



AGENDA MEMORANDUM

First Reading for the City Council Meeting of March 21, 2017
Second Reading for the City Council Meeting of March 28, 2017

DATE: March 8, 2017

TO: Margie C. Rose, City Manager

THRU: Sylvia Carrillo, Assistant City Manager

FROM: Constance P. Sanchez, Director of Financial Services
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Authorization for the Issuance of Refunding Bonds with the Texas Water Development Board (TWDB)
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CAPTION:

Ordinance authorizing the issuance of "City of Corpus Christi, Texas Utility System Junior Lien Revenue Refunding Bonds, Series 2017" in an amount not to exceed \$51,300,000; making provisions for the payment and security thereof by a junior and inferior 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 the bonds; including the approval of an application to the Texas Water Development Board; authorizing the execution of a paying agent/registrars agreement, and an escrow agreement; 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 the authority of certain members of the City staff to execute certain documents relating to the sale of the bonds; and providing an effective date.

PURPOSE:

The City of Corpus Christi is interested in obtaining a loan from the Texas Water Development Loan through its Drinking Water State Revolving Fund in an amount not to exceed \$51,300,000 for the purpose of refunding the City of Corpus Christi, Texas Utility System Variable Rate Junior Lien Revenue Improvement Bonds, Series 2015B

(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 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 interest rate charged by the Texas Water Development Board is 1.25% below the municipal market index called MMD (Municipal Market Data), and is anticipated to be approximately 1.77%. This rate is lower than what the City could obtain using its own ratings by accessing the capital markets in a traditional bond sale. It is anticipated that the City will save approximately \$8.2 million over the life of the 29-year loan.

On December 20, 2016, the City Council authorized the City staff 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. The Texas Water Development Board discussed the City’s application at its February 23, 2017 monthly meeting and unanimously accepted the City’s application. This agenda item is the next step in the process and is the authorization for the issuance of the refunding bonds.

ALTERNATIVES:

Do not refund.

OTHER CONSIDERATIONS:

Not applicable

FINANCIAL IMPACT:

☐ Not Applicable ☐ Operating Expense ☒ Revenue ☒ CIP

FISCAL YEAR:	Project to Date Exp. (CIP Only)	Current Year	Future Years	TOTALS
Budget	-	-	-	-
Encumbered/Expended amount of (date)	-	-	-	-
This item	-	\$ 51,300,000	-	\$ 51,300,000
BALANCE	-	\$ 51,300,000	-	\$ 51,300,000
FUND(S): Water CIP Fund				

COMMENTS:

Not applicable

RECOMMENDATION:

Staff recommends approval of the ordinance as presented.

CONFORMITY TO CITY POLICY:

This item conforms to City policy.

EMERGENCY / NON-EMERGENCY:

Not applicable

DEPARTMENTAL CLEARANCES:

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

LIST OF SUPPORTING DOCUMENTS:

Ordinance