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Council of Los Angeles Budget and Finance Committee Report

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**TO THE COUNCIL OF THE
CITY OF LOS ANGELES**

Your **BUDGET AND FINANCE Committee**

reports as follows:

BUDGET AND FINANCE COMMITTEE REPORT and RESOLUTION relative to the authority to amend the Municipal Improvement Corporation of Los Angeles (MICLA) Lease Revenue Commercial Paper Notes Program to allow for the issuance of callable commercial paper.

Recommendations for Council action, SUBJECT TO THE APPROVAL OF THE MAYOR:

1. ADOPT the accompanying AUTHORIZING RESOLUTION to approve and execute certain documents, including the Amended Trust Agreement, Amended and Restated Letter of Credit and Reimbursement Agreement, Amended and Restated Letter of Credit, Fee Letter with JP Morgan Chase Bank, Amendment No. 2 to the Amended and Restated Issuing and Paying Agent Agreement, three Offering Memoranda, and a form of Amendment to the Dealer Agreement to provide for the issuance of callable commercial paper notes.
2. AUTHORIZE the City Administrative Officer (CAO) to make technical adjustments as necessary to implement the intent of the Mayor and Council actions.
3. INSTRUCT the CAO to report back on the status of the callable commercial paper pilot program as part of each Financial Status Report.

Fiscal Impact Statement: The CAO reports that the proposed amendments to the MICLA Lease Revenue Commercial Paper Notes Program may generate approximately \$123,000 in General Fund savings during Fiscal Year 2012-13.

Debt Impact Statement: The CAO reports that this report has no debt impact on the General Fund. Further, in accordance with the City's Financial Policies, Debt Management Section, the maximum debt service payable in any given year may not exceed six percent of General Fund Revenues for non-voter approved debt. The proposed changes in the MICLA Lease Revenue Commercial Paper Notes Program will not cause debt service to exceed this limit as commercial paper is short-term debt and debt service payments have already been budgeted.

Community Impact Statement: None submitted.

SUMMARY

At its regular meeting of August 13, 2012, the Budget and Finance Committee considered a CAO report and Resolution requesting authority to amend the MICLA Lease Revenue Commercial Paper Notes Program (CP Program) to allow for the issuance of callable commercial paper. The CAO reports that due to regulatory changes, specifically relating to the Basel III agreement, new banking requirements will likely increase costs to banks that provide letters of credit (LOC) such as those supporting the MICLA CP Program. Basel III was recently adopted by the Federal Reserve and will implement capital requirements on banks to reduce the risk of system-wide financial shocks.

The CAO further reports that in response to Basel III, JP Morgan approached the City to issue callable CP as a pilot program. In exchange, JP Morgan has agreed to lower its current LOC utilized fee from 1.25% to 0.90% for a portion of its LOC commitment. This will result in a General Fund savings of approximately \$123,000 over the remaining term of the LOC Agreement. The LOC Agreement with JP Morgan is scheduled to expire on June 30, 2013. In addition, JP Morgan has agreed to pay for all legal fees and rating fees associated with the implementation of callable CP. Overall, the callable CP option, if implemented, would put the City in a position to mitigate the impact of rising credit and liquidity costs due to Basel III. The CAO report, attached to the Council file, provides additional details.

During Committee consideration, representatives of the CAO provided an overview of this matter and responded to related questions from Committee members. After further discussion and having offered an opportunity for public comment, the Budget and Finance Committee recommended to approve the CAO recommendations as amended to instruct the CAO to report back on the status of the callable commercial paper pilot program as part of each Financial Status Report instead of over the next year.

This matter is now forwarded to the Council for its consideration.

Respectfully submitted,

BUDGET AND FINANCE COMMITTEE

<u>MEMBER</u>	<u>VOTE</u>
KREKORIAN:	YES
ENGLANDER:	ABSENT
CARDENAS:	YES
ROSENDAHL:	ABSENT
KORETZ:	YES

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-Not Official Until Council Acts-