



# City of San Antonio

## Agenda Memorandum

**File Number:**16-5081

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**Agenda Item Number:** 43B.

**Agenda Date:** 9/29/2016

**In Control:** City Council A Session

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**DEPARTMENT:** Finance

**DEPARTMENT HEAD:** Troy Elliott, Deputy Chief Financial Officer

**COUNCIL DISTRICTS IMPACTED:** City Wide

### **SUBJECT:**

The approval of ordinances 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 one or more series of obligations designated as “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds (No Reserve Fund)” (Revenue and Refunding Bonds) in an amount not to exceed \$536,390,000 to 1) advance and/or currently refund outstanding City of San Antonio, Texas Water System Revenue Bonds for debt service savings; 2) refund currently outstanding Tax-Exempt Commercial Paper Notes; and 3) provide new money to fund a portion of the Capital Improvements Program of SAWS;
- B. An ordinance authorizing the issuance of obligations designated as “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2016D” (Series 2016D Bonds), in an amount not to exceed \$12,500,000 to be sold to the Texas Water Development Board (TWDB) through the Drinking Water State Revolving Fund Program;
- C. An ordinance authorizing the issuance of obligations designated as “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2016E” (Series 2016E Bonds), in an amount not to exceed \$14,360,000 to be sold to TWDB through the Clean Water State Revolving Fund Program; and
- D. An ordinance authorizing the remarketing of the “City of San Antonio, Texas Water System Variable Rate Junior Lien Revenue and Refunding Bonds, Series 2013F (No Reserve Fund)” (Series 2013F Bonds), into a new interest rate mode and the amendment of certain terms of the ordinance authorizing the issuance of the Series 2013F Bonds.

**Note: By the terms of the ordinances listed above, the total combined principal will not exceed \$536,390,000.**

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 2016 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 2016 budget.

### **Revenue and Refunding Bonds - New Money and Refunding**

The Revenue and Refunding Bonds will consist of new bond proceeds to fund capital improvements; refund currently outstanding Tax-Exempt Commercial Paper Notes; and provide bond proceeds to advance and/or currently refund outstanding debt for debt service savings.

The SAWS Capital Improvements Program (CIP) budget includes debt proceeds totaling \$166.6 million in capital projects. A portion of the debt proceeds will be issued through the Texas Water Development Board at subsidized interest rates (as described below) with the remaining portion funded through the capital markets.

Based on current market conditions, the following bonds could be refunded for debt service savings through an advance refunding and/or current refunding: City of San Antonio, Texas Water System Revenue Refunding Bonds, Series 2007 (Series 2007 Bonds); City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2007A (Junior Lien Series 2007A Bonds); and City of San Antonio, Texas Water System Revenue and Refunding Bonds, Series 2009 (Series 2009 Bonds). Below are the projected savings based on interest rates as of August 17, 2016:

| Bond Series                 | Call Date | Refunding Par | Refunding Type    | Projected Savings* |
|-----------------------------|-----------|---------------|-------------------|--------------------|
| Series 2007 Bonds           | 15-May-17 | \$69,405,000  | Advance Refunding | 17.30%             |
| Series 2009 Bonds           | 15-Nov-18 | \$132,860,000 | Advance Refunding | 19.00%             |
| Series 2007 Bonds           | 15-May-17 | \$73,810,000  | Current Refunding | 16.90%             |
| Jr. Lien Series 2007A Bonds | 15-May-17 | \$18,315,000  | Current Refunding | 8.60%              |

\*Rates as of August 17, 2016

It is expected that the one series of bonds will be issued in October 2016 to provide 1) new money proceeds to fund CIP, 2) refund outstanding Tax-Exempt Commercial Paper Notes; and 3) advance refund a portion of the Series 2007 Bonds and Series 2009 Bonds for debt service savings. A second series of bonds is expected to be issued in the January/February 2017 timeframe to effectuate the current refunding of the remaining Series 2007

Bonds and the Junior Lien Series 2007A Bonds for debt service savings.

### **Drinking Water State Revolving Fund - Series 2016D Bonds**

Under the Drinking Water State Revolving Fund, TWDB provides subsidized interest rate loans to assist local water systems in meeting Safe Drinking Water Act standards. SAWS has benefited from participation in the Drinking Water State Revolving Fund since 2013 and has issued approximately \$125 million in junior lien revenue bonds to TWDB under this program. SAWS now wishes to issue TWDB bonds in an amount not to exceed \$12,500,000 for the construction of the 34<sup>th</sup> Street Pump Station Improvements Project. TWDB makes available to SAWS interest rate assistance in the form of a reduction of 1.25% below market interest rates at the time of issuance. The debt service for the Series 2016D Bonds is included in the 2016 budget.

