A Water Bonds, and the Subordinated 2016 A&B Water Bonds.

F. Financing Timeline:

The following are the critical milestones related to the execution of the Commercial Paper Notes:

November 16, 2016	Budget and Government Efficiency Committee approval
December 6, 2016	City Council authorization of documents and financing plan
Mid-January 2017	Distribute Offering Memorandum to investors
Late-January 2017	Document signing and closing
Week of January 30, 2017	First Note issue anticipated to fund Water System CIP

G. Commercial Paper Program Financing Team

The Financing Team consists of staff of the Department of Finance, including the Chief Financial Officer and staff of the Debt Management Department, the Office of the City Comptroller, and the Treasurer's Office. The Financing Team also includes staff of the City Attorney's Office and the Public Utilities Department.

The external Financing Team members maintain and provide access to the financial markets and enhance the marketability of the Water Utility's commercial paper notes. External members include: Montague DeRose & Associates, LLC as the Municipal Advisor; Hawkins Delafield & Wood LLP as Bond and Disclosure Counsel; U.S. Bank National Association as Issuing and Paying Agent and Trustee; and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and RBC Capital Markets, LLC as Commercial Paper Dealers.

Municipal Advisor: Montague DeRose & Associates, LLC was selected to provide municipal advisory services for this program through a competitive RFP process utilizing the City's As-Needed Financial Advisors Pool based on the firm's experience in launching commercial paper programs for numerous agencies and the fee proposal. The fee is a not to exceed \$50,000 plus out of pocket expenses not to exceed \$5,000 to be paid out of note proceeds.

Bond Counsel: The City Attorney's Office has identified, via an RFP process, Hawkins Delafield & Wood LLP to serve as Bond and Disclosure Counsel for the Water System Commercial Paper Notes Program for an amount of \$95,000 for services, plus out-of-pocket expenses not to exceed \$5,000. The fees payable to Bond and Disclosure Counsel are to be paid out of note proceeds.

Issuing and Paying Agent: U.S. Bank National Association was selected to provide Issuing and Paying Agent services for this program through a competitive RFP Process based on their significant experience providing such services and that they provide a user-friendly reporting system for administrative and tracking purposes. The proposed fees are \$7,000 at closing, to be paid out of note proceeds, and annual fees of \$4,000 for administration and \$18 per commercial paper trade.

Trustee: U.S. Bank National Association currently also acts as trustee for the outstanding Water Revenue Bonds. As a Trustee for the commercial paper notes, U.S. Bank's role is to maintain the Costs of Issuance account and to transfer Water Utility's interest payments for commercial paper notes to the Issuing and Paying Agent to reimburse the LOC credit bank.

Letter of Credit Banks: A direct-pay LOC represents a bank's promise to pay principal and interest when due for a defined period of time and subject to certain conditions. Under this commercial paper program, the Issuing and Paying Agent will draw upon the LOC to make principal and interest payments to investors. In October 2016, the City issued an RFP to banks requesting direct-pay letters of credit and/or alternative bank products to support the commercial paper program. Based on analysis of financing needs, structure, evaluations of the proposals, staff in conjunction with the Municipal Advisor, have shortlisted Bank of America, National Association and Bank of the West to provide credit services. The terms and conditions with each credit bank are being finalized.

Commercial Paper Dealers: The role of a commercial paper dealer is to periodically market the Water Utility Fund’s commercial paper to prospective investors, to sell the commercial paper notes at the time of issuance and to resell the rollover commercial paper notes at maturity. Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and RBC Capital Markets, LLC were selected to serve as Commercial Paper Dealers for the program. The firms were selected through a competitive RFP process utilizing the City’s qualified list for investment banking services and evaluated based on prior experience with similar commercial paper programs for other California governmental entities, technical approach and proposed marketing approach for the Water Utility commercial paper. The commercial paper dealers offered the remarketing fee of 0.045 percent of each firm’s the weighted average of commercial paper notes outstanding.

FISCAL CONSIDERATIONS:

Rationale for Use of Commercial Paper in Construction Financing.

Using commercial paper as part of a larger financing strategy for a construction program is prudent. Like many public agencies, the Water System lacks the cash resources to finance a program of the magnitude of the Water System CIP on a “pay as you go” basis. As a result, the City is financing the Water System’s CIP using various forms of debt financing, where debt is issued to investors, who receive periodic payments of principal and interest from the City over the life of the debt. As noted above, Commercial Paper is a short-term financing instrument. Because it has a very short maturity compared to a 20-year loan or 30-year bond, the interest rates charged on commercial paper notes are usually significantly lower than the rates for long-term bonds, although the difference between these rates varies based on market conditions.

For public agencies embarking on large construction programs that face uncertainty concerning the timing of their construction cash flow requirements, commercial paper offers much greater flexibility than a long-term bond issue, along with lower interest rates. Commercial paper allows an issuer to obtain funds as they are needed, in whatever amounts and with whatever frequency is necessary, rather than relying on a bond issue that takes months to prepare and implement, and may leave the issuer with either more or less bond proceeds than it needs to meet its near-term cash flow requirements. In this context, commercial paper is typically used as a form of “just in time financing,” to be refinanced at a later date with long-term bonds.

Costs of Issuance. The following is a summary of estimated financing costs (“costs of issuance”) associated with the Subordinated Water Revenue Commercial Paper Notes Program, **excluding interest payments.** The closing costs will be financed with commercial paper notes. The annual program costs assume monthly issuances of commercial paper notes, and these will be budgeted and paid from Water Utility Operating Funds.

