



Legislation Text

File #: 20-0342, **Version:** 1

Recommendation to adopt resolution authorizing City Manager, or designee, to execute a Revolving Line of Credit with JPMorgan Chase Bank, N.A., in an amount not to exceed \$25,000,000 for a one year term, with the option to extend the term for an additional one-year period, secured by pledged City assets and payable by the General Fund Group, and authorize the execution of all necessary documents in connection therewith. (Citywide)

The COVID-19 pandemic continues to cause severe economic distress at the national, state, and local levels. To enhance the City's capacity to respond to the pandemic and increase the City's financial flexibility during these difficult and challenging times, a Revolving Line of Credit for general purpose use, in an amount not to exceed \$25,000,000, for a one-year term, with the option to extend for an additional one-year period, would provide cash flexibility for this unique time. At the present time, there is no intent to utilize the Line of Credit; rather, the intent is to provide a level of temporary cash security for an unknown future where the pandemic has shown the ability to substantially disrupt the capital markets for which the City relies on to fund projects. The City would only utilize the Line of Credit in the event that it needed liquidity in the extreme financial situation that cash had been drained due to the pandemic. It is likely that the City will not be in this situation; however, the Line of Credit is a relatively inexpensive insurance policy to help in the event that liquidity becomes a problem.

The total cost to issue the Revolving Line of Credit, including trustee, consultant, and counsel fees is estimated to be \$135,000. In addition, to maintain the Line of Credit, the City will pay an annual commitment fee of \$125,000, for a total first year cost of \$260,000. The commitment fee must be paid, even if the Line of Credit is unused. The Line of Credit may also be extended at the option of the bank, with consent by the City, for another year.

If the Line of Credit is utilized, the City will pay an index variable rate of 1.00 percent plus 1.75 percent, for a total of 2.75 percent. If the entire Line of Credit is drawn, the estimated interest cost for a year would be approximately \$815,000 on the \$25,000,000 loan. It is unlikely that any draw will be made, much less a draw of the entire amount in one year. The expected and highly likely interest cost would be zero. As is normal for these types of transactions, the City will be required to pledge City facilities as collateral (with a value at least equal to the maximum loan amount) to help ensure repayment. If the Line of Credit is drawn upon, any draw of funds will need to be repaid by the end of the 364-day term of the Line of Credit, unless the bank chooses to extend the Line of Credit.

A Request for Qualifications (RFQ) was issued on August 12, 2019, to establish a pool for revolving Line of Credit providers. Nine providers were qualified. In March 2020, the pool was requested to provide specific proposals with current rates and terms. Due to the rapid

deterioration in the capital markets stemming from the COVID-19 pandemic, seven of the nine withdrew from participation. Of the two responders, JPMorgan Chase Bank, N.A., offered the most advantageous rates and terms and is recommended for selection.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on April 10, 2020 and by Deputy Finance Director Sandy Tsang-Palmer and Finance Director John Gross on April 8, 2020.

City Council action is requested on April 21, 2020, to ensure that the Line of Credit is available.

The Revolving Line of Credit, in an amount not to exceed \$25,000,000, will be secured by pledged City assets and payable by the General Fund Group for a one-year term with the option to extend for an additional one-year period. The estimated one-time cost of issuance will be approximately \$135,000. Additionally, the annual commitment fee for the Line of Credit will be \$125,000, and is billed quarterly in the amount of \$31,250. The FY 20 impact to the General Fund Group will be approximately \$197,500, including the issuance cost and two quarters of the commitment fee, and approximately \$62,500 in FY 21, for a total of \$260,000 for the initial one-year term. These costs will be absorbed in the General Fund Group in the Financial Management Department, offset by the City Manager directive to scale back costs not essential for pandemic response. If the Line of Credit is drawn upon, the annual cost will range from approximately \$125,000 to a maximum of \$815,000 of interest cost, plus the repayment of the \$25 million, or the actual amount drawn. The actual annual cost will vary based on the amount drawn on the Line of Credit and the variable interest rate. The City plans to use the Revolving Line of Credit in the event of a liquidity shortage resulting from the pandemic. This recommendation has no staffing beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

Approve recommendation.

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JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
ACTING CITY MANAGER