



AGENDA MEMORANDUM

First Reading for the City Council Meeting of January 23, 2024
Second Reading for the City Council Meeting of January 30, 2024

DATE: January 23, 2024

TO: Peter Zanoni, City Manager

FROM: Alma I. Casas, Interim Director of Finance and Procurement
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<p style="text-align: center;">Delegating the Authorization for the Issuance of Utility System Revenue Improvement Bonds (SWIFT III Tranche 1)</p>

CAPTION:

Ordinance by the City Council of the City of Corpus Christi, Texas authorizing the private placement issuance of its Utility System Senior Lien Revenue Improvement Bonds with the Texas Water Development Board in one or more series (as designated by purpose and series) for water, wastewater, and stormwater utility improvements in an amount not to exceed \$10,000,000, within set parameters; making provisions for the payment and security thereof by a first and prior lien on and pledge of the net revenues of the City's Utility System on a parity with certain currently outstanding Utility System Revenue Obligations; stipulating the terms and conditions for the issuance of additional revenue bonds on a parity therewith; prescribing the form, terms, conditions, and resolving other matters incident and related to the issuance, sale, and delivery of one or more series of bonds; appropriating the proceeds from the sale of the bonds; authorizing the execution of one or more paying agent/registrar agreements and one or more escrow agreements; complying with the requirements imposed by the letter of representations previously executed with the Depository Trust Company; complying with the regulations promulgated by the Texas Water Development Board; delegating authority to the City Manager, the Chief Financial Officer, and the Director of Finance and Procurement to execute certain documents relating to the sale of each series of bonds; authorizing the execution and approval of a financing agreement between the City and the Texas Water Development Board related to the bonds; enacting other provisions incident and related to the subject and purpose of this ordinance; and providing an effective date.

SUMMARY:

The City intends to issue \$10,000,000 of Utility System Junior Lien Revenue Improvement Bonds funded by the Texas Water Development Board State Water Implementation Fund for Texas (SWIFT) Loan Program to build the Inner Harbor Desalination Water Treatment Plant. The amount of bond issuance included in the ordinance includes estimated costs of issuance and accounts for any fluctuations in the bond market at the time of pricing. The ordinance delegates the authority to issue the bonds to the City Manager, the Chief Financial Officer, and the Director

of Finance and Procurement within the parameters set forth in the ordinance.

BACKGROUND AND FINDINGS:

The SWIFT loan program was created by the Texas Legislature to provide affordable, ongoing state financial assistance for projects in the state water plan. The program helps communities develop cost-effective water supplies by providing low-interest loans, extended repayment terms, deferral of loan repayments, and incremental repurchase terms. Through fiscal year 2019, SWIFT committed over \$8.3 billion for projects across Texas.

To apply for funding, entities must first submit an abridged and full loan application for their projects to be evaluated. The projects are ranked and the top projects that are within the limits of available funding are invited to submit a full application.

Once the full application is evaluated and approved, TWDB offers financing through the loan program. The interest rate charged by the TWDB is based on the TWDB's cost of funds sold with the State of Texas' General Obligation AAA rating. The lending rate balances reasonable rates for TWDB customers that cover TWDB's cost of funds and risk exposure. Utilization of the TWDB funding option is being recommended especially since the interest rate that will be charged for these obligations is based on a AAA rating -- which is a higher rating than the City's AA-/Aa3 rating for its utility priority lien bonds and junior lien utility bonds therefore resulting in a lower interest rate. In addition, the SWIFT loan program provides a percentage subsidy reducing the interest rate.

On July 23, 2020, the City of Corpus Christi was approved to receive a low interest loan through the TWDB SWIFT program in an amount not to exceed \$222,475,000 (also referred to as the SWIFT 2020 loan) to fund the design and construction of the Inner Harbor Seawater Desalination Treatment Plant.

The amount requested for the SWIFT 2020 loan was based on a cost model created by City and City's Owners Representatives between the years 2018 and 2019. The cost was for a desalination plant with an average daily production of 20 million gallons a day (MGD) and expandable to 30 MGD in the Inner Harbor. The cost model was representative of 2019 costs and the results of the model were used as the basis for the SWIFT 2020 loan.

In January of 2024, the City's Owners Representative submitted an updated cost model with a plant construction cost of \$541.5 million. The updated cost model also includes integration of the new water supply into the City's distribution system, an enhanced high service pump station, and a pilot system. As a result of inflation, cost escalations, and the previously mentioned scope, the total project cost increased. The cost for the high service pump station is \$66.5 million, the integration infrastructure is \$43.6 million, power transmission infrastructure is \$3.1 million, and the non-construction amount is \$102.9 million for the 30 MGD plant.

The City plans to enter into a multi-year annual commitment loan through the SWIFT Loan Program with the Texas Water Development Board in the Spring of 2024 for a total amount of \$535,110,000 for the purpose of building the Inner Harbor Seawater Desalination Plant.

The TWDB requires that applicants close on a de minimis amount in year one. It is common to close on the fiscal and legal costs in year one that are associated with the bonding transaction which include the fees of the applicant's financial advisor and bond counsel and other fees associated with the transaction. At this time, City staff estimate these fees to be approximately 2% of the SWIFT 3 funding application to TWDB, or \$10,000,000.

The City will apply for the State Implementation Fund for Texas (SWIFT) Loan Program on or before the TWDB deadline of February 1, 2024. This loan will be used in conjunction with the previous Texas Water Development Board State Implementation Fund for Texas (SWIFT) Loan to fund the Inner Harbor Desalination Water Treatment Plant. The first tranche of funding will be used for the City's Financial Advisors, Bond Counsel, and to purchase long-lead items for the construction of the project.

Because of the fluctuating conditions in the municipal bond market and to ensure that all legal documents are executed on a timely basis, our financial advisor has recommended that the City Council delegate to the City Manager, Chief Financial Officer, and the Director of Finance and Procurement - including any person serving in any of the foregoing capacities on an interim or non-permanent basis (the "Authorized Officials") the authority to approve the sale of the bonds subject to the following parameters:

- 1) The principal amount in total of all bonds sold may not exceed \$10,000,000.
- 2) The interest rate will be set by the terms of the Texas Water Development Board SWIFT Loan guidelines.
- 3) Maximum maturity of 30 years.

The City's bond counsel has confirmed that the City can delegate the sale of the bonds to the Delegated Officials in the manner outlined above pursuant to the authority contained in Chapter 1371, as amended, Texas Government Code.

ALTERNATIVES:

n/a

FISCAL IMPACT:

The fiscal impact of this ordinance is that it will generate \$10,000,000 in bond proceeds for use on the Inner Harbor Desalination Water Treatment Plant.

COMMENTS:

None.

RECOMMENDATION:

Staff recommends approval of the ordinance as presented.

LIST OF SUPPORTING DOCUMENTS:

Ordinance