



City of San Antonio

Agenda Memorandum

File Number:20-6336

Agenda Item Number: 39A.

Agenda Date: 10/29/2020

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.

SUMMARY:

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

- A. Resolution, for the San Antonio Water System, authorizing the cash redemption/defeasance of certain outstanding debt obligations in an amount not to exceed \$71,045,000 par, to reduce future debt service.
- B. 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 \$21,613,000 for funding of certain qualified water projects for the San Antonio Water System.
- C. Resolution, for the San Antonio Water System, 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 \$21,613,000.
- D. Ordinance authorizing the issuance of obligations designated as "City of San Antonio, Texas Water System Junior Lien Revenue Bonds, Series 2020D" (Series 2020D), in an amount not to exceed \$11,805,000 to be sold to the Texas Water Development Board (TWDB) through the Drinking Water State Revolving Fund Program.

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 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.

The San Antonio Water System (SAWS) was created on April 30, 1992 by City Ordinance 75686. SAWS serves more than 521,000 water and 468,000 wastewater customers in and around San Antonio and maintains over 12,900 miles of water and sewer mains. Ordinance 75686 requires debt issuances to be reviewed and approved by City Council.

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 Redemption/Defeasance of Outstanding Debt

SAWS has sufficient cash on hand to redeem and/or defease outstanding debt to lower future debt service. SAWS' current financing plan includes the cash redemption/defeasance of up to \$71,045,000 in outstanding par. Due to cash investments yielding historically low interest earnings, SAWS is redeploying cash to redeem and/or defease outstanding bonds with higher interest rates to reduce future debt service. The Cash Redemption/Defeasance Resolution authorizes SAWS to deposit cash with an Escrow Agent and/or Paying Agent an amount necessary to effectuate the redemption or legal defeasance of the debt obligations. The potential candidates for the redemption or cash defeasance have call dates ranging from May 15, 2019 to May 15, 2021. The debt service on any redeemed or defeased bonds will be paid by the Escrow Agent and/or Paying Agent through the redemption date. It is currently estimated that the redemption or legal defeasance of all the identified candidates of bonds would reduce future debt service by approximately \$84,000,000 in various annual amount from 2021 to 2041. The overall savings actually generated will be determined at the time of execution.

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 February 2020, SAWS submitted a project list 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 project. SAWS is expected to receive a below market interest rate loan in an amount not to exceed \$21,613,000 from the DWSRF. If approved, the funds from the DWSRF will be used for the water project 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 \$21,613,000. 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.

Drinking Water State Revolving Fund - Series 2020D Bonds

Under the Drinking Water State Revolving Fund, TWDB provides subsidized interest rate loans to assist local water systems in meeting Drinking Water Act standards. SAWS has benefited from participation in the Drinking Water State Revolving Fund since 2013 and has issued approximately \$178 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 \$11,805,000 for the construction of the projects listed in Attachment B. TWDB makes available to SAWS interest rate assistance in the form of a reduction of 1.55% 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.

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>
October 6, 2020	SAWS Board of Trustee Approval
October 29, 2020	City Council Authorization
November 15, 2020/May 15, 2021	Cash Redemption/Defeasance
TBD	Close Series 2020D within 12 months

ISSUE:

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

ALTERNATIVES:

Should City Council choose not to approve the resolutions and ordinance, SAWS could miss an opportunity to utilize cash on hand to redeem or defease outstanding debt to lower future debt service and miss an opportunity to take advantage of subsidized loans offered through TWDB.

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.