



# City of San Antonio

## Agenda Memorandum

**File Number:** 15-3707

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**Agenda Item Number:** 64B.

**Agenda Date:** 6/18/2015

**In Control:** City Council A Session

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**DEPARTMENT:** Finance

**DEPARTMENT HEAD:** Troy Elliott

**COUNCIL DISTRICTS IMPACTED:** City Wide

**SUBJECT:** SAWS Revolving Credit Agreement

### **SUMMARY:**

Ordinances authorizing amendments to the revolving credit agreements relating to the City's tax-exempt commercial paper program for the benefit of the San Antonio Water System ("SAWS").

### **BACKGROUND INFORMATION:**

SAWS' capital financing structure includes an authorized tax-exempt commercial paper ("TECP") program in the amount of \$500 million. This program provides short-term, variable rate financing for capital improvement projects. Utilization of short-term debt is an integral part of SAWS' overall debt management plan. The TECP program provides interim financing and allows SAWS the flexibility of issuing debt as needed, matching construction funding with construction expenditures.

The proposed ordinances authorize amendments to the current revolving credit agreements. A revolving credit agreement is an agreement, typically entered into with a bank or banks, to provide liquidity services for short-term debt instruments. The liquidity provider will purchase the commercial paper notes should the remarketing dealers be unable to find buyers in the financial markets.

The current revolving credit agreements provide support for two series of notes, with Bank of Tokyo-Mitsubishi UFJ, Ltd. ("Bank of Tokyo") providing liquidity support for the Series A Notes in an amount of \$250 million, and Wells Fargo Bank, N.A. ("Wells Fargo") providing liquidity support for the Series B Notes in an amount of \$150 million, for a combined amount of \$400 million. The current fee for the liquidity support is 50 basis points (or 0.50%) per annum, for an annual fee of approximately \$2,022,000. The current revolving credit agreements are set to expire October 5, 2015; however, under the terms of the agreements, a request to extend the agreement and/or modify the terms of the agreement is permissible.

Since the approval of the existing revolving credit agreements, market conditions have improved in the liquidity market. SAWS staff, working with their co-financial advisors, requested the banks extend the current agreements and modify the terms. Based on the proposals received from the banks, Bank of Tokyo agrees to extend the final date of the agreement to October 4, 2018; increase the liquidity support for the Series A Notes to \$350 million, and reduce the fee to 40 basis points (or 0.40%) for the original \$250 million, and provide a discounted rate of 25 basis points (or 0.25%) for the additional \$100 million through December 31, 2016, then increase the fee for the additional \$100 million to 40 basis points (or 0.40%) through the expiration of the agreement. Wells Fargo will provide liquidity support for \$100 million in Series B Notes through a final date of January 15, 2018, at a fee of 40 basis points (or 0.40%). The amended revolving credit agreements will provide support in a combined amount of \$450 million.

SAWS currently pays \$2,022,000 annually for the \$400 million of liquidity support for the Series A and Series B notes. If the new agreements are approved by Council, the annual cost through December 31, 2016 for \$450 million of liquidity support will be approximately \$1,673,000 and the annual cost from January 1, 2017 through the expiration of the agreements would be approximately \$1,825,000.

**ISSUE:**

The proposed ordinances authorize amendments to the revolving credit agreements with Bank of Tokyo and Wells Fargo to provide credit liquidity support for SAWS commercial paper program.

**ALTERNATIVES:**

SAWS could wait until the current agreements expire; however, the proposed revolving credit agreement provides additional funding capacity for the commercial paper program at a lower overall cost.

**FISCAL IMPACT:**

This transaction will have no fiscal impact to the City or on existing SAWS rates. No new debt is being issued.

**RECOMMENDATION:**

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