



City of San Antonio

Agenda Memorandum

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Agenda Item Number: 14.

Agenda Date: 9/13/2018

In Control: City Council A Session

DEPARTMENT: Finance

DEPARTMENT HEAD: Troy Elliott, Deputy Chief Financial Officer

COUNCIL DISTRICTS IMPACTED: City Wide

SUBJECT:

Ordinance, for the San Antonio Water System, approving up to \$500,000,000 in City of San Antonio, Texas Water System Commercial Paper Notes, Series A, Series B, and Series C, providing replacement liquidity for an expiring credit facility, updating the Commercial Paper Notes Program components to allow future issuance flexibility, and approving an offering document. [Ben Gorzell Jr., Chief Financial Officer; Troy Elliott, Deputy Chief Financial Officer]

SUMMARY:

Ordinance authorizing amendments to the City of San Antonio, Texas Water System Commercial Paper Notes Program

BACKGROUND INFORMATION:

The San Antonio Water System (SAWS) was created on April 30, 1992 by City Ordinance 75686. SAWS serves more than 486,000 water and 435,000 wastewater customers in and around San Antonio and maintains over 12,300 miles of water and sewer mains.

The City Council exercises its oversight of SAWS through the approval of rates and charges, authorization of debt issuances, approval of all condemnations, and the appointment of all Trustees except the Mayor who serve as an ex-officio member.

Specifically, Ordinance 75686 requires debt issuances to be reviewed and approved by City Council. Further, the City Charter requires the Supervisor of Public Utilities to provide advice to the City Council regarding utility rate matters to which debt issuances relate.

SAWS' capital financing structure includes an authorized commercial paper program in the amount of \$500,000,000 ("CP Program"). 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 CP Program provides interim financing and allows SAWS the flexibility of issuing debt as needed, matching construction funding with construction expenditures.

The current CP Program has two series of notes outstanding designated as "City of San Antonio, Texas Water System Commercial Paper Notes, Series A" ("Series A Notes") and "City of San Antonio, Texas Water System Commercial Paper Notes, Series B" ("Series B Notes") with a combined authorization of \$500,000,000. Credit and liquidity support for the CP Program is provided through two revolving credit agreements which have been in place since 2012 and are currently authorized for a combined amount of \$450,000,000. MUFG Bank, Ltd. (formerly The Bank of Tokyo Mitsubishi UFJ, Ltd.) provides credit and liquidity support for the Series A Notes in an amount of \$350,000,000, with Wells Fargo Bank, N.A. providing \$100,000,000 in credit and liquidity support for the Series B Notes. The revolving credit agreement with MUFG Bank, Ltd. expires October 4, 2018, with the agreement with Wells Fargo Bank, N.A. expiring January 15, 2021. Under the terms of both of these agreements, SAWS currently pays an annual commitment fee equal to 40 basis points. This equates to \$1.4 million per year for MUFG Bank, Ltd. and \$400,000 per year for Wells Fargo Bank, N.A.

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 and bond counsel, solicited proposals pursuant to a competitive process from qualified banks to provide replacement liquidity to the 2018 expiring revolving credit agreement for up to \$400,000,000 for the Series A Notes. JPMorgan Chase Bank, N.A. was selected as the liquidity provider based upon the pricing, size and structure of their proposed facility.

The Third Amended and Restated Ordinance ("Ordinance") authorizes the replacement of the expiring MUFG Bank, Ltd. revolving credit agreement with agreements with JPMorgan Chase Bank, N.A., and affirms the existing revolving credit agreement with Wells Fargo Bank, N.A., for a combined amount of \$500,000,000, with JPMorgan Chase Bank, N.A. providing an expanded \$400,000,000 in credit and liquidity support and Wells Fargo Bank, N.A. providing \$100,000,000.

To accommodate the proposed changes and provide future flexibility within the CP Program, the Ordinance also authorizes the commercial paper notes to be issued in three series of notes rather than the current two series, and within each series, the ability to designate and issue subseries as the CP Program continues to evolve. The additional series of notes provides flexibility to add another revolving credit agreement under the CP Program and/or the issuance of certain alternative types of commercial paper, as would be approved by City Council. The combined amount of the three series of notes will not exceed \$500,000,000.

ISSUE:

The proposed Ordinance authorized replacement revolving credit agreements with JPMorgan Chase Bank, N.A. to provide credit liquidity support for SAWS CP Program for a five-year term through October 4, 2023, and authorizes three series of notes to provide flexibility for future funding.

ALTERNATIVES:

Should the existing revolving credit agreement expire without a replacement, the remarketing dealers of the commercial paper notes may find it difficult or impossible to remarket the notes in the financial markets, thus

limiting the financing options of SAWS in funding necessary capital improvement projects. Also, legal documentation governing the CP Program prohibits the sale of commercial paper notes without liquidity support.

FISCAL IMPACT:

This transaction will have no fiscal impact to the City or on existing SAWS rates. No new debt is being issued. This transaction will provide SAWS with an additional \$50 million in liquidity support while simultaneously reducing the cost of such liquidity support by approximately \$145,000 per year.

RECOMMENDATION:

The SAWS Board of Trustees, the Supervisor of Public Utilities and City Staff recommend approval of the Ordinance.