



City of San Antonio

Agenda Memorandum

File Number:19-8562

Agenda Item Number: 42.

Agenda Date: 12/12/2019

In Control: City Council A Session

DEPARTMENT: Finance

DEPARTMENT HEAD: Troy Elliott, Deputy Chief Financial Officer

COUNCIL DISTRICTS IMPACTED: City Wide

SUBJECT:

Approval of the following four items relating to financial matters of the San Antonio Water System. [Ben Gorzell Jr., Chief Financial Officer; Troy Elliott, Deputy Chief Financial Officer]

SUMMARY:

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

- A. Ordinance authorizing the issuance of obligations designated as “City of San Antonio, Texas Water System Junior Lien Revenue and Refunding Bonds, Series 2020A (No Reserve Fund)” (Series 2020A) in an amount not to exceed \$306,205,000 to i) currently refund outstanding City of San Antonio, Texas Water System 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. Ordinance authorizing the issuance of obligations designated as “City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2020B” (Series 2020B), in an amount not to exceed \$25,285,000 to be sold to the Texas Water Development Board (TWDB) through the Clean Water State Revolving Fund Program.
- C. Resolution authorizing the submittal of an application requesting financial assistance under the Texas Water Development Board’s Drinking Water State Revolving Fund Program in the amount not to exceed \$11,805,000 for funding of certain qualified water projects.
- D. 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 \$11,805,000.

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, as permitted by Chapters 1207 and 1371, as amended, of the Texas Government Code.

BACKGROUND INFORMATION:

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).

Revenue and Refunding Bonds - Series 2020A

The Revenue and Refunding Bond Ordinance authorizes SAWS to issue debt not to exceed \$306,205,000 to provide 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 CIP budget includes debt proceeds. It is expected that the 2020A Bonds will provide i) \$81,000,000 in new money proceeds to fund a portion of the CIP, ii) refund outstanding Tax-Exempt Commercial Paper Notes in the amount of \$93,000,000 to convert interim, variable rate financing into long-term fixed rate financing; iii) refund the City of San Antonio, Texas Water System Series 2011A (Series 2011A) and City of San Antonio, Texas Water System Junior Lien Series 2010A (Series 2010A), in total par amount of \$132,205,000, for debt service savings; and iv) pay the cost of issuance.

Based on current market conditions, Series 2011A and Series 2010A can be refunded for debt service savings. As of November 4, 2019, debt service savings of approximately \$32 million can be achieved by the refunding the refunded bonds or a savings of over 20% of the refunded bonds. Actual savings will not be established until the time of sale of the Series 2020A Bonds.

Clean Water State Revolving Fund - Series 2020B 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 \$562 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 \$25,285,000 for the construction of the Steven M. Clouse and Leon Creek Water Recycling Centers Electrical Improvements - Phase 2. TWDB makes available to SAWS interest rate assistance in the form of a reduction of

1.30% 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 March 2019, 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 \$11,805,000 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.

Reimbursement Resolution

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 \$11,805,000. The reimbursement resolution complies with the requirements of the Internal Revenue Service and Texas law.

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

DELEGATION OF AUTHORITY:

The delegation of authority, pursuant to Chapters 1207 and 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 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 respective Ordinance, upon the execution of the applicable pricing certificate by SAWS' Designated Financial Officers.

TRANSACTION SCHEDULE:

Series 2020A

<u>Date</u>	<u>Transaction</u>
December 10, 2019	SAWS Board of Trustees Approval
December 12, 2019	City Council Authorization
January 9, 2020*	Price and Sell Bonds
February 19, 2020*	Close Bonds

Series 2020B

<u>Date</u>	<u>Transaction</u>
December 10, 2019	SAWS Board of Trustees Approval
December 12, 2019	City Council Authorization
January 31, 2020*	TWDB Provides Interest Rates
March 18, 2020*	Close Bonds

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

ISSUE:

The San Antonio Water System requests City Council approval of the four items discussed above.

ALTERNATIVES:

Should City Council choose not to approve the ordinances and resolutions, SAWS may have to postpone or eliminate capital projects, and as it related to the Series 2020B Bonds and the application for financial assistance, miss an opportunity to take advantage of subsidized loans offered through TWDB.

FISCAL IMPACT:

The debt service from the proposed ordinances 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 ordinances.