

TIME CERTAIN
ITEM NO. 4A,B+C

**CITY OF SAN ANTONIO
INTERDEPARTMENTAL CORRESPONDENCE**

TO: Mayor and City Council

FROM: Eugene E. Habiger, General USAF (Ret.), President/Chief Executive Officer, San Antonio Water System

THROUGH: Terry M. Brechtel, City Manager

COPIES TO: Melissa Byrne Vossmer, Assistant City Manager; Milo D. Nitschke, Director of Finance; Ben Gorzell Jr., CPA, Public Utilities Supervisor/Assistant Director of Finance; Thomas G. Wendorf, P.E., Public Works Director; Andrew Martin, City Attorney; file

SUBJECT: Ordinances Authorizing Actions related to the Issuance of SAWS' Revenue Bonds.

DATE: March 13, 2003

SUMMARY AND RECOMMENDATION

These Ordinances approve and authorize actions related to the issuance of water system revenue bonds and are summarized as follows:

Authorization for the issuance of revenue bonds:

- In the amount of \$34,000,000 Junior Lien Water System Revenue bonds through a placement with the Texas Water Development Board (TWDB) under the State Revolving Fund Program and under a deferred approval "Q" Authorization for Junior Lien Debt.
- In the amount of approximately \$72,500,000 Water System Subordinate Lien Water System Revenue and Refunding Series 2003-A and approximately \$50,000,000 Water System Subordinate Lien Water System Revenue and Refunding Series 2003-B bonds for a total principal amount of \$122,500,000 in the variable rate bond market, and execution of the sale of the bonds by the President/Chief Executive Officer of the System acting for and on behalf of the City.
- Authorization to enter into an interest rate hedge agreement for payment of a fixed interest rate and receipt of an indexed variable interest rate on \$122,500,000.

It is recommended that City Council approve these Ordinances.

BACKGROUND

The San Antonio Water System (SAWS) has identified the need for certain capital improvements to the water supply, water delivery and wastewater systems as included in the Capital Improvements Program for calendar year 2003.

- The attached Schedule I presents the financing plan for capital improvements totaling \$178.1 million including other funding sources. Schedule II presents the \$45.9 million to be funded by Subordinate Lien Bonds and the attached Schedule III presents the list of capital improvements totaling \$34.0 to be funded by TWDB Junior Lien Bonds.

- In addition to the capital improvement needs for 2003, a conversion of \$76 million in outstanding commercial paper notes financing projects of prior year programs will be converted to long-term debt. Included in this amount, is financing for the chilled water and steam plant located at 725 S. Cherry Street. Pursuant to an agreement with the City of San Antonio, the City will provide debt service funding on project costs in excess of \$6.5 million through the use of a surcharge on the chilled water and steam rates paid by the Convention Facilities Department. This agreement is anticipated to be amended in the near future to adjust the surcharge for the actual interest rate on the bonds and to remove the debt service coverage requirement. Additionally, the City and SAWS are reviewing final project costs.
- To effectuate a low cost of financing for capital improvements, this transaction will sell variable rate bonds and enter into an interest rate hedge agreement which will fix the interest rate and realize a savings in comparison to a traditional fixed rate financing. This synthetic fixed rate, as obtained with the interest rate hedge agreement, provides a more favorable cost of capital to the System.
- Market conditions are continuously changing. SAWS will be pricing the \$122.5 million in variable rate debt the week of March 24th. If market conditions are conducive to the issuance of variable rate debt in conjunction with the interest rate hedge agreement, then SAWS will proceed with that transaction. No further City Council action will be required for that transaction as the President/Chief Executive Officer of SAWS will have the authority under the Ordinance approved today to execute the pricing certificate. If market conditions and on-going analysis indicate that the issuance of variable rate debt and interest rate hedge agreement are not as favorable as a fixed rate financing, SAWS will proceed with a traditional fixed rate debt issuance. SAWS, in conjunction with their financial consultants, will make that determination prior to pricing. In the event traditional fixed rate debt is issued, SAWS will be required to bring forward an Ordinance to approve the bond sale on March 27, 2003.
- The issuance of debt to finance the above items can be accomplished without the need for additional revenues. The revenue stream to be used is derived from debt service savings accomplished with the refunding of the 1992 Bonds on February 7, 2002.
- In conjunction with the issuance of the refunding bonds, the System requested and received ratings during the first week of February. All three rating agencies have reaffirmed the underlying ratings.
 - Moody's Aa3
 - Standard & Poors AA-
 - FITCH AA-
- The Series 2003-A and 2003-B bonds will be issued as Subordinate Lien bonds to provide additional flexibility and capacity. The placement of the debt as Subordinate Lien also does not have the 25% debt coverage requirement. These bonds will be the first issuance for SAWS under a subordinate lien level for long term debt and have received the following ratings.
 - Moody's A1
 - Standard & Poors A+
 - FITCH A

