



## **AGENDA MEMORANDUM**

Future Item for the City Council Meeting of December 13, 2016  
Action Item for the City Council Meeting of December 20, 2016

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**DATE:** November 28, 2016

**TO:** Margie C. Rose, City Manager

**FROM:** Constance P. Sanchez, Director of Financial Services  
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Application for Financial Assistance from the Texas Water Development Board
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### **CAPTION:**

Resolution requesting financial assistance from the Texas Water Development Board for the refunding of City obligations previously issued to pay certain costs of designing and constructing improvements to the City's Utility System; authorizing City staff and consultants to coordinate the submission of the application to the Texas Water Development Board for funding from its Drinking Water State Revolving Fund; and other matters in connection therewith.

### **PURPOSE:**

The City of Corpus Christi is interested in refunding \$49,585,000 of City of Corpus Christi, Texas Utility System Variable Rate Junior Lien Revenue Improvement Bonds, Series 2015B (the "Refunded Bonds") originally issued to pay a portion of the costs of construction of Mary Rhodes Pipeline, Phase II with City-issued refunding bonds to be purchased by the Texas Water Development Board through its Drinking Water State Revolving Fund. The Drinking Water State Revolving fund is a financial assistance program administered by the Texas Water Development Board and accessed by local governments across the State of Texas. Texas Water Development Board financings provide subsidized interest rates that are lower than those obtainable by the City directly in the capital markets. Receipt of these subsidized interest rates will provide the City with significantly lower borrowing costs for the remaining life of its refunding bonds (new bonds) when compared to the remaining life of the Refunded Bonds (old bonds).

The City is now seeking authorization to submit an application to the Texas Water Development Board for financial assistance (in the form of the Texas Water

Development Board's commitment to purchase the City's refunding bonds at subsidized rates of interest) in an amount not to exceed \$51,300,000. This amount includes the Texas Water Development Board's bond origination fees and other costs of issuance, as well as the amount necessary to repay the Refunded Bonds.

### **BACKGROUND AND FINDINGS:**

On June 17, 2014, the City Council authorized the issuance of up to \$155,000,000 of City of Corpus Christi, Texas, Utility System Junior Lien Revenue Bonds for the construction of Mary Rhodes Pipeline, Phase II. Authorization was given to issue both fixed rate bonds and variable rate bonds in an effort to provide the City with the most flexibility at that time, legally available. The City was considering leasing some of the water flowing through the pipeline to industrial customers - an occurrence which would require that bonds sold to fund a proportionate amount of the pipeline's cost would no longer be eligible for tax-exempt treatment (for gross income calculation under federal tax law) and would have to be converted to taxable debt. To accommodate this possibility, the City issued the Refunded Bonds (which reflected the rough proportionality of approximately 1/3 of the pipeline's cost – which equated to the maximum amount of pipeline capacity that the City believed could have been sold to industrial customers) as variable rate obligations in an initial term-rate, interest-mode that expires on July 15, 2017 (but which the City can early terminate on or after January 15, 2017). Since the City no longer plans to lease water to industrial customers, the Refunded Bonds must be refunded or remarketed into a new interest rate period not later than July 15, 2017. Since the City preserved the ability at the time the Refunded Bonds were originally issued to seek financial assistance of the type now contemplated, the City now wishes to pursue this opportunity to refund the Refunded Bonds with long-term, fixed and subsidized interest rate bonds through a sale of refunding bonds to the Texas Water Development Board.

The interest rate charged by the Texas Water Development Board is 1.25% below the municipal market index called MMD (Municipal Market Data). This rate is lower than what the City could obtain using its own ratings by accessing the capital markets in a traditional bond sale. Utilization of the Texas Water Development Board funding option is being recommended especially since we are in an environment where interest rates are expected to rise, and the City is obligated to remarket or refund the Refunded Bonds not later than the deadline identified above regardless of whether this opportunity is pursued or not. This agenda item is requesting approval to submit an application with the Texas Water Development Board seeking financial assistance in the form of its purchase of the City's refunding bonds.

### **ALTERNATIVES:**

n/a

### **OTHER CONSIDERATIONS:**

n/a

**CONFORMITY TO CITY POLICY:**

This item conforms to City policy.

**EMERGENCY / NON-EMERGENCY:**

n/a

**DEPARTMENTAL CLEARANCES:**

- Bond Counsel
- City Attorney's Office
- Financial Services
- Utilities Department

**FINANCIAL IMPACT:**

X Not Applicable    ☐ Operating Expense    ☐ Revenue    ☐ CIP

<b>FISCAL YEAR:</b>	<b>Project to Date Exp. (CIP Only)</b>	<b>Current Year</b>	<b>Future Years</b>	<b>TOTALS</b>
Budget	-	-	-	-
Encumbered/Expended amount of (date)	-	-	-	-
This item	-	\$ -	-	\$ -
BALANCE	-	\$ -	-	\$ -
FUND(S):				

**COMMENTS:**

n/a

**RECOMMENDATION:**

Staff recommends approval of the resolution as presented.

**LIST OF SUPPORTING DOCUMENTS:**

Resolution