

AGENDA ITEM NO. 4
A4B

**CITY OF SAN ANTONIO
PUBLIC UTILITIES DEPARTMENT
CITY COUNCIL AGENDA MEMORANDUM**

TO: Mayor and City Council

FROM: Ben Gorzell Jr. CPA, Director, Public Utilities Office

SUBJECT: Ordinances Authorizing the expansion of the San Antonio Water System's Commercial Paper Program from \$350,000,000 to \$500,000,000; the Issuance of Approximately \$301,000,000 Senior Lien Water System Revenue Refunding Bonds; and Other Items Related Thereto

DATE: November 17, 2005

SUMMARY AND RECOMMENDATION

The following proposed ordinances establish the funding mechanism for the San Antonio Water System's (SAWS) financing of the 2006 Capital Improvements Program (CIP):

- An Ordinance authorizing the expansion of the SAWS' Tax-Exempt Commercial Paper (TECP) Notes, Series A from \$350 million to \$500 million; and
- An Ordinance authorizing the issuance of approximately \$301 million in fixed rate Senior Lien Water System Revenue Refunding Bonds Series 2005 (the "Bonds") to refund certain commercial paper notes outstanding, advance refund Revenue and Refunding Bonds, Series 1999, in the principal amount of \$70.2 million, and pay the cost of issuance. This Ordinance will also authorize the delegation of authority to issue and set pricing of the Bonds to the SAWS' Designated Financial Officer through a "Q" Authorization.

Approval of these Ordinances is recommended.

BACKGROUND INFORMATION

On August 16, 2005, the SAWS' Board of Trustees approved the 2005 Water Resource Plan Update in which SAWS reaffirmed its commitment to identify a portfolio of water supply projects that will enable SAWS to provide an affordable, diversified, and sustainable supply of water resources now and in the future. To continue this commitment of providing a diverse supply of water to the community, additional funding will be required. Over the next five years, SAWS capital requirements for Water Supply Development Projects are approximately \$444 million.

SAWS is also committed to providing a reliable and efficient infrastructure. In targeting a replacement plan for water delivery and wastewater infrastructure and to provide additional capacity to support new growth and development, the capital requirements for the water delivery and wastewater system over the next five years are approximately \$605 million.

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SAWS' multi-year financing plan to fund capital improvements for water resource development and infrastructure renewal and replacement projects includes the issuance of short-term and long-term debt.

Utilization of short-term debt is an integral part of SAWS' overall debt management program. The TECP program provides interim financing and allows SAWS the flexibility to issue debt as needed better matching construction funding with construction expenditures. As approved by City Council, SAWS current TECP program allows the issuance of up to \$350 million, of which \$325 million is issued and outstanding. The un-issued amount is already committed to construction currently in progress. Approval of the amendatory ordinance will authorize the expansion of SAWS' Commercial Paper Notes, Series A, from \$350 million to \$500 million allowing SAWS continued funding flexibility needed for coming years. SAWS' goal is to have variable rate debt not exceed 30% of its outstanding debt with a targeted range of 20-25%.

The expansion of the TECP program will require that the following agreements be amended to increase the principal amount of the TECP program to \$500 million:

- Issuing and Paying Agent Agreement with J.P. Morgan Chase Bank, N.A.;
- Dealer Agreements with Goldman Sachs & Co., J.P. Morgan Securities, and Ramirez & Co.; and
- Revolving Credit Agreement to provide liquidity facility services with Bank of America N.A.

The paying agent makes the principal and interest payments to the TECP noteholders on behalf of the City. The dealers reset interest rates on the TECP notes and "remarket" the TECP notes in the financial markets. The liquidity facility provides the funds in the event that the dealers are not able to remarket the TECP notes in the financial markets helping to insulate SAWS against unforeseen cash demands. Bank of America N.A. has agreed to increase its commitment to SAWS reflecting the \$500 million and to reduce the annual fee from 12 basis points to 10.5 basis points. The amended Revolving Credit Agreement maintains the current contract term effective through July 2007.

In addition to increasing the TECP program, SAWS will also periodically need to refund the outstanding TECP with bond proceeds in order to free up capacity. The financing plan for the 2006 CIP requires the issuance of approximately \$156 million in TECP notes. SAWS currently has \$325 in million notes outstanding. The proposed financial transaction provides for the refunding of approximately \$227 million in outstanding commercial paper notes which funded prior construction projects allowing the additional capacity created to be utilized for the 2006 CIP.

The SAWS Board of Trustees has approved a 2006 CIP in the amount of approximately \$199 million. The CIP includes water delivery requirements of approximately \$51.1 million,

wastewater requirements of approximately \$65.3 million, water supply requirements of approximately \$82.3 million and chilled water and steam requirements of approximately \$250 thousand.

In addition to the TECP refunding, SAWS will be advance refunding the Series 1999 Revenue and Refunding Bonds in the principal amount of \$70.2 million. An advance refunding refers to the sale of new bonds (the refunding issue) before the first call date of old bonds (the issue to be refunded). The proceeds of the refunding issue are invested until the issue to be refunded becomes callable. The Series 1999 bonds were issued on December 16, 1999, to refund outstanding TECP, provide funds for construction projects and pay the cost of issuance. The coupon rates of the Series 1999 bonds currently range from 5.75% to 6.00%, and will drop to a range of 3.00% to 5.00% with the advance refunding. The resulting savings from the advance refunding of the Series 1999 Bonds equate to a reduction in annual debt service of approximately \$430,000, with a net present value savings of approximately \$5.7 million.

The Bonds will be priced on November 29th and will be issued as fixed rate bonds with a final maturity of 2040. SAWS requests that delegation of authority by the City Council be provided to SAWS Designated Financial Officer through approval of a "Q" Authorization. A "Q" Authorization, as permitted by Chapter 1371 of the Texas Government Code, will allow SAWS' Designated Financial Officer to issue and set pricing on the Bonds. The Designated Financial Officer means the Chief Executive Officer of SAWS, the Chief Financial Officer of SAWS, or such other financial or accounting official of SAWS so designated by the City Council. This authorization permits the adoption of the Ordinance authorizing the 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. Similar authority was provided to SAWS for the Junior Lien Series 2004 and 2004-A Bonds in May 2004.

FINANCIAL IMPACT

Approval of this item will have no impact on the City's Budget.

COORDINATION

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

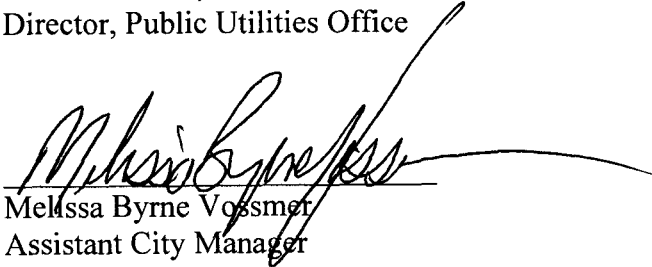
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SUPPLEMENTAL COMMENTS

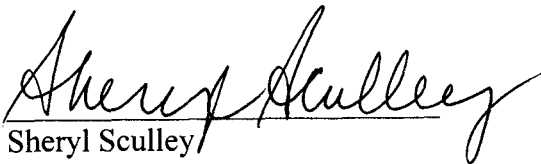
The disclosure requirements of the City's Ethics Ordinance are not applicable.



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