



# City of San Antonio

## Agenda Memorandum

**File Number:**18-2696

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**Agenda Item Number:** 16E.

**Agenda Date:** 4/5/2018

**In Control:** City Council A Session

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**DEPARTMENT:** Finance

**DEPARTMENT HEAD:** Ben Gorzell, Chief Financial Officer

**COUNCIL DISTRICTS IMPACTED:** City Wide

### **SUBJECT:**

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 obligations designated as City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2018A (No Reserve Fund) to i) currently refund outstanding City of San Antonio, Texas Water System Junior Lien Revenue Bonds for debt service savings; ii) refund currently outstanding Tax-Exempt Commercial Paper Notes; iii) provide new money to fund a portion of the Capital Improvements Program of SAWS; and iv) pay the cost of issuance.
- B. 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 2018C (No Reserve Fund) to i) refund currently outstanding Tax-Exempt Commercial Paper Notes; i) provide new money to fund a portion of the Capital Improvements Program of SAWS; and iii) pay the cost of issuance.

**Note: By the terms of the Ordinances listed above, the total combined principal will not exceed \$392,000,000.**

- C. An Ordinance authorizing the issuance of obligations designated as “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2018B” (Series 2018B), in an amount not to exceed \$10,500,000 to be sold to the Texas Water Development Board (TWDB) through the Drinking Water State Revolving Fund Program.
- 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 not to exceed \$33,550,000 for funding of certain qualified water projects.

- 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 \$33,550,000.

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 Chapters 1207 and 1371, 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 (converting interim financing to permanent financing). SAWS 2018 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 2018 budget.

### **Revenue and Refunding Bonds and Variable Rate Bonds - Series 2018A and Series 2018C**

The Revenue and Refunding Bonds and the Variable Rate Bonds will consist of new bond proceeds to fund capital improvements; refund currently outstanding Tax-Exempt Commercial Paper Notes; provide bond proceeds to currently refund outstanding debt for debt service savings; and provide funds to pay to cost of issuance.

The SAWS Capital Improvements Program (CIP) budget includes debt proceeds. Due to sufficient cash on hand, SAWS did not issue debt in 2017 to fund the 2017 CIP. These Ordinances authorizes three series of bonds to fund the 2017 and 2018 CIP. To take advantage of the short-end of the yield curve, approximately \$152,000,000 of variable rate debt is recommended to be issued at an estimated rate of 2.50%. The second bond series recommended will be a fixed-rate 30 year issue in an approximate amount of \$240,000,000, comprised of approximately \$201,000,000 in proceeds to refund outstanding commercial paper and provide new money proceeds to fund capital improvement projects, and approximately \$39,000,000 to refund outstanding revenue bonds for debt service savings (see below) at an estimated rate of 3.90%, with the third series being placed with the Texas Water Development Board at subsidized interest rates (as described below).

Based on current market conditions, the City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2008 (Series 2008) and City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2008A (Series 2008A) can be refunded for debt service savings. As of March 2, 2018, cash savings of \$6.9 million can be achieved by the refunding the bonds or a savings of 7.02% of the refunded bonds.

It is expected that the fixed rate series of bonds will be issued in May 2018 to provide i) new money proceeds to fund CIP, ii) refund outstanding Tax-Exempt Commercial Paper Notes; iii) refund the Series 2008 and Series 2008A bonds for debt service savings; and iv) pay the cost of issuance. The Series 2018B bonds issued to the TWDB will be issued in May 2018, with the variable rate series of bonds expected to be issued in late 2018 or the early 2019 timeframe depending on market conditions and the funding needs of the CIP.

### **Drinking Water State Revolving Fund - Series 2018B 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 \$137 million in junior lien revenue bonds to TWDB under this program. SAWS now wishes to issue to TWDB bonds in an amount not to exceed \$10,500,000 for the construction of the Zarzamora Pump Station Upgrade project. TWDB makes available to SAWS interest rate assistance in the form of a reduction of 1.35% 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 as the debt service is within the approved budget.**

### **Drinking Water State Revolving Fund Application**

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 June 2017, 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 projects. SAWS is expected to receive a below market interest rate loan in an amount not to exceed \$33,550,000 from the DWSRF. If approved, the funds from the DWSRF will be used for the water projects listed in Attachment A.

The process to receive financial assistance under the DWSRF program 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 \$33,550,000. The Reimbursement Resolution complies with the requirements of the Internal Revenue Service and Texas law.

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

### **DELEGATION AUTHORITY:**

The delegation of authority, pursuant to Chapters 1207 and 1371, 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 each 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 2018A)**

| <u>Date</u>     | <u>Transaction</u>         |
|-----------------|----------------------------|
| April 5, 2018   | City Council Authorization |
| April 25, 2018* | Price and Sell Bonds       |

May 21, 2018\*

Close Bonds

**Variable Rate Issue (Series 2018C)**

| <u>Date</u>           | <u>Transaction</u>         |
|-----------------------|----------------------------|
| April 5, 2018         | City Council Authorization |
| Late 2018/Early 2019* | Price and Sell Bonds       |
| Late 2018/Early 2019* | Close Bonds                |

**TWDB Drinking Water State Revolving Fund (Series 2018B)**

| <u>Date</u>    | <u>Transaction</u>           |
|----------------|------------------------------|
| April 5, 2018  | City Council Authorization   |
| May 15, 2018*  | TWDB Provides Interest Rates |
| June 14, 2018* | 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 three series of junior lien bonds in an amount not to exceed \$402,500,000 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 December 7, 2017 and will have no fiscal impact to the City.

**RECOMMENDATION:**

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