



# City of San Antonio

## Agenda Memorandum

**File Number:**

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**Agenda Item Number:** 23

**Agenda Date:** March 21, 2024

**In Control:** City Council A Session

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**DEPARTMENT:** Finance Department

**DEPARTMENT HEAD:** Troy Elliott

**COUNCIL DISTRICTS IMPACTED:** Citywide

**SUBJECT:**

SAWS seeks authorization to use cash on hand and commercial paper proceeds in a maximum amount of \$166,480,000 for the defeasance and redemption of outstanding debt.

**SUMMARY:**

The San Antonio Water System (SAWS) requests City Council approve a Resolution, for the San Antonio Water System, authorizing the use of cash on hand and commercial paper proceeds in a maximum amount of \$166,480,000 for the cash defeasance and redemption of certain outstanding debt obligations.

**BACKGROUND INFORMATION:**

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

The SAWS was created on April 30, 1992 by City Ordinance 75686. SAWS serves more than 565,000 water and 505,000 wastewater customers in and around San Antonio and maintains over 13,700 miles of water and sewer mains. Ordinance 75686 requires debt transactions to be reviewed and approved by City Council.

## **Defeasance and Redemption of Outstanding Debt**

In January 2019, SAWS issued the City of San Antonio, Texas Water System Variable Rate Junior Lien Revenue Bonds, Series 2019A (No Reserve Fund) (the “Bonds”) as multi-model variable rate bonds initially issued in a Term Mode for a period of five years to take advantage of historically low short-term interest rates at the time. Additionally, as the Bonds were issued as multi-model variable rate bonds, initially in the Term Mode, there was not a requirement to have liquidity support for the Bonds. The interest rate for the Bonds was set at 2.625% through April 30, 2024.

In consultation with SAWS’ Co-Financial Advisors of PFM Financial Advisors and Estrada Hinojosa, it has been determined that in the current interest rate environment, the available remarketing options for these multi-model variable rate bonds that do not require liquidity support is unfavorable compared to other options. Therefore, the resolution provides for the defeasance and redemption of the Bonds with tax-exempt commercial paper and/or cash on hand.

SAWS has sufficient capacity under its commercial paper program and cash on hand to defease and redeem outstanding debt. It is currently contemplated to use cash on hand of \$50,000,000 and \$116,480,000 in commercial paper proceeds to defease and redeem the Bonds. The Defeasance and Redemption Resolution authorizes SAWS to deposit the commercial paper proceeds and/or cash with an Escrow Agent in an amount necessary to effectuate the redemption and legal defeasance of the Bonds.

The net effect of the proposed transaction is a reduction in outstanding bonded debt of \$166,480,000 and an increase in commercial paper notes outstanding of \$116,480,000. The use of cash on hand to redeem a portion of the Bonds will reduce future debt service when the commercial paper notes are converted to long-term fixed rate bonds.

### **TRANSACTION SCHEDULE:**

<u>Date</u>	<u>Transaction</u>
March 05, 2024	SAWS Board of Trustee Approval
March 21, 2024	City Council Authorization
May 01, 2024	Defeasance and Redemption of Bonds

### **ISSUE:**

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

### **ALTERNATIVES:**

Should City Council choose not to approve the Resolution, the Bonds would be subject to the stepped rate of interest of 8.0% until the Bonds could be remarketed or redeemed.

**FISCAL IMPACT:**

The San Antonio Water System (SAWS) requests City Council approve a Resolution, for the San Antonio Water System, authorizing the use of cash on hand and commercial paper proceeds in a maximum amount of \$166,480,000 for the cash defeasance and redemption of certain outstanding debt obligations. The defeasance and redemption of the Bonds 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 Resolution.