

TIME CERTAIN
ITEM NO. 4
1:30 PM

CITY OF SAN ANTONIO
Finance Department
Interdepartmental Correspondence Sheet

TO: Mayor and City Council
FROM: Ben Gorzell Jr. CPA, Public Utilities Supervisor/Assistant Director of Finance and Leonard D. Young, P.E., Interim President and Chief Executive Officer, San Antonio Water System
THROUGH: Terry M. Brechtel, City Manager
COPIES: Melissa Byrne Vossmer, Assistant City Manager; Milo D. Nitschke, Director of Finance; Thomas G. Wendorf, P.E., Director of Public Works; Andrew Martin, City Attorney; File
SUBJECT: Authorizing the Approval of Ordinances Relating to the San Antonio Water System's Issuance of Approximately \$84,700,000 Senior Lien Revenue and Refunding Bonds Series 2004; Issuance of Approximately \$10,635,000 Junior Lien Revenue and Refunding Bonds Series 2004 and \$26,365,000 Junior Lien Revenue and Refunding Bonds Series 2004A Placed with the Texas Water Development Board; a Revolving Credit Agreement Providing Liquidity to the Tax Exempt Commercial Paper Program; and, Authorizing a Reimbursement Resolution For Prior Construction Costs
DATE: May 27, 2004

SUMMARY AND RECOMMENDATION

The following proposed ordinances and resolution establish the funding mechanism for the San Antonio Water System's (SAWS) financing of their 2004 Capital Improvements Program (CIP):

- An Ordinance authorizing the issuance of approximately \$84.7 million in fixed rate Senior Lien Water System Revenue and Refunding Bonds Series 2004 to refund certain commercial paper notes and to fund various water supply projects;
- An Ordinance authorizing the issuance of approximately \$10.6 million in fixed rate Junior Lien Water System Revenue and Refunding Bonds Series 2004 and \$26.4 million in fixed rate Junior Lien Water System Revenue and Refunding Bonds Series 2004A through a placement with the Texas Water Development Board (TWDB) under the State Revolving Fund Program to refund outstanding commercial paper notes funding prior construction projects and to fund other various water supply and wastewater projects and infrastructure construction. This Ordinance will also authorize the delegation of authority to issue and set pricing of the bonds to the Interim-President and CEO of SAWS through a "Q" Authorization;
- An Ordinance approving the execution of a revolving credit agreement providing liquidity to the Tax-Exempt Commercial Paper (TECP) program with Bank of America, N.A. for a term of three years; and,
- A Reimbursement Resolution for prior construction costs not to exceed \$105 million.

Approval of these Ordinances and Resolution is recommended.

BACKGROUND INFORMATION

On April 6, 2004, the SAWS' Board of Trustees adopted SAWS' 2004 Capital Improvement Program. In targeting a 75 to 100 year replacement plan for water delivery and wastewater infrastructure and to meet the requirements of the water supply program, the SAWS Board of Trustees has approved a 2004 CIP in the amount of \$207.1 million and a summary is included as Attachment I. The CIP includes water delivery requirements of approximately \$44.5 million, wastewater requirements of approximately \$65.5 million, water supply requirements of approximately \$94.8 million and chilled water and steam requirements of approximately \$2.3 million. The \$44.5 million in water delivery projects and \$65.5 million in wastewater projects equal the targeted \$110 million in requirements

identified during the rate increase process and briefings in February 2004. The financing plan requires the issuance of approximately \$84.7 million in fixed rate senior lien revenue and refunding bonds and approximately \$37 million in fixed rate junior lien revenue and refunding bonds to be placed with the TWDB. Table I below illustrates the funding sources for the 2004 CIP and Table II illustrates the proposed debt transactions.

Table I

2004 CIP Funding Sources	Water Supply	Water Delivery	Wastewater	Chilled Water & Steam	Total
Revenue	\$ 8,600,000	\$ 2,000,567	\$ 2,016,249	\$ 2,307,200	\$ 14,924,016
Impact fees - Current Yr Fund	2,400,000	4,598,168	4,648,574	-	11,646,742
Impact fees - Prior Yr Fund	600,000	1,747,415	2,822,749	-	5,170,164
Long Term Bonds-New Money	78,189,920	-	-	-	78,189,920
TECP	5,000,000	36,120,721	56,045,557	-	97,166,278
Total	\$ 94,789,920	\$ 44,466,871	\$ 65,533,129	\$ 2,307,200	\$ 207,097,120

