



AGENDA MEMORANDUM

Action Item for the City Council Meeting of January 23, 2024

DATE: January 23, 2024

TO: Peter Zaroni, City Manager

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Resolution authorizing execution of all documents necessary to make an abridged and full application to the Texas Water Development Board

CAPTION:

Resolution authorizing execution of all documents necessary to make an abridged and full application to the Texas Water Development Board for an amount up to \$535,110,000 for the Inner Harbor Seawater Desalination Treatment Plant from the State Water Implementation Fund to complete the Project.

SUMMARY:

This resolution authorizes the documents necessary to make the abridged and full application to the Texas Water Development Board (TWDB) for the additional funding necessary from State Water Implementation Fund (SWIFT) to complete the Inner Harbor Seawater Desalination Treatment Plant (Project) for an amount up to \$535,110,000.

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.

The City of Corpus Christi has been evaluating alternative water sources for decades. After the 2011-2013 drought, the City of Corpus Christi worked with regional partners to investigate potential water sources for a new uninterrupted water supply. 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.

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

On February 6, 2020, the City submitted an abridged loan application to the TWDB for the design and construction of a Seawater Desalination Water Treatment Plant within the Inner Harbor of the Corpus Christi Ship channel to provide a new 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 (SWIFT 2020) that was disbursed in two parts: \$11,425,000 in 2020 to finalize requirements and develop the Design-Build acquisition package, and \$211,050,000 for Design-Build construction.

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.

The Project timeline identified a construction between 2021-2025. Starting in 2021 through 2023, significant delays to the permitting efforts by the Texas Commission on Environmental Quality occurred, causing a delay in project construction.

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 million, and the non-construction amount is \$102.9 million for the 30 MGD plant.

The last step in the process is for the City to execute all documents necessary to make applications to the TWDB for the additional funding necessary from the SWIFT fund.

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Similar to the SWIFT 2020, an abridged application will need to be submitted in February 2024 for an additional balance up to \$535,110,000. If approved, the City will then be invited to submit a full application by the April/May timeframe for the total amount being requested. The TWDB will announce the successful applicants in July, and in August/September, the City will issue debt to collateralize the loan. The City will enter a multi-year agreement, with a first tranche of \$10,000,000.

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 debt sale for the first tranche 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 City will issue the debt in the October 2024 timeframe.

This resolution would authorize the documents necessary to make an application to the TWDB for the additional funding necessary from SWIFT.

ALTERNATIVES:

The alternative to applying for the SWIFT loan would be to secure alternative funding that is not offered through the SWIFT loan program. If we do not apply for the SWIFT loan program, the City would not realize the low rates offered by the TWDB through the SWIFT loan program. As a result, the City would pay a higher rate of interest to fund the design

and construction of the seawater desalination facility which could negatively affect utility rates.

FISCAL IMPACT:

The fiscal impact would be the approval and award of the application for potential funding of \$535,110,000. The fiscal impact for the first tranche of \$10,000,000 will be in ordinance 24-0111.

RECOMMENDATION:

Staff recommends approval of the Resolution authorizing execution of all documents necessary to make applications to the Texas Water Development Board for the additional funding necessary from the State Water Implementation Fund.

LIST OF SUPPORTING DOCUMENTS:

Resolution