



AGENDA MEMORANDUM

Action Item for the City Council Meeting of October 13, 2020

DATE: September 29, 2020

TO: Peter Zaroni, City Manager

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Authorization for the Issuance of Utility System Revenue Bonds for SWIFT funding through the Texas Water Development Board (TWDB) in the amount of \$11,425,000.

CAPTION:

Ordinance authorizing the issuance of Utility System Junior Lien Revenue Improvement Bonds, New Series 2020C in an amount not to exceed \$11,425,000; providing for payment and security, by a junior and inferior lien on and pledge of the net revenues of the City's utility system; stipulating terms and conditions for additional revenue bonds; and complying with Texas Water Development Board regulations; for a potential future seawater desalination plant.

SUMMARY:

On August 18, 2020 the City Council approved a Financing Agreement with the TWDB to receive the first portion of financing through the State Water Implementation Fund for Texas (SWIFT) loan program in an amount not to exceed \$11,425,000 of the \$222,475,000 in total amount awarded from the Texas Water Development Board (TWDB) to fund the design and construction of a Seawater Desalination Plant within the Inner Harbor of the Corpus Christi Ship channel to provide a future water supply. This ordinance authorizes issuance of bonds to collateralize the loan from the TWDB.

BACKGROUND AND FINDINGS:

The City of Corpus Christi has been working on alternative water sources for decades. Following the 2011-2013 drought, the City of Corpus Christi along with stakeholders formed a group to investigate potential water sources for a new, uninterrupted water

supply for the region. Following extensive evaluations of the quality, quantity, and reliability of alternative water supplies, seawater desalination was determined to be the most safe, reliable, and cost-effective alternative.

In 2014, Freese and Nichols, Inc. was selected as the City's Owner's Representative consultant for the seawater desalination project. They have been working alongside City staff since then to methodically plan for a new water supply and to obtain the best value water for the region.

On August 27, 2019, the City Council established the Desalination Project Implementation Trigger Point as 75% of the Water Supply Firm Yield. The trigger point proposes that a new supply be implemented when demand reaches 75% of the Water Supply Firm Yield, which is projected to be in 2022.

On February 6, 2020, the City submitted an abridged loan application to the TWDB for the design and construction of a Seawater Desalination Plant within the Inner Harbor of the Corpus Christi Ship channel to provide a future water supply. The abridged loan application in the amount of \$222,475,000 was the first step in the process of applying for the SWIFT loan program.

On April 9, 2020, the Texas Water Development Board approved the City's abridged loan application and invited the City to submit their full loan application due by May 11, 2020, which was the second step in the process.

On April 21, 2020, the City Council approved a resolution for the City to submit the full SWIFT loan application to the TWDB. This application was approved by the TWDB board on July 23, 2020. The City was awarded the full \$222,475,000 that will be disbursed over two years: \$11,425,000 in 2020 to finalize requirements and develop the Design-Build acquisition package, and \$211,050,000 for Design-Build construction in the 2021-2025 timeframe. The City received a 20% subsidy from the TWDB towards the final interest rate with the true interest cost of 1.996% after the subsidy for the 2020 funds.

On August 18, 2020 the City Council approved the Financing Agreement with the TWDB for the loan. The City is subject to financial penalties if bonds are not issued in accordance with the Financing Agreement. The debt sale will be a private placement with TWDB and the debt will be issued at a lower interest rate than the City could receive if the debt was sold on the open market.

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 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.

This item is the first reading of the ordinance to issue debt to collateralize the loan. The debt sale will be a private placement with TWDB and the debt will be issued at a lower interest rate than the City could receive if the debt was sold on the open market. The second reading is on October 20th and the debt will be issued in November 2020.

With this first portion of the loan, the City plans to execute the following items in FY 2021.

Task	Q1	Q2	Q3	Q4
Environmental Studies for Corpus Christi Bay characterization	X	X	X	
Environmental Permits (TCEQ, US Army Corps of Engineers)	X	X	X	X
Land Acquisition, Easements, Right of Ways, and Site Mitigation	X	X	X	X
Power Purchase Agreement		X	X	X
Develop Request for Qualifications (RFQ contractor pre-qualifications)	X	X		
Issue RFQ and Evaluate Contractor Submitters			X	X
Develop Design-Build Request for Proposal (RFP) package		X	X	X
Issue Design-Build RFP				X

ALTERNATIVES:

The alternative is to not approve the issuance of the bonds and suffer a financial penalty of \$633,193 plus the issuance costs associated with the TWDB bonds per the Financing Agreement with the TWDB.

FISCAL IMPACT:

There is no need for a utility rate adjustment in the foreseeable future to service the \$11,425,000 loan. The City will receive a 20% reduction in interest rates as compared to traditional financing methods for the bonds issued in 2020, resulting in an interest rate of 1.996%. This first year's funding is to finalize requirements and develop the Design-Build acquisition package, and the second year's funding is for Design-Build construction of the plant in the 2021-2025 timeframe. The City is issuing 30-year debt with level debt service amounts for the \$11,425,000 bond to secure the loans and plans on doing the same with the remaining \$211M. Through the loan program, the City will sell the debt by private placement with TWDB and the debt will be issued at a lower interest rate than the City could receive if the debt was sold on the open market. The debt service will be paid primarily with revenue collected from the Drought Exemption Surcharge fee (66% of debt service), the Water Development Fund, and the remainder through capacity created by existing debt being paid in full and customer utility rate revenue.

RECOMMENDATION:

Staff recommends approval of the issuance of bonds to collateralize the initial loan amount of \$11,425,000 from TWDB for funding of a Seawater Desalination Facility within the Inner Harbor to provide a future water supply through the SWIFT loan program.

LIST OF SUPPORTING DOCUMENTS:

Ordinance

Financing Agreement

SWIFT Loan TWDB invitation for application

City of Corpus Christi SWIFT Board action