



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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Refunding of Choke Canyon Debt

CAPTION:

Ordinance authorizing the issuance of "City of Corpus Christi, Texas Utility System Revenue Refunding Bonds", as further designated by series and lien priority of revenue pledge, in an amount not to exceed \$77,520,000; making provisions for the payment and security thereof by a lien on and pledge of the net revenues of the City's Utility System which may be 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 and distribution of an official statement pertaining thereto; authorizing the execution of one or more paying agent/registrar agreements, escrow agreements, and a purchase contracts; complying with the requirements imposed by the letter of representations previously executed with the depository trust company; delegating the authority to 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 plans on refunding for savings Utility System revenue obligations related to Choke Canyon Dam, as well as any callable, outstanding Utility System Revenue Bonds in an amount not to exceed \$77,520,000

BACKGROUND AND FINDINGS:

In 1976, the U.S. Department of the Interior, through the Bureau of Reclamation (the Bureau), constructed a 700,000 acre feet dam on the Frio River, known as the Choke Canyon Dam (the Project). The City and the Nueces River Authority (the Authority) were local sponsors of the Project and entered into an agreement with the Bureau to provide a portion of the funds necessary to construct the dam (cost of water supply rights). The dam site remained the property of the Bureau although the City and Authority have the right, in perpetuity, to impound 80% and 20% respectively, of the water in the Project's reservoir. Pursuant to a separate agreement between the City and the Authority, the City, in exchange for certain services, pays the Authority \$100,000 per calendar year plus additional sums for water used as specified in the agreement.

The note payable to the Bureau to fund the Project had an escalating debt service schedule with low payments in the first several years. In 1987 the City Council established an annuity (i.e. "Reserved for Choke Canyon" account) to levelize the payments from the Water Fund to the Bureau for the Choke Canyon debt. In the initial years of the note, payments of \$3,245,000, which were greater than the actual debt service payment to the Bureau from the Water Fund, were made, with the excess going into the reserve fund. This excess was paid through a rate surcharge on inside city-limit (ICL) and outside city-limit (OCL) metered treated water customers (ratepayers.) Now that the actual debt service payments are higher, the annuity is used to maintain the level payments in the Water Fund at an annual amount of \$1,124,525. Credit for the reserve draw-downs is only applied to the raw water cost adjustment for ratepayers. The balance in the reserve account should be depleted by 2044 – when the last debt service payment is made. As of September 30, 2016, the balance in this account is was \$13,631,530. This balance can only be used to pay the Choke Canyon debt.

The interest rate for this debt is 5.116%. This agenda item will lower the interest rate to a true interest cost of approximately 2.7% and will produce a net present value savings of approximately \$9.1 million over the life of the debt. This equates to a savings to the Water Fund of approximately \$1.4 million for Fiscal Year 2017 and then approximately \$670,000 thereafter.

Additionally, \$27,535,000 of callable bonds from the Series 2005 Utility System Revenue Refunding Bonds have been identified for refunding if the market permits on the day of pricing. This refunding is anticipated to produce a net present value savings of \$1.9 million or 7.0%. This equates to a savings for the Water Fund of approximately \$700,000 in Fiscal Year 2017, and \$400,000 over the next 3 years.

ALTERNATIVES:

Take no action.

OTHER CONSIDERATIONS:

Not applicable

FINANCIAL IMPACT:

☐ Not Applicable ☐ Operating Expense ☒ Revenue ☒ CIP

FISCAL YEAR:	Project to Date Exp.	Current Year	Future Years	TOTALS
	(CIP Only)			
Budget	-	-	-	-
Encumbered/Expended amount of (date)	-	-	-	-
This item	-	\$ 77,520,000	-	\$ 77,520,000
BALANCE	-	\$ 77,520,000	-	\$ 77,520,000
FUND(S): Water 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