

Commercial Paper Program

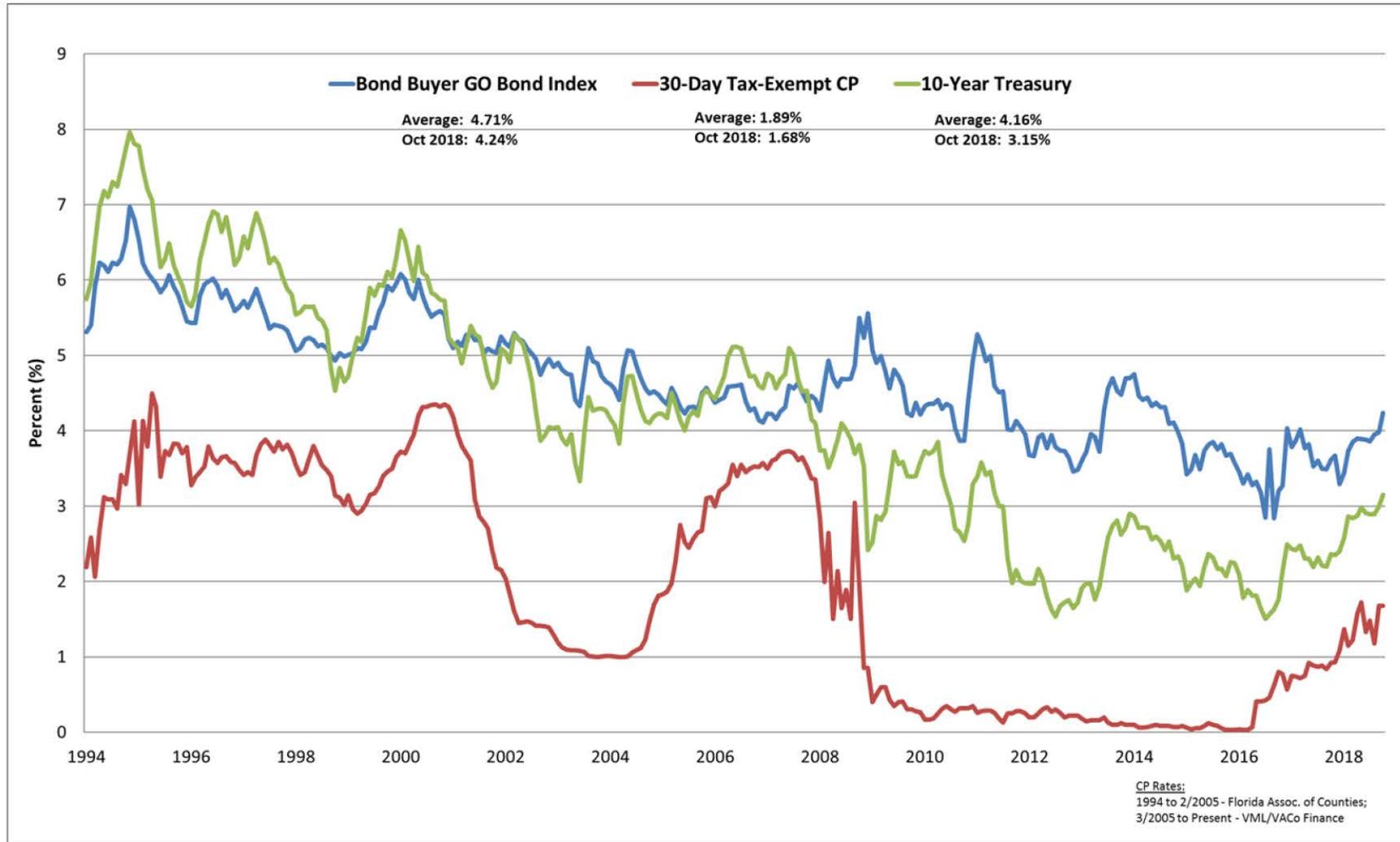
Presented by City Manager



Program Outline

- In general, Commercial Paper are short term notes issued by a corporation (investors buy the short term note from the corporation and they receive interest in exchange) to help deal with cash flow (like a line of credit).
- In Virginia, municipalities can take advantage of a Commercial Paper Program administered by VML/VACo Finance.
- In this program, VML/VACo Finance (and Bank of America as its financial intermediary) issues short term notes, on behalf of its participating localities, that are remarketed on a monthly basis.
- The purpose of this program is to help localities deal with short term cash flow impacts associated with Capital Projects or in general (e.g. Line of Credit).
- Current interest rates range from 2.5%-2.8%. Since these rates are so low (on average lower than the Bond Buyer GO Bond Index), some participants have utilized this for long-term capital funding.

CP Interest rates over past 25 years



Program Outline

- There is no commitment fee to participate and no closing costs.
- Administrative fees are part of the interest rate charge and not billed separately.
- The city must draw \$500K within the first 6 months of the joining the program (which we plan on doing this fall to deal with cash flow challenges).
- To join program all participants must back it via a GO pledge.
- Interest only charged on outstanding principal, not on original balance.
- We are billed by VML/VACo directly as they are the owners of the security and are paying the creditors directly (akin to UOSA Debt).
- Can also be used as a revenue anticipation note (like our Line of Credit).

Why we need it

- Current Line of Credit interest rate is Wall street Journal Prime rate (5.25%) minus 1%, which is 4.25%.
- Thus using this program will save us nearly 2% points of interest rates when compared to the Line of Credit.
- The City really struggled with short-term cash requirements the last time it implemented a transportation project (Safe Routes and Euclid/Manassas Drive intersection) due to the delayed process of getting reimbursed from VDOT.
- Like the Line of Credit we can pay back any drawings in full anytime we use it and no longer need it (i.e. when we get reimbursed by VDOT or we receive our Real Estate Tax revenues).



Next Steps

- If City enters this program it will utilize it as cash flow for upcoming capital expenditures (Moseby Culvert, Conner Drive, Upper Kent, and Conner Pond) as needed to hopefully avoid needing to use Line of Credit prior to receipt of Real Estate Tax revenues in December and/or VDOT reimbursements.
- We will need to hold a public hearing per state law to join the program.
- GB will need to pass a resolution authorizing City Staff to work with VML/VACo.
- Final Loan Documents will be prepared and presented to the GB for final approval.
- Once approved the City will have a \$2M borrowing ceiling and can draw with 10 days notice.

Reminder

- This is not new debt that will impact our annual debt payment amounts. This is instead like our currently utilized line of credit program for short-term cash flow borrowing.
- In the long run when our Operating Cash Fund is built up (and our Capital Fund) we will no longer need programs like this.

