



# City of San Antonio

## Agenda Memorandum

**File Number:**19-3997

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**Agenda Item Number:** 24B.

**Agenda Date:** 5/16/2019

**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:**

Approval of the following two items relating to the financial matters of the San Antonio Water System.

**SUMMARY:**

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

- A. Resolution, for the San Antonio Water System, authorizing the cash defeasance of certain outstanding debt obligations in an amount not to exceed \$175,000,000 par, to reduce future debt service.
- B. Ordinance, for the San Antonio Water System, authorizing the issuance of obligations designated as City of San Antonio, Texas Water System Junior Lien Revenue Refunding Bonds, in one or more series and in an aggregate amount not to exceed \$306,085,000 to refund certain outstanding debt obligations for debt service savings.

The above ordinance 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, as permitted by Chapter 1371, as amended, of the Texas Government Code.

**BACKGROUND INFORMATION:**

The San Antonio Water System (SAWS) was created on April 30, 1992 by City Ordinance 75686. SAWS serves more than 500,000 water and 450,000 wastewater customers in and around San Antonio and maintains over 12,600 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 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).

#### **Cash Defeasance of Outstanding Debt**

SAWS has sufficient cash on hand to defease outstanding debt to lower future debt service. SAWS financing plan includes the cash defeasance of up to \$175,000,000 in outstanding par. The Cash Defeasance Resolution authorizes SAWS to deposit cash with an Escrow Agent in an amount necessary to effectuate the legal defeasance of the debt obligations. The identified candidates for the cash defeasance have call dates ranging from May 15, 2019 to May 15, 2022. The debt service on the defeased bonds will be paid by the Escrow Agent through the call date. It is currently estimated, that the legal defeasance of the identified candidates of bonds will reduce future debt service by approximately \$212,000,000 in various annual amount from 2020 to 2028. The overall savings generated will be determined at the time of execution.

#### **Revenue Refunding Bonds**

The Revenue Refunding Bond Ordinance authorizes SAWS to issue debt not to exceed \$306,085,000 par in one or more series of refunding obligations to refund certain outstanding obligations in the same amount, to pay related cost and expenses of issuing the bonds, and to distribute one or more offering document with respect hereto. The refunding bond candidates have call dates ranging from May 15, 2019 to May 15, 2020. Based on current market conditions, refunding of the current targeted refunding candidates not to exceed \$306,085,000 par is estimated to generate \$35 million in debt service saving, or 14% NPV savings. These savings will be realized in various annual amounts from 2020 to 2041. The overall savings generated are subject to market conditions at the pricing of these series of refunding bonds and could vary compared to projections.

#### **DELEGATION OF AUTHORITY:**

The delegation of authority, pursuant to Chapter 1371, as amended, of the 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 revenue bonds when market conditions are most favorable to SAWS and the City. This authorization allows the adoption of the Ordinance authorizing the issuance of the bonds without stating the interest rate or sales price in the Ordinance, both of which will be formally set within pricing parameters specified in the Ordinance, upon the execution of the pricing certificate by SAWS' Designated Financial Officers.

#### **TRANSACTION SCHEDULE:**

<u>Date</u>	<u>Transaction</u>
May 7, 2019	SAWS Board of Trustee Approval
May 16, 2019	City Council Authorization
June 2019	Cash Defeasance
TBD	Within 12 months Price Revenue Refunding Bonds in one or more transactions

TBD

Within 12 months Close Revenue Refunding Bonds in one or more transactions

**ISSUE:**

The San Antonio Water System requests City Council approval of the two financial transactions discussed above.

**ALTERNATIVES:**

Should City Council choose not to approve the resolution and ordinance, SAWS could miss an opportunity to utilize cash on hand to defease outstanding debt to lower future debt service and refund outstanding debt for debt service savings.

**FISCAL IMPACT:**

The debt service from the proposed resolution and ordinance are within the current rate structure approved by City Council on December 7, 2017 and will have no fiscal impact on the City.

**RECOMMENDATION:**

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