



# City of San Antonio

## Agenda Memorandum

**File Number:**16-1208

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**Agenda Item Number:** 21C.

**Agenda Date:** 1/14/2016

**In Control:** City Council A Session

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**DEPARTMENT:** Finance

**DEPARTMENT HEAD:** Troy Elliott

**COUNCIL DISTRICTS IMPACTED:** City Wide

### **SUBJECT:**

The approval of ordinances and resolutions related to financial matters of the San Antonio Water System.

### **SUMMARY:**

The San Antonio Water System (SAWS) requests City Council approve:

- A. An ordinance authorizing the issuance of obligations designated as "City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Series 2016A (No Reserve Fund)" (Series 2016A Bonds), in an amount not to exceed \$244,805,000 to refund the District Special Project Debt Obligations and refund outstanding San Antonio Water System debt for debt service savings;
- B. An ordinance authorizing the issuance of obligations designated as "City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, Taxable Series 2016B (No Reserve Fund)" (Series 2016B Bonds), in an amount not to exceed \$159,805,000 to refund the District Special Project Debt Obligations;

**Note: By the terms of the ordinances for the Series 2016A Bonds and Series 2016B Bonds, the total combined principal will not exceed \$244,805,000**

- C. An ordinance authorizing the dissolution of the District Special Project upon the retirement and termination of the District Special Project Debt Obligations;
- D. A resolution authorizing the submittal of an application requesting financial assistance under the Texas Water Development Board's (TWDB) Drinking Water State Revolving Fund Program in the amount of \$12,500,000 for funding of certain qualified water projects; and,
- E. A Resolution establishing the City's intention to reimburse itself for the prior lawful capital expenditures of funds from the proceeds of tax-exempt obligations not to exceed \$12,500,000.

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:**

On January 28, 2012, SAWS assumed responsibility for the operation and maintenance of the Bexar Metropolitan Water District (District) pursuant to Senate Bill 341, and currently operates the former District as the District Special Project (DSP), a component unit of SAWS. The DSP is to remain a component unit of SAWS until the DSP and SAWS are integrated in accordance with the terms of Senate Bill 341.

Integration is considered complete when:

1. the areas of service located in the former District are no longer operated as a special project within SAWS;
2. the ratepayers of the former District pay the same rates for service provided by SAWS as other similarly situated ratepayers of SAWS; and
3. the ratepayers of the former District receive water service that meets the requirements of the Commission (TCEQ).

The former District ratepayers currently receive water service that meets the requirements of the Commission; with the refunding of the DSP debt obligations, the area of service located in the former District will no longer be operated as a special project within SAWS; and with the approval of the SAWS rate request in November 2015, effective January 1, 2017, the ratepayers of the former District will pay the same rates for service provided by SAWS as other similarly situated ratepayers of SAWS.

SAWS also periodically issues bonds to refinance outstanding debt for debt service savings.

## **Refunding Bonds and DSP Dissolution**

The Series 2016A Bonds and Series 2016B Bonds in combined total not to exceed \$244,805,000 will refund the outstanding DSP debt obligations, which will allow for the DSP to be dissolved, and to refund a portion of the City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2007 (Series 2007 Bonds) for debt service savings.

The DSP currently has approximately \$155.4M in debt outstanding, with call dates ranging from today to May 1, 2030. As not all the DSP debt is advance refundable, both tax-exempt and taxable SAWS debt will be issued to defease the DSP debt. SAWS will issue a combination of tax-exempt and taxable debt to be placed in an escrow account for the exclusive use of paying the interest and principal of the DSP debt as it becomes due and callable. This will legally defease the DSP debt and it will no longer be a liability of the DSP. It is anticipated that the refunding of the DSP debt will result in positive debt service savings, the level of which will depend on market conditions at the time of pricing and the final structure of the refunding debt.

Upon the defeasement of the DSP debt obligations, the requirement to operate the DSP as a component unit of SAWS will have been satisfied, and the DSP may be dissolved and consolidated with SAWS.

The Series 2007 Bonds are callable May 15, 2017. In the current low interest rate environment, a portion of the Series 2007 Bonds could be advanced refunded with a new series of bonds for debt service savings. The level

of debt service savings will be determined on the day of pricing. The remaining outstanding bonds for the Series 2007 will be eligible for a current refunding starting February 15, 2017, at which time a second ordinance will be submitted to authorize the refunding of the remaining outstanding bonds. The par amount of bonds to advance refund a portion of the Series 2007 Bonds will be included in the Series 2016A Bonds.

## **Texas Water Development Board Application for Financial Assistance and Reimbursement Resolution**

TWDB's Drinking Water State Revolving Fund (DWSRF) provides loans at below-market interest rates for the planning, design, and construction of water infrastructure projects. In March 2015, SAWS submitted a list of projects to TWDB to be qualified under the DWSRF. Projects are qualified for financial assistance through a needs assessment, environmental impact and engineering review. SAWS received an invitation to apply for financial assistance from TWDB for the qualified project. SAWS is expected to receive a below market interest rate loan in amounts not to exceed \$12,500,000 from the DWSRF. If approved, the funds from the DWSRF will be used for water production facility upgrades to the 34<sup>th</sup> Street Pump Station.

The process to receive financial assistance under the DWSRF programs consists of the submittal of an application for participation. The acceptance of the application by TWDB is a commitment by TWDB to provide financing for the eligible projects. No financial commitment on SAWS' part is made during the application stage. SAWS will seek additional SAWS Board of Trustee and City Council approval prior to the issuance of any of the bonds relating to this program.

A reimbursement resolution provides SAWS with the flexibility to use revenues to initially fund project costs. Generally, SAWS can reimburse itself for eligible expenditures made in the 60 days prior to the adoption of the resolution through the issuance of the bonds. SAWS is requesting approval of a reimbursement resolution in an amount not to exceed \$12,500,000. The reimbursement resolution complies with the requirements of the Internal Revenue Service and Texas law.

**The issuance of the proposed bonds and submittal of an application for financial assistance has no impact on the current rate structure of SAWS.**

### **Delegation of 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**

#### **Series 2016 A and Series 2016B Bonds**

<u>Date</u>	<u>Transaction</u>
01/14/2016	City Council Authorization
02/02/2016*	Price and Sell Bonds
02/17/2016*	Close Bonds

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

**ISSUE:**

Refunding the DSP debt obligations is one of the requirements for full integration of the former District with SAWS, and in the current interest rate environment, debt service savings from the refunding is anticipated. Included in the DSP refunding, is a refunding of outstanding SAWS debt for debt service savings. SAWS is also requesting financial assistance from the Texas Water Development Board in the form of financial assistance under the Drinking Water State Revolving Fund.

**ALTERNATIVES:**

City Council could choose not to approve the proposed ordinances to refund the DSP debt obligations which could delay the integration of the former District with SAWS and the potential to achieve debt service savings, and should the applications for financial assistance not be submitted, SAWS would miss an opportunity to receive below-market interest rate loans to finance necessary water infrastructure projects.

**FISCAL IMPACT:**

The debt service from the issuance of the Series 2015A Bonds and Series 2016B Bonds are within the current rate structure and will have no fiscal impact to the City.

**RECOMMENDATION:**

Staff recommends approval of the proposed ordinances and resolutions.