



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 22

Agenda Date: March 21, 2024

In Control: City Council A Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Ordinance authorizing the issuance of one or more obligations for the San Antonio Water System in an amount not to exceed \$813,000,000 to fund capital improvements of SAWS, refund outstanding tax-exempt commercial paper notes (converting interim financing to permanent financing), and refund outstanding debt for savings.

SUMMARY:

SAWS seeks authorization to issue revenue bonds not to exceed \$813,000,000 to fund capital improvements of SAWS, refund outstanding tax-exempt commercial paper notes (converting interim financing to permanent financing), and refund outstanding debt for savings.

BACKGROUND INFORMATION:

The San Antonio Water System (SAWS) requests City Council approve an Ordinance authorizing the issuance of one or more obligations for the San Antonio Water System in an amount not to exceed \$813,000,000 to fund capital improvements of SAWS, to refund outstanding tax-exempt commercial paper notes (converting interim financing to permanent financing), and refund outstanding debt for savings.

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 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).

Revenue and Refunding Bonds – Series 2024

The Revenue Bond Ordinance authorizes SAWS to issue one or more series of bonds not to exceed \$813,000,000 to provide new bond proceeds to fund capital improvements; refund outstanding tax-exempt commercial paper notes; provide bond proceeds to currently refund outstanding debt for debt service savings; and provide funds to pay the cost of issuance.

The SAWS Capital Improvement Program (CIP) budget includes debt proceeds as one of the funding sources. It is expected that the 2024 Bonds could i) provide up to \$380,000,000 in bond proceeds to fund the capital improvements program, ii) refund \$165,200,000 in outstanding Tax-Exempt Commercial Paper Notes (converting interim financing to permanent financing) iii) refund outstanding debt of \$266,750,000 issued in 2015 for debt service savings, and iv) pay the cost of issuance.

The new money proceeds will fund a portion of the 2024 CIP, budgeted at \$567.6 million. The new money issuance is not anticipated until the fall of 2024, however, as there is volatility in interest rates, SAWS is requesting authorization for the new money bonds now to have the flexibility to execute the bonds and lock in interest rates when market conditions are most favorable.

The current plan of finance is to issue a combination of fixed rate bonds and variable rate bonds to fund the capital improvements program and refund the outstanding Tax-Exempt Commercial Paper Notes. Based on current market projections, the fix rates bonds would be issued with a True Interest Costs of 4.25% with level debt service, with the variable rate bonds issued in a daily reset mode at a current rate of 3.42%. However, the actual interest rates will be established at the time of pricing and will be based upon financial market conditions at that time.

Based on market conditions as of February 13, 2024, total combined debt service savings of approximately \$37.2 million can be achieved by refunding bonds issued in 2015. Actual savings will not be established until the time of sale.

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 above Ordinance includes a delegation of authority, pursuant to Chapter 1371, as amended, of the Texas Government Code, which allows SAWS' Designated Financial Officers (SAWS' President/CEO and Executive 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>
March 05, 2024	SAWS Board of Trustee Approval
March 21, 2024	City Council Authorization
Fall 2024*	Pricing of 2024 Bonds
Early 2025*	Pricing of 2025 Refunding Bonds

* Specific dates and bond structure may change as needed to effectuate the actual completion of these transactions.

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 Ordinance, SAWS may have to postpone or eliminate capital projects, and would miss an opportunity to refund outstanding debt at the most advantageous time frame for debt service savings and restore the capacity to the commercial paper program.

FISCAL IMPACT:

The debt service from the proposed Ordinance is within the current rate structure approved by City Council on November 10, 2022 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 Ordinance.