- Bond insurance will be utilized in the pricing process and included in the evaluation of the overall interest rate.
- SAWS has benefited from the continued participation in the State Revolving Fund ("SRF") and the Federal Cross Cutter Program of the TWDB. The System has participated in the preliminary eligibility review and qualification of capital projects with the TWDB since 1996 and has placed a total of \$171.71 million in junior lien bonds with the TWDB under its programs.
 - The System now wishes to issue and place long term bonds with the TWDB in the amount of \$34,000,000 under the SRF program for the construction of certain qualified capital improvements.
 - The TWDB has made available to the System, interest rate assistance of approximately 140 basis points or 1.4% under the State Revolving Fund for the completion of the attached list of projects on Schedule III.
 - The economic savings in the form of interest rate assistance from the TWDB is estimated at \$300,000 annually over a period of twenty years.
 - An origination fee of \$629,000 is also assessed by the TWDB; however the fee is recovered through an additional interest rate subsidy over the life of the bonds.
- The Junior Lien Bonds and Subordinate Lien Bonds will be approved by the President/Chief Executive Officer of the System. This authorization permits the adoption of the Ordinance authorizing the Bonds without the interest rates that will be formally set upon the execution of a Pricing Certificate. This rate setting approach is recommended to take advantage of market conditions.

FINANCIAL IMPACT

- Estimated debt service schedules are presented on Schedule IV. The issuance of debt to finance the above items can be accomplished without the need for additional revenues. The revenue stream to be used is derived from debt service savings accomplished with the refunding of the 1992 Bonds on February 7, 2002. Estimated up-front and annual fees for the transactions are presented on Schedule V.

POLICY ANALYSIS

- This transaction is consistent with the SAWS Multi Year Financial Plan presented to the City Council in January 2002.

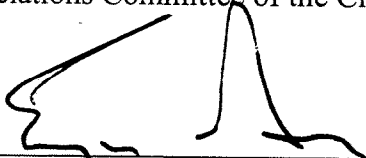
OTHER MATTERS

- The San Antonio Water System selection of consultants for the transaction including the underwriters, were accomplished by SAWS Decision Analysis process that endeavors to include regional and minority owned firms. The San Antonio Water System Board of Trustees has taken action recommending the submission of the debt issues to City Council for approval. Depending on the type of transaction effectuated, further action by the San Antonio Water System Board of Trustees may be required.


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COORDINATION

This item has been coordinated with the San Antonio Water System, the City of San Antonio Finance Department, and the City Attorney's Office. This item has also been presented to the Intergovernmental Relations Committee of the City Council.



Eugene B. Habiger
General, USAF (Ret.)
President/Chief Executive Officer
San Antonio Water System



Ben A. Gorzell Jr.
Supervisor of Public Utilities
City of San Antonio

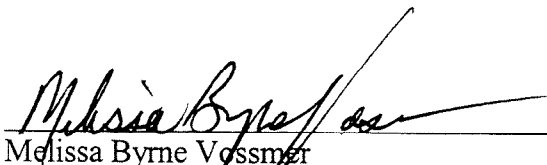


Milo Nitschke,
Director of Finance
City of San Antonio



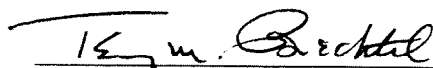
Thomas G. Wendorf, P.E.
Director of Public Works
City of San Antonio

3/7/03



Melissa Byrne Vossmer
Assistant City Manager
City of San Antonio

Approved:



Terry M. Brechtel,
City Manager
City of San Antonio

SCHEDULE I
SUMMARY FUNDING PLAN
FOR 2003 CAPITAL IMPROVEMENTS PROGRAM
(in millions)

| <u>Funding Source</u> | | <u>Water Supply</u> | <u>Water Delivery</u> | <u>Wastewater</u> | <u>Total</u> |
|-------------------------------------|----|---------------------|-----------------------|-------------------|--------------|
| Impact Fees | \$ | 0.9 | 4.7 | 4.6 | 10.2 |
| Renewal and Replacement Fund | | 13.5 | 0.8 | 4.5 | 18.8 |
| Commercial paper notes | | - | 31.2 | 39.0 | 70.2 |
| Bonds | | 44.9 | - | - | 44.9 |
| Texas Water Development Board Bonds | | 8.9 | 25.1 | - | 34.0 |
| TOTAL | \$ | 68.2 | 61.8 | 48.1 | 178.1 |