Table II

2004 Debt Transactions	Water Supply	Water Delivery	Wastewater	Chilled Water & Steam	Total
2004 Senior Lien Bond Series					
New Money	\$ 78,189,920	\$ -	\$ -	\$ -	\$ 78,189,920
TECP Refunding	5,000,000	-	-	-	5,000,000
Issuance Cost	1,510,080	-	-	-	1,510,080
Total	\$ 84,700,000	\$ -	\$ -	\$ -	\$ 84,700,000
2004 Junior Lien Bond Series					
New Money	\$ 3,805,788	\$ -	\$ 6,439,825	\$ -	\$ 10,245,613
TECP Refunding	13,176,630	-	12,491,168	-	25,667,798
Issuance Cost	495,483	-	591,106	-	1,086,589
Total	\$ 17,477,901	\$ -	\$ 19,522,099	\$ -	\$ 37,000,000
2004 Subordinate Lien Bond Series					
TECP Refunding	\$ -	\$ 28,968,495	\$ 29,922,797	\$ -	\$ 58,891,292
Issuance Cost	-	545,371	563,337	-	1,108,708
Total	\$ -	\$ 29,513,866	\$ 30,486,134	\$ -	\$ 60,000,000

SAWS' debt plan has an authorized \$350 million tax-exempt commercial paper program (TECP) which provides short-term low interest rate financing. TECP is used as an interim financing mechanism for the funding of capital improvement projects and it allows SAWS to better match construction timing with funding. Currently, SAWS has outstanding approximately \$269 in TECP. The proposed financial transactions outlined in Table II provide funding for the 2004 CIP as follows: approximately \$78.2 million will fund 2004 CIP water supply projects; and, \$30.7 million will refund

certain TECP allowing the additional capacity created to be utilized for the 2004 CIP; \$10.2 million to fund new construction of prior year capital improvement projects; and \$2.6 million in debt issuance costs. In addition, Table II also illustrates the 2004 Subordinate Lien Bond issue that will be brought forward for City Council consideration in late July. This estimated \$60 million subordinate lien bond issue will also refund certain TECP creating additional funding capacity for the 2004 CIP under the TECP program. Table II reflects each of the proposed transactions and summarizes approximately how much of the transaction is a refunding of TECP to create additional TECP capacity for funding of capital projects versus new money which provides direct funding of capital projects. The estimated issuance costs are reflected and each of the transaction amounts is categorized by SAWS' four core businesses: Water Supply; Water Delivery; Wastewater; and Chilled Water and Steam.

The 2004 CIP requirements are consistent with what was presented to City Council on February 12, 2004 in that \$110 million in water delivery and wastewater projects are planned. However, the funding sources have changed slightly since that time. The February 12, 2004 rate briefing reflected a plan that did not include any funding from the renewal and replacement (R&R) fund for water delivery and wastewater projects and was based on estimates that the R&R fund would be completely expended for capital outlay. At SAWS' fiscal year end, there was an estimated \$4 million remaining in the R&R fund and these funds will now be utilized for the 2004 CIP. This additional funding allows SAWS to better manage the cost of borrowing by reducing the amount of debt that is issued.

The senior bond lien issue will be priced on May 25th and 26th and will be issued as fixed rate bonds with a final maturity of 2034. The junior lien bond issues will be priced at a later date in order to be priced at least 15 days from the senior lien bond issues. SAWS will therefore request that delegation of authority be provided by the City Council to SAWS Interim President and CEO through approval of a "Q" Authorization for the issuance of the junior lien issue. A "Q" Authorization, as permitted by Chapter 1371 of the Texas Government Code, will allow SAWS' Interim President and CEO to issue and set pricing on the \$37 million junior lien revenue bond issues. This authorization permits the adoption of the Ordinance authorizing the junior lien revenue bonds without the interest rates which will be formally set upon the execution of the Pricing Certificate. This rate setting approach is recommended to take advantage of market conditions.

In addition to the debt issuance, SAWS is proposing to enter into an agreement with Bank of America, N.A. as liquidity facility to the TECP program for a term of three years. The liquidity facility provides the funds in the event that the remarketing agents are not able to remarket the commercial paper notes in the financial markets. SAWS' current liquidity providers are WestLB and LBBW, German state banks. Revisions to the guarantees provided by the German government may cause the price of such credit facilities to face upward pressure. Request for Proposals for liquidity provider services were requested from a comprehensive list of banks providing these services, and six proposals were received by SAWS.

