City of San Antonio

Agenda Memorandum

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Agenda Date: 9/17/2020

In Control: City Council A Session

DEPARTMENT: City Manager's Office

DEPARTMENT HEAD: Ben Gorzell, Chief Financial Officer

COUNCIL DISTRICTS IMPACTED:

SUBJECT: Authorizing the Continuation of the Edwards Aquifer Protection Program through the Execution of a Programmatic and Financing Agreement between the City of San Antonio and the San Antonio Municipal Facilities Corporation.

SUMMARY: This Ordinance will authorize the continuation of the Edwards Aquifer Protection Program (EAPP) through the execution of a Programmatic and Financing Agreement between the City of San Antonio and the San Antonio Municipal Facilities Corporation. The City will contract with the Corporation to carry out the EAPP on the City's behalf and the City will commit and authorize the transfer of certain lawfully available revenues to finance the costs of the EAPP. The Ordinance would also approve the Corporation's issuance and incurrence of debt to fund the Program.

BACKGROUND INFORMATION: The Edwards Aquifer provides San Antonio with an abundant and vital source of groundwater. It stretches across thousands of acres over several counties in South Central Texas. Roughly 70 percent of San Antonio's water originates as recharge from counties located west of Bexar County. Rainfall enters the Edwards Aquifer through fractures, caves, sinkholes and other features and replenishes the Aquifer. However, rapid growth and development over the recharge and contributing zones of the Aquifer adversely impact it by reducing the number of recharge features able to maintain San Antonio's primary water resource.

In May 2000, San Antonio voters approved a proposition which initiated the Edwards Aquifer Protection Program (EAPP) with funding from a portion of a 1/8-cent venue sales tax. The EAPP protects the Edwards Aquifer through the acquisition of property rights including fee simple purchases, conservation easements, and donations of land over the sensitive zones of the Aquifer. Perpetual conservation easements benefit San Antonio residents by limiting the amount of increased impervious cover allowable on the protected properties in order to preserve the quantity and quality of water recharging in the Edwards Aquifer.

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On April 6, 2000, the Conservation Advisory Board (CAB) was created to provide input and advice on the EAPP. The CAB is comprised of nine members appointed by the San Antonio City Council for two-year terms. City Ordinance provides for nominees from the following subdivisions, agencies or organizations: Texas Parks and Wildlife, Edwards Aquifer Authority, San Antonio River Authority, San Antonio Water System, Parks & Recreation Advisory Board, The Economic Development Foundation, Medina County, Uvalde County, and the Director of the San Antonio Parks & Recreation Department.

The initial proposition funded the EAPP at $45 million and funding has been approved by voters for continuation of the EAPP in the following amounts: $90 million in 2005; $90 million in 2010; and most recently $100 million in 2015. To date, the EAPP has protected 160,330 acres over the Edwards Aquifer recharge and contributing zones through purchase of property and negotiation of conservation easements.

The current iteration of funding for the EAPP was approved in 2015 at $100 million from the 1/8-cent sales tax venue. The tax will expire once this dollar threshold is met which based on current projections is expected to occur in the Spring of 2021.

The COVID-19 global pandemic has had significant impacts on the San Antonio community. Poverty rates in our community are among the highest in the nation and low post-secondary educational attainment rates in San Antonio have resulted in a shortage of skilled workers and an abundance of lower wage, low skill jobs. To provide resources toward addressing these challenges, on August 13th the City Council approved an Ordinance which places a proposition on the November 3, 2020 ballot for workforce training and higher education, effectively redirecting currently funded sales tax programs including the EAPP.

Given the significant importance of the EAPP, City staff was asked to develop an alternative source of funding to continue the current EAPP. City staff working in conjunction with outside bond counsel reviewed and evaluated funding options. The direction was to develop an alternative option that met the goals of providing the next iteration of funding for the EAPP while keeping the Program under the administration of the City and the current operational structure intact to include the CAB. Due to a limitation in the City Charter on the issuance of general obligation debt for "public works", the EAPP could not currently be considered for funding from future general obligation bond programs. Through the City's ownership of the San Antonio Water System and existing local government corporation statutes, an option was developed that would allow the aforementioned goals to be achieved by utilizing the City's existing San Antonio Municipal Facilities Corporation.

Funding for the Program would come from the City's General Fund for debt service requirements and/or cash funding of the Program through the City's existing Municipal Facilities Corporation. Typically, the City would debt finance a Program that is capital in nature from capital sources and not the General Fund Operating Budget. However, the City has done this in specific circumstances based upon a unique financing situation and after careful vetting from a strategic financial perspective. In this case, the EAPP is unique in that it involves the acquisition of assets (property or easements) but not the traditional capital construction associated with streets, sidewalks, drainage, or other infrastructure improvements. The preliminary financing plan affords the City the ability to manage the impact to the General Fund through the use of several tools and financing approaches resulting in a more manageable impact over time. Additionally, the financing directly ties in with the City's ownership of the San Antonio Water System (SAWS) and the protection of the City's primary source of drinking water. Therefore, staff recommends this proposed financing structure given the uniqueness of the EAPP and the ability to achieve the aforementioned goals for continuation of the Program.