SCHEDULE II
2003 CAPITAL IMPROVEMENT PROGRAM PROJECTS
FUNDED WITH SUBORDINATE LIEN BONDS

| | <u>Amount</u> |
|---|------------------------------------|
| Enterprise Resource Planning Project | \$ 2,000,000 |
| Water Resource Initiative (2C - 1/2) | 1,871,000 |
| Water Resource Initiative (2C - 1/2) | 200,000 |
| Water Resource Initiative (2C - 1/2) | 1,732,080 |
| Water Resource Initiative (2C - 1/2) | 198,000 |
| ASR Inside Phase II (30MGD) | 345,000 |
| ASR Inside Phase II (30MGD) | 2,100,000 |
| ASR Inside Phase II (30MGD) | 15,722,000 |
| ASR Inside Phase II (30MGD) | 1,955,000 |
| Western Gonzales County | 7,450,000 |
| Western Gonzales County | 1,050,000 |
| Western Gonzales County | 5,055,000 |
| Edwards Groundwater Acquisitions | 2,375,000 |
| Watershed Protection Sensitive Land | 3,000,000 |
| Berman Road Steam Line (Kelly Area) | 150,000 |
| Boiler Controls Bldg. # 376 (Kelly Area) | 25,000 |
| Data Acquisition System | 35,000 |
| Install Meters for Data Acquisition System (Kelly Area) | 35,000 |
| Pump Replacement | 50,000 |
| Replace Cooling Tower #2 Building 1625 (Kelly) | 98,000 |
| Replace Cooling Tower Fill Material Building 325 (Kelly) | 85,000 |
| Replace Fill Material in Cooling Tower # 3 Building 356 (Kelly) | 52,000 |
| Replace Fill Material in Cooling Tower #2 Building 356 (Kelly) | 52,000 |
| Steam and Condensation Line Replacement | 100,000 |
| Water Softener Replacement | 50,000 |
| Overhead | 73,200 |
| TOTAL | \$ <u><u>45,858,280</u></u> |

SCHEDULE III
2003 CAPITAL IMPROVEMENT PROGRAM
FUNDED WITH TEXAS WATER DEVELOPMENT BOARD DEBT

| | <u><i>Amount</i></u> |
|--|-----------------------------|
| Outfall Siphons Rehabilitation Stage II Siphons #8, #9 , #10 | \$ 4,400,000 |
| Western Watershed Sewer Relief Line Project (W04) | 7,700,000 |
| Old Salado Creek Siphon | 5,250,000 |
| Six Mile Creek Sewer Replacement | 3,000,000 |
| DR WRC Automation Installation/Modifications | 1,128,340 |
| DR WRC Digester Phase IV | 273,880 |
| DR WRC Effluent and Filter Modifications | 836,000 |
| DR WRC Install Beneficial Gas Utilization System | 171,200 |
| DR WRC Install Natural Gas Pipeline | 69,400 |
| Overhead | 2,282,882 |
| Recycle Program | 8,868,300 |
| TOTAL | \$ <u>33,980,002</u> |

Schedule V **Up-Front & Annual Fees**

\$122,500,000 Subordinate Lien Debt

| | <u>Up - Front Fees</u> | <u>Annual Fees</u> |
|--|------------------------|--------------------|
| Estimated Costs of Issuance | | |
| Financial Advisor Fee | \$ 111,250 | \$ |
| Computer Structure | 25,000 | |
| Co-Bond Counsel | 182,012 | |
| Ratings: | | |
| Fitch Ratings | 45,000 | 5,000 |
| Moody's Investors Service | 45,000 | 5,000 |
| Standard & Poor's | 44,200 | 5,500 |
| Remarketing Agents | 275,625 | 91,875 |
| Remarketing Agents Counsel | 36,000 | |
| Liquidity Facility | 30,000 | 275,625 |
| Liquidity Facility Counsel Fee | 36,000 | |
| Municipal Bond Insurance | 450,000 | |
| Municipal Bond Insurance Counsel Fee | 36,000 | |
| Interest Rate Hedge Provider Counsel Fee | 36,000 | |
| Escrow Agent | 500 | |
| Paying Agent/ Registrar/Tender Agent | 500 | 1,500 |
| Official Statement | 20,000 | |
| Miscellaneous Expenses | 35,000 | |
| Total | <u>\$ 1,408,087</u> | <u>\$ 384,000</u> |

\$34,000,000 Texas Water Development Board Debt

| | <u>Up - Front Fees</u> | |
|-----------------------------|--------------------------|--|
| Estimated Costs of Issuance | | |
| Financial Advisor Fee | \$ 36,750 | |
| Co-Bond Counsel | 23,800 | |
| Ratings: | | |
| Fitch Ratings | 10,000 | |
| Moody's Investors Service | 8,050 | |
| Standard & Poor's | Included with VRDO issue | |
| Municipal Bond Insurance | 90,398 | |
| TWDB Administrative Fee | 629,000 | |
| Paying Agent/ Registrar | 500 | |
| Miscellaneous Expenses | 10,000 | |
| Total | <u>\$ 808,498</u> | |