### **Clean Water State Revolving Fund - Series 2016E Bonds**

Under the Clean Water State Revolving Fund, TWDB provides subsidized interest rate loans to assist local water systems in meeting Clean Water Act standards. SAWS has benefited from participation in the Clean Water State Revolving Fund since 1999 and has issued approximately \$548 million in junior lien revenue bonds to TWDB under this program. SAWS now wishes to issue TWDB bonds in an amount not to exceed \$14,360,000 for the construction of the Dos Rios Electrical Rehabilitation Phase I Project. TWDB makes available to SAWS interest rate assistance in the form of a reduction of 1.20% below market interest rates at the time of issuance.

### **Series 2013 F Remarketing**

In November 2013, SAWS issued the Series 2013F Bonds in a SIFMA Index Mode to take advantage of historically low short-term interest rates. The interest rate for the Series 2013F Bonds are reset weekly based on the SIFMA Index plus a spread of 0.68%. The average interest rate over the life of the bonds through July 2016 has been 0.77%. The Series 2013F Bonds were issued for an initial period of three years, expiring October 31, 2016. Upon the expiration of the initial period, the ordinance of the Series 2013F Bonds allows for the remarketing of the Series 2013F Bonds into a successive SIFMA Index Mode, or other mode as provided in the ordinance to include other variable rate modes, a Term Mode or Fixed Mode.

Based on current market conditions and to provide a fixed interest rate for the next term of the Series 2013F Bonds, SAWS wishes to remarket the Series 2013F Bonds effective November 1, 2016 into a Term Mode for a period of three to five years. As of July 28, 2016, the estimated all in interest rate on a Term Mode bond is between 1.24% - 1.64%. Remarketing the Series 2013F Bonds in a Term Mode continues to take advantage of the historically low interest rates on the short end of the yield curve, while providing interest rate certainty for the term of the remarketing.

The ordinance also amends the original ordinance of the Series 2013F Bonds to provide a maximum interest rate not to exceed 8.00% for bonds remarketed in a Term Mode from a maximum rate of 15% in the current ordinance.

**Note: By the terms of the ordinances listed above, the total combined principal of all transactions will not exceed \$536,390,000.**

**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:**

### **Revenue and Refunding Bonds (New Money and Advance Refunding)**

| <u>Date</u>        | <u>Transaction</u>         |
|--------------------|----------------------------|
| September 29, 2016 | City Council Authorization |
| October 5, 2016*   | Price and Sell Bonds       |
| November 1, 2016*  | Close Bonds                |

### **Revenue and Refunding Bonds (Current Refunding)**

| <u>Date</u>            | <u>Transaction</u>         |
|------------------------|----------------------------|
| September 29, 2016     | City Council Authorization |
| January/February 2017* | Price and Sell Bonds       |
| January/February 2017* | Close Bonds                |

### **Series 2016D (TWDB Drinking Water State Revolving Fund)**

| <u>Date</u>        | <u>Transaction</u>           |
|--------------------|------------------------------|
| September 29, 2016 | City Council Authorization   |
| November 2, 2016*  | TWDB Provides Interest Rates |
| December 14, 2016* | Close Bonds                  |

### **Series 2016E (TWDB Clean Water State Revolving Fund)**

| <u>Date</u>        | <u>Transaction</u>           |
|--------------------|------------------------------|
| September 29, 2016 | City Council Authorization   |
| November 18, 2016* | TWDB Provides Interest Rates |
| December 15, 2016* | Close Bonds                  |

### **Series 2013F Remarketing**

| <u>Date</u>        | <u>Transaction</u>         |
|--------------------|----------------------------|
| September 29, 2016 | City Council Authorization |
| October 20, 2016*  | Price and Sell Bonds       |
| November 1, 2016*  | Close Bonds                |

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

## **ISSUE:**

In order to take advantage of favorable market conditions to fund capital projects, SAWS is proposing to issue up to four series of junior lien bonds and remarket one series of bonds in an amount not to exceed \$536,390,000 fund a portion of the SAWS Capital Improvements Program and refund 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. 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 proposed bonds are within the current rate structure approved by City Council on November 19, 2015 and will have no fiscal impact to the City.

**RECOMMENDATION:**

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