<i>Estimated Costs of Issuance for Program size of \$250 million</i>	<i>Costs at Closing</i>	<i>Annual Costs for the Program (based on Fiscal Year 2018 cost projections)</i>
Bond Counsel Fees and Expenses	\$100,000	-
General Disclosure Counsel	3,000	-

Municipal Advisor Fees and Expenses	55,000	-
Letters of Credit Facility Fees	-	\$810,000 ¹
Letter of Credit Counsel	65,000	-
Commercial Paper Dealer Fees	1,000	50,000 ²
Dealer Counsel Fee	7,500	-
Rating Fees	62,000	45,000 ³
Bank Note Rating Fees	13,000	-
Issuing and Paying Agent Fees	7,000	5,300 ⁴
CUSIP Fees	500	-
Misc. Fees and Contingency	14,600	-
Total Estimated Costs	\$329,700	\$910,300

Assumptions for annual costs:

1. Letter of Credit Facility Fees are estimated based on proposals from shortlisted credit banks. Projections assume the maximum cost for draws.
2. Commercial Paper Dealer Fees: All Dealers will charge 0.045% annually of the average amount of outstanding notes sold by each Dealer on a quarterly basis. Projections assume monthly issuances.
3. Ratings: Ongoing surveillance ratings are required to be maintained, to be paid annually each January.
4. IPA Fees: Annual fees are \$4,000; assumes six commercial paper trades per month at a rate of \$18 per trade.

Interest Costs. Based on the projected spending schedule and the issuances required to support the Water System CIP, the projected commercial paper interest costs at current rates for the rest of Fiscal Year 2017 is \$45,300 and in Fiscal Year 2018 it is projected to cost \$684,000. These are projections based on current rates and are subject to change. The interest costs will be budgeted and paid from Water Utility Operating Funds. Interest will be paid on an ongoing basis as commercial paper notes mature.

Commercial Paper and Long-Term Bonds Analysis. In early 2015, City Council received a memo and an addendum from Debt Management that described analysis of Commercial Paper under various scenarios and possibilities. With a more detailed plan in anticipation of the Water Utility Fund needs, an analysis was run to compare the costs for an initial issuance of commercial paper to be taken out in two years by 30-year bonds as compared with an up-front issuance of a 30-year bonds. Below is an analysis of present value savings, based on current rates which are subject to change:

	Commercial Paper Rate	Estimated Long Term Bond Rate	Rate Difference	Estimated Present Value Debt Service Savings from Commercial Paper Notes*
Water Utility Current Rates	0.56%	3.47%	2.91%	\$13.0 Million

Note: based on current rates, subject to change.

* Incorporates all Costs of Issuance for Commercial Paper (Letter of Credit Fees, Dealer Fees), and Long Term Bonds Costs of Issuance (Bond and Disclosure Counsel, Underwriter's Discount, etc.)

The scenario described above assumes \$250 million of commercial paper drawn over a period of two years and no change in long term interest rates between the issuance of commercial paper and the issuance of long term bonds. Under such conditions, due to utilizing commercial paper's lower short term interest rates and as-needed borrowing structure, present value savings are realized.

While present value savings are realized, an increase in long term interest rates between the issuance of commercial paper and the issuance of long term bonds at a later date could result in the elimination of the arbitrage difference. At current interest rate levels, if the long term interest rates would rise 0.75% (break-even rate) between the issuance of commercial paper and the issuance of long term bonds, the present value savings advantage presented above would be eliminated.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #1: Provide high quality public service

Objective #1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

The City has not issued Commercial Paper in the past but the City Council has received a training in 2015 on commercial paper process and benefits.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

This item is docketed for Budget and Government Efficiency Committee. A notice of public hearing concerning the adoption of the resolution is published 5 days prior to the City Council hearing.

The Public Utilities Department conducts community outreach on a project basis.

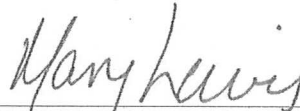
KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Business entities involved in the proposed financing include Montague DeRose and Associates, LLC (Municipal Advisor); Hawkins Delafield & Wood LLP (Bond and Disclosure Counsel); U.S. Bank National Association (Issuing and Paying Agent/Trustee); Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and RBC Capital Markets, LLC (Commercial Paper Dealers); Moody's Rating Service and Fitch Ratings (Rating Agencies).

Respectfully submitted,



Lakshmi Kommi
Debt Management Director



Mary Lewis
Chief Financial Officer

Attachment: 1. Legal Documents for Establishment of the Water Revenue Commercial Paper Notes Program

Attachment 1

Legal Documents to be authorized by City Council to implement the Water Revenue Commercial Paper Notes Program

1. *Resolution of the City Council*
2. Form of the *Fifth Supplemental Indenture* supplementing and amending that certain Indenture dated as of January 1, 2009, as supplemented and amended by and between the Public Facilities Financing Authority of the City of San Diego and U.S. Bank National Association, as Trustee
3. Form of the *2016 Commercial Paper Supplement to the Amended and Restated Master Installment Purchase Agreement ("MIPA")* by and between the City of San Diego and the San Diego Facilities and Equipment Leasing Corporation
4. Form of the *Assignment Agreement* by and between the San Diego Facilities and Equipment Leasing Corporation and the Public Facilities Financing Authority of the City of San Diego
5. Form of the *Issuing and Paying Agency Agreement* by and between the Public Facilities Financing Authority of the City of San Diego and U.S. Bank National Association, as Issuing and Paying Agent
6. Form of the *Dealer Agreement* by and between the Public Facilities Financing Authority of the City of San Diego and Dealers – 3 agreements will be executed
7. Form of the *Reimbursement Agreement and exhibits* by and between the City of San Diego and Letter of Credit Banks – 2 agreements will be executed
8. Form and distribution of the *Offering Memorandums* in connection with the issuance of the Subordinated Water Revenue Commercial Paper Notes – 2 Offering Memorandums will be authorized and distributed