A Technical Evaluation Committee consisting of three individuals from SAWS staff evaluated the proposals and made recommendations to a Selection Committee. The Selection Committee consisted of four members of SAWS staff, along with three members from its co-financial advisor team of Estada Hinojosa & Company, Inc. and First Southwest Company. The Selection Committee reviewed the work of the Technical Evaluation Committee and recommended that Bank of America, N.A. be awarded the contract for liquidity facility services. The new revolving credit agreement will result in savings of \$210,000 annually to the System from the current liquidity facility provider rates.

SAWS will also request approval of a new Reimbursement Resolution establishing the City's intent for SAWS to reimburse itself for prior construction costs not to exceed \$105 million from the proceeds of future bond issuances. A Reimbursement Resolution, as permitted by Chapter 1201 of the Texas Government Code, will allow SAWS to utilize the proceeds of bonds issued by the City to reimburse itself for construction costs incurred not more than 60 days prior to the adoption of the resolution and after the issuance of the bonds upon satisfying certain federal regulations for future construction. This is beneficial to SAWS and the City in that it provides additional financial flexibility.

FINANCIAL IMPACT

With the passage of the rate adjustments by Ordinance No. 98843, funding capacity was created for this CIP and as such, the proposed actions will have no impact on existing rates or on the budget of the City of San Antonio and will have no effect on the monthly City Payment from SAWS.

COORDINATION

This item has been coordinated with SAWS, the City Attorney's Office, co-bond counsel Fulbright & Jaworski L.L.P. and Escamilla and Poneck, Inc., co-financial advisors Estrada Hinojosa & Company, Inc. and First Southwest Company.

SUPPLEMENTAL COMMENTS

The disclosure requirements of the City's Ethics Ordinance are not applicable.



Ben Gorzell Jr., CPA
Supervisor of Public Utilities/
Assistant Director of Finance



Leonard D. Young, P.E.
Interim President/
Chief Executive Officer
San Antonio Water System

Approved:



Melissa Byrne Vossmer
Assistant City Manager



for Terry M. Brechtel
City Manager

ATTACHMENT I
2004 110M Capital Improvement Program

GRAND TOTAL WATER/WASTEWATER **\$ 109,999,999.65**

Project Title	Cost Element	2004
WATER DELIVERY		
BUILDINGS-WATER		
New Laboratory	Construction	\$ 2,150,000.00
NWSC Build Out	Construction	1,000,000
Subtotal		\$ 3,150,000.00
DISTRIBUTION		
Bandera Rd Pressure Zone 7 Water Main	Design	\$ 320,000.00
Blanco to Errol 24" Water Main	Construction	3,000,000
FM 1937: Loop 410 - Pleasanton	Design	535,000
Lincoln Heights Main Improvements and Pressure Zone Change	Design	250,000
Local Benefit Main Extensions Program	Construction	50,000
Marnoch from Scenic Loop to Rafter South Trail	Design	250,000
Meters, Land, Structures Annual Fund	Construction	400,000
Old Pearsall Rd. from Medina Base Rd. to Military Dr.	Design	60,000
Oversize Water Mains - CIP	Construction	1,500,000
Reinforcing Mains/Misc Service Level Changes Annual Fund	Construction	586,000
Subtotal		\$ 6,951,000.00
GOVERNMENTAL PROGRAM- WATER		
Governmental Relocations/Replacements - Water	Construction	\$ 15,000,000.00
MAIN REPLACEMENTS-WATER		
Interfund Transfer - Operations -Water	Construction	\$ 2,000,000.00
San Fernando Water Replacement Phase I	Construction	322,165
San Fernando Water Replacement Phase II	Construction	1,194,496
Miscellaneous Main Replacements - Water - CIP	Construction	400,000
Unspecified Design Services - Water	Design	200,000
Valley Ridge Mobile Home Park Water Replacement	Construction	1,000,000
Valley Ridge Mobile Home Park Water Replacement	Design	100,000
Utility Acquisitions - Water Replacements	Design	200,000
Subtotal		\$ 5,416,661.00
PRODUCTION		
Cibolo Tank	Design	\$ 300,000.00
Emergency Production Replacements Annual Fund	Construction	800,000
Micron Pump Station - Phase II	Construction	2,700,000
Real Estate/Easement Acquisition	Acquisition	1,000,000
Water Facilities Upgrades Program	Design	330,000
Water Facilities Upgrades Program	Construction	3,800,000
Water Facility Demolition and Well Plugging Program	Construction	200,000
Water Facility Demolition and Well Plugging Program	Design	50,000
Subtotal		\$ 9,180,000.00
Total Water Delivery without OH/Contingency		\$ 39,697,661.00
Contingency		799,444
Overhead		3,969,766
GRAND TOTAL WATER DELIVERY		\$ 44,466,871.50

