



# City of San Antonio

## Agenda Memorandum

**File Number:**14-663

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**Agenda Item Number:** 31B.

**Agenda Date:** 3/20/2014

**In Control:** City Council A Session

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### SUMMARY

SAWS requests City Council approve:

- A. Concurrent with bullet B., an ordinance authorizing the issuance of obligations designated as “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2014A (No Reserve Fund)” (the “Series 2014A Bonds”), in an amount not to exceed \$300,350,000 to fund capital construction, refund outstanding tax-exempt commercial paper notes and refund outstanding revenue bonds for debt service savings; and
- B. Concurrent with bullet A., an ordinance authorizing the issuance of obligations designated as “City of San Antonio, Texas Water System Variable Rate Junior Lien Revenue and Refunding Bonds, Series 2014B (No Reserve Fund)” (the “Series 2014B Bonds”), in a principal amount not to exceed \$300,350,000 to fund capital construction, refund outstanding tax-exempt commercial paper notes and refund outstanding revenue bonds for debt service savings.

**Note: By the terms of the ordinances for the Series 2014A Bonds and Series 2014B Bonds, the total combined principal will not exceed \$300,350,000**

Each of the above ordinances includes a delegation of authority by the San Antonio City Council to SAWS’ Designated Financial Officers, defined as either the President/Chief Executive Officer or the Senior Vice President/Chief Financial Officer of SAWS, through a delegation authorization permitted by Chapter 1207, as amended, Texas Government Code.

### BACKGROUND INFORMATION:

SAWS’ capital financing plan utilizes a variety of sources to fund capital improvements. These include revenues, impact fees, bonds, and tax-exempt commercial paper. SAWS issues bonds periodically to finance capital improvement projects; refinance outstanding debt for debt service savings and refund outstanding tax-exempt commercial paper notes. SAWS’ 2014 budget included debt service to support the issuance of debt to fund capital improvement projects. The debt service for the bonds authorized in the ordinances is within the debt service approved in the SAWS 2014 budget.

### New Money and Tax-Exempt Commercial Paper Refunding Bonds

Utilization of short-term debt or Tax-Exempt Commercial Paper (“TECP”) is an integral part of SAWS’ overall debt management plan. The TECP program provides interim financing and allows SAWS the flexibility to issue short-term debt as needed, better matching construction funding with construction expenditures. SAWS then refunds the outstanding TECP with other debt to provide capacity to fund future capital improvement

projects with this short-term debt. A portion of the bond proceeds from the Series 2014A Bonds and Series 2014B Bonds will be used to refund outstanding TECP, with additional proceeds being used to (i) acquire, purchase, construct, improve, renovate, enlarge, or equip the system, and (ii) pay the costs of their issuance.

The Series 2014A Bonds will be issued as fixed rate debt to lock in current interest rates.

The Series 2014B Bonds will be issued as variable rate bonds to take advantage of low cost short-term debt. The initial bonds will be issued in a SIFMA Index Mode with the interest rate reset weekly based on the SIFMA Index plus a spread. The spread is determined at the time of pricing based on SAWS' credit rating and the length of the initial term of the bonds (expected to be three to four years). The initial interest rate on the Series 2014B Bonds is expected to be less than 1.50%. The Series 2014B Bonds are expected to be remarketed at the end of the initial term. Should the Series 2014B Bonds be unable to be remarketed, a penalty interest rate will be imposed until the Series 2014B Bonds can be remarketed or converted to another bond structure or mode. Should the mode (i.e., converting from variable to fixed rate debt) of the Series 2014B Bonds change, the SAWS Board of Trustees and City Council will be required to approve the transaction.

### **Refunding Bonds**

Approximately \$49,290,000 of the \$300,350,000 in authorized debt will be used to advance refund a portion of the City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2005 (the "Series 2005 Bonds"), which are callable May 15, 2015. In the current low interest rate environment, a portion the Series 2005 Bonds could be advance refunded with a new series of bonds for debt service savings. The remaining outstanding bonds from the Series 2005 Bonds will be eligible for a current refunding starting February 15, 2015. It is anticipated that SAWS will return to City Council to request authorization to issue refunding bonds to refund the remaining outstanding Series 2005 Bonds, for debt service savings, later in 2014 or early 2015. The par amount of bonds required to refund the advance refundable portion of the Series 2005 Bonds will be included in the fixed rate 2014A Bonds.

The ordinances authorizing the Series 2014A Bonds and the Series 2014B Bonds provide SAWS with the flexibility to issue fix rate debt, variable rate debt or a combination thereof not to exceed \$300,350,000 to take advantage of the current low interest rates on the short end of the yield curve.

### **Future Texas Water Development Board Issues**

SAWS expects to seek City Council approval on May 1, 2014 for two additional bond issues to fund the remainder of the 2014 capital improvements program. The two additional bonds series will total approximately \$60.7 million and will be placed directly with the Texas Water Development Board ("TWDB") under the state revolving fund programs. TWDB through the Clean Water and Drinking Water State Revolving Funds makes available to SAWS interest rate assistance in the form of a reduction of 1.20% and 1.25%, respectively, below market interest rates at the time of issuance.

**The issuance of the proposed bonds has no impact on the current rate structure of SAWS.**

### **DELEGATION AUTHORITY:**

The delegation of authority, pursuant to Chapter 1207, as amended, Texas Government Code, allows SAWS' Designated Financial Officers (SAWS' President/CEO and Senior Vice President/CFO) the flexibility to issue and set pricing terms on each series of these revenue bonds. This authorization allows the adoption of the ordinances authorizing the issuance of the respective series of bonds without stating the interest rate or sales price in the ordinances, both of which will be formally set within pricing parameters specified in the ordinance, upon the execution of the pricing certificate relating to each series of revenue bonds by SAWS' Designated Financial Officers. The respective amounts shown for the transactions discussed herein are preliminary and

subject to change based on actual market conditions on the date of sale.

**TRANSACTION SCHEDULE:**

**Fixed Rate Issue - Series 2014A**

<u>Date</u>	<u>Transaction</u>
03/20/2014	City Council Authorization
04/16/2014*	Price and Sell Bonds
04/30/2014*	Close Bonds

**Variable Rate Issue - Series 2014B**

<u>Date</u>	<u>Transaction</u>
03/20/2014	City Council Authorization
04/16/2014*	Price and Sell Bonds
04/30/2014*	Close Bonds

\* Specific dates may change as needed to effectuate the actual completion of these transactions.

**ISSUE:**

In order to take advantage of a favorable market conditions to fund capital projects, SAWS is proposing to issue junior lien bonds in an amount not to exceed \$300,350,000 in Series 2014A Bonds and Series 2014B Bonds to fund the 2014 capital improvements program and refund currently outstanding debt for debt service savings.

**ALTERNATIVES:**

City Council could choose not to approve the proposed ordinances which could result in the delay or elimination of capital projects in the 2014 Capital Improvements Program and the ability to take advantage of low interest rates on the short end of the yield curve to fund capital projects. The issuance of the bonds would also lock in debt service savings by refunding previously issued bonds with the proceeds of a new bond issued at lower interest rates.

**FISCAL IMPACT:**

The debt service from the issuance of the Series 2014A Bonds and Series 2014B Bonds are within the current rate structure approved by City Council on November 21, 2013 and will have no fiscal impact to the City.

**RECOMMENDATION:**

The SAWS Board of Trustees and City Staff recommend approval of these ordinances.