Funding from the current 1/8-cent sales tax is expected to carry the EAPP through FY 2022, and as such, the next iteration of proposed funding for the Program would begin in FY 2023. Following are some of the key highlights:

- City contracts with Municipal Facilities Corporation (MFC) to carry out the EAPP on the City's behalf;
- Pursuant to MFC's articles of incorporation and City ordinance, Mayor and City Council are the Board of Directors of the MFC;
- Term of Program Funding is up to 10 Years;
- Total commitment to Program Funding is $100 million (excluding interest costs, financing costs, and maintenance and support costs);
- Annual Program Funding would be in approximately equal amounts through the MFC, however, annual Program Funding can be adjusted based on the need of the Program and financial capacity of the City taking into consideration other forecasted City budget needs for the upcoming fiscal year;
- The Conservation Advisory Board (CAB) created in 2000 will continue to advise the City Council on the EAPP under the proposed MFC financing structure;
- A collaborative process with input from CAB established in the Financing Agreement for determination of the recommendation for Program Funding for an upcoming fiscal year;
- Program Funding is to be funded from the issuance of debt through the MFC (short-term commercial paper program and long-term fixed rate debt) and at the City's discretion from other lawful revenues of the City (to fund a portion of the Program Funding with cash);
- To meet the legal requirements for the issuance of debt to fund the EAPP, a portion of the City's revenue payment from SAWS equal to the amount necessary to satisfy payment and security of the debt issued by the MFC will be pledged by the City. The payment from SAWS is a City revenue (City General Funds) and there is no coordination or approval required from SAWS for this proposed debt structure;
- Under the contract, the City, through its annually adopted budget, will utilize any lawfully available funds to transfer amounts sufficient to meet the MFC's annual commitments or obligations for the EAPP;
- Program expenses such as costs for monitoring and assuring compliance with deed restrictions and conservation easements of acquired real property under the EAPP will be funded from the City's Operating Budget; and
- Any material deviation of the Program Funding outlined in the Ordinance and Financing Agreement would require those documents to be amended by City Council at a regularly scheduled City Council meeting. Consideration of a revision would only occur after two public hearings were held by the City Council at least thirty (30) days apart.

On August 26th, the CAB approved a resolution supporting a funding alternative to continue the City's Edwards Aquifer Protection Program to include the functions of the Conservation Advisory Board. A copy of the Resolution is attached to this item for your information.

ISSUE: This Ordinance will authorize the continuation of the Edwards Aquifer Protection Program (EAPP) through the execution of a Programmatic and Financing Agreement between the City of San Antonio and the San Antonio Municipal Facilities Corporation by which the City will contract with the Corporation to carry out the EAPP on the City's behalf.

ALTERNATIVES: The City Council could choose not to approve the proposed Ordinance and funding for the EAPP, however, no other funding alternative has been identified. Funding from the 2015 sales tax venue election for the EAPP is projected to expire in the Spring of 2021.

FISCAL IMPACT: The City's commitment to the EAPP through the Municipal Facilities Corporation is $100

million and the Program funding term is up to (10) ten years. The funding for this iteration of the Program would not begin until FY 2023. On an annual basis, the City will utilize any lawful available revenues in the General Fund to transfer funds sufficient to the Corporation to pay for debt service costs incurred and any cash funding of the EAPP. The City's funding would come from anticipated future growth in the General Fund. Additionally, the City will pledge a portion of the City's payment from SAWS as security to bondholders and to establish the ability to issue debt for the EAPP.

The preliminary plan of finance includes a number of assumptions such as no cash funding of the Program, projected interest rates for short-term and long-term debt, $30 million commercial paper program, amortization of long-term debt over 25 years. The actual impact to the General Fund will vary based on the conditions present at that time and the management of the Program and Finance Plan from year to year. The following table illustrates the projected impact to the General Fund for a five-year period from FY 2023 to FY 2027 based upon the preliminary plan and includes the estimated operations and maintenance costs (O&M), debt service, and total estimated cost. Beyond FY 2027, debt service costs would continue to gradually increase to a maximum of approximately $7.1 million in FY 2034, remain fairly constant through FY 2050, and then gradually decline over the next seven years with a final maturity in FY 2057. O & M costs would be expected to grow consistent with other operations expenses within the General Fund. Please note that with the expiration of the 2015 sales tax funded EAPP in the Spring of 2021, the O & M costs associated with the acreage protected (160,330 acres to date) is a mandated cost for the City's budget regardless.

Fiscal Year	Estimated O & M	Estimated Debt Service	General Fund Total Estimated Cost
2023	$380K	$200K	$580K
2024	$395K	$440K	$835K
2025	$405K	$720K	$1.125M
2026	$420K	$2M	$2.420M
2027	$430K	$2.7M	$3.130M

RECOMMENDATION: Staff recommends approval of the Ordinance and the Programmatic and Financing Agreement.