WASTEWATER

BUILDINGS-WASTEWATER		
New Laboratory	Construction	\$ 2,150,000.00
NWSC Build Out	Construction	1,000,000
Total		\$ 3,150,000.00
COLLECTION		
Castroville@36th Street Lift Station and Force Main	Construction	\$ 2,150,000.00
Oversize Sewer Mains Annual Fund	Construction	1,000,000
Real Estate/Easement Acquisition	Acquisition	1,000,000
Texas Research Park Transfer Main Lift Stations	Design	20,000
Texas Research Park Transfer Main Lift Stations	Construction	100,000
Subtotal		\$ 4,270,000.00

Project Title	Cost Element	2004
GOVERNMENTAL PROGRAM- SEWER		
Governmental Relocations/Replacements - Sewer	Construction	\$ 12,000,000.00
MAIN REPLACEMENTS-SEWER		
Castroville @ 36th Main Rehab	Construction	\$ 3,500,000.00
EARZ Televising, Testing & Repairs Program	Construction	7,600,000
EARZ Televising, Testing & Repairs Program	Design	500,000
Emergency Operations Group - Sewer	Construction	9,800,000
Interfund Transfer - Operations -Sewer	Construction	2,000,000
Kelly USA Main Replacements	Construction	100,000
San Fernando Sewer Replacement Phase II	Construction	1,194,496
Unspecified Design Services - Sewer	Design	250,000
Utility Acquisition - Sewer Replacements	Construction	200,000
Valley Ridge Mobile Home Park Sewer Replacement	Construction	1,000,000
Valley Ridge Mobile Home Park Sewer Replacement	Design	100,000
Subtotal		\$ 26,244,496.00
TREATMENT		
Close Salado	Construction	\$ 100,000.00
Consolidate and Improve De-Watering Addn'l capacity	Design	140,000
Consolidate and Improve De-Watering	Construction	2,500,000
DR WRC Grit Control	Construction	2,000,000
DR WRC Grit Control	Design	200,000
DR WRC Install Beneficial Gas Utilization System	Construction	1,300,000
DR WRC Intercom and Building Rehab	Construction	200,000
DR WRC Rerating - Phase I	Construction	250,000
Emergency Treatment Plant Repairs Annual Fund	Construction	1,800,000
LC WRC Improvements due to extended plant life expectancy	Design	200,000
Medio Creek WRC Expansion (6.5 MGD)	Design	2,400,000
Salado WRC DCS Headwork Improvements	Des/Constr	1,250,000
WRC Large Equipment Monitoring and Replacement Program	Construction	500,000
Subtotal		\$ 12,840,000.00
Total Wastewater without OH/Contingency		\$ 58,504,496.00
Contingency		1,178,183
Overhead		5,850,450
GRAND TOTAL WASTEWATER		\$ 65,533,128.15
GRAND TOTAL WATER and WASTEWATER		\$ 109,999,999.65
HEATING AND COOLING		
Central Plant - Steam and Condensation Line Replacement	Construction	\$ 100,000.00
Central Plant - Replace/Rebuild 2 each Boilers	Construction	1,800,000
Kelly USA - Replace Fill Material in Cooling Tower # 3 Building 356	Construction	160,000
Total Heating and Cooling without OH/Contingency		\$ 2,060,000.00
Overhead Allocation and Contingency		247,200
GRAND TOTAL HEATING AND COOLING		\$ 2,307,200.00
WATER SUPPLY		
ASR Inside Phase II (30MGD)		\$ 16,647,000.00
ASR Integration		12,386,020
Edwards GW Purchase		16,000,000
Enterprise Resource Planning Project		2,100,000
Lower Guadalupe Water Supply Project		5,593,500
Oliver Ranch		3,000,000
Recycle Program		1,500,000
Regional Carrizo Phase I		25,463,400
Regional Carrizo Phase II		1,000,000
Regional Carrizo Integration		4,100,000
Watershed Prot. Sens. Land		3,000,000
West Canyon		4,000,000
GRAND TOTAL WATER SUPPLY (w/ OH/Contingency)		\$ 94,789,920.00
GRAND TOTAL		\$ 207,097,119.65