



AGENDA MEMORANDUM

Future Item for the City Council Meeting of December 12, 2017
Action Item for the City Council Meeting of December 19, 2017

DATE: November 27, 2017

TO: Margie C. Rose, City Manager

THRU: Sylvia Carrillo-Treviño, Assistant City Manager

FROM: Constance P. Sanchez, Director of Financial Services
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| Refunding of Choke Canyon Debt |
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CAPTION:

Ordinance authorizing the issuance of "City of Corpus Christi, Texas Utility System Subordinate Lien Revenue Refunding Bonds, Series 2018" in an amount not to exceed \$34,835,000; making provisions for the payment and security thereof by a subordinate and inferior lien on and pledge of the net revenues of the City's Utility System; 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/registrar agreement, a financing 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 to certain members of the City staff to execute certain documents relating to the sale of the bonds; enacting other provisions incident and related to the subject and purpose of the ordinance; and providing an effective date.

PURPOSE:

The City of Corpus Christi has requested the refunding of its Utility System revenue obligations related to Choke Canyon Dam in an amount not to exceed \$34,835,000 from the Texas Water Development Board (TWDB) with City-issued refunding bonds to be purchased by the TWDB through its Water Development Fund (DFund). The DFund is a state-funded loan program that provides financing for various types of water

infrastructure projects. It does not receive federal subsidies and is not subject to federal crosscutters. The DFund enables the TWDB to fund multiple eligible components in one loan to its borrowers. The interest rate on a DFund loan varies depending on market conditions, and it is estimated to be 2.45% for the City's refunding bonds. In order to proceed forward, the City Council is now being asked to authorize the issuance of the City's Utility System Subordinate Lien Revenue Refunding Bonds, as well as to approve the financing agreement with the TWDB. The deadline to submit the financing agreement to the TWDB is December 20, 2017 in order to adhere to a March 2018 bond closing.

BACKGROUND AND FINDINGS:

On March 28, 2017, the City Council authorized the issuance of "City of Corpus Christi, Texas Utility System Junior Lien Revenue Refunding Bonds" in an amount not to exceed \$77,520,000. These bonds encompassed several series of Utility System Revenue Bonds which were eligible to be refunded - in addition to the debt related to Choke Canyon Dam. The refunding of the Utility System Revenue Bonds was effectuated on July 11, 2017 in the amount of \$27,670,000. The net present value savings of this transaction was over \$2 million or 7.581% of the refunded principal. The remaining authorization from the March 28, 2017 City Council action is the debt related to the construction of Choke Canyon Dam – which is included in this agenda item.

The debt related to Choke Canyon Dam is unique for the City of Corpus Christi because it did not result from the issuance of Utility System Revenue Bonds. It is a loan from the United States Bureau of Reclamation (Bureau) for the construction of the Choke Canyon Dam, reservoir and related facilities on the Frio River about four miles west of the City of Three Rivers, Texas. The note payable was a 60-year loan with a 5.116% interest rate. The loan is scheduled to be paid off in 2044 and has an escalating debt service schedule with low payments in the first several years. The initial principal of the note payable to the Bureau for the construction of Choke Canyon Dam was \$39,847,094 in 1983 and peaked at \$72,927,761 in 2000 as project costs continued to be added to the principal. In 1987 the City Council established an annuity (i.e. "Reserved for Choke Canyon" account) to levelize the payments made from the City's Water Fund to the Bureau for the Choke Canyon debt. In the initial years of the loan, 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. This amount varies depending on the actual investment earnings in the reserve. 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 2030.

The current outstanding balance for the Choke Canyon debt as per the Bureau of Reclamation is \$42,207,146.50. See attached letter.

At the City Council workshop on April 5, 2017, Mayor Joe McComb asked if City staff stated they had contacted the Bureau to see if the debt could be forgiven. City staff had previously spoken with the Bureau in September and October 2016 regarding the

forgiveness of the City's debt. Mayor McComb asked staff to contact the Bureau again, along with United States (U.S.) Representative Blake Farenthold to inquire if policies had changed under the new presidential administration. Council Member Greg Smith asked this be done as expeditiously as possible considering the City Council's action to refund the debt.

On April 10, 2017, City staff, bond counsel, and financial advisor spoke with Linda Temple and James Howard from the Bureau. Regarding debt forgiveness, Bureau officials indicated the City could pre-pay the debt at any time. No policies had changed regarding debt forgiveness, which require legislative action by congress. As with previous congressional debt forgiveness actions, the Bureau would only support such an action if the title for the Dam changed from the Bureau to the City, and the Bureau was no longer liable for ongoing operation and maintenance (O&M) costs. We discussed the process for transferring the title to the City and were told that if the City agreed to transferring title, then the Bureau would support either debt forgiveness or debt reduction. We also discussed the ramifications of doing so. The Dam is over 30-years old and has some fairly significant O&M issues and future potential dam safety needs. We were told the Bureau is planning to spend over \$1 million in repairs over the next three years – which would be the responsibility of the City if title were transferred. Currently, the Bureau shares in 33.6% of the O&M costs of the Dam and would continue to do so even after the debt has been repaid, unless Congress directs otherwise. The Bureau currently provides a credit to the City's annual repayment obligation each year for the Bureau's share of the prior year's O&M expenses. Following a payout, the Bureau would provide a direct payment to the City each year for the Bureau's share of the prior year's O&M costs. We were also told the Bureau currently will pay 85% for any dam safety concerns but likely would not continue to do so if title transferred.

As a result of these discussions, City staff moved forward with the refunding of the debt with the TWDB. On May 30, 2017, the City Council approved submitting an application to the TWDB for financial assistance (in the form of the TWDB's commitment to purchase the City's refunding bonds) in an amount not to exceed \$50,000,000. The application was submitted to the TWDB on July 18, 2017. In the meantime, City staff was asked again to check with U.S. Representative Farenthold to determine if the loan forgiveness was possible. In July 2017, the City's Intergovernmental Relations Director (IGR) discussed loan forgiveness legislation with U.S. Representative Farenthold and the City's federal lobbyist, Larry Meyers. Without data to back-up the City's reason for making the request, a legislative solution would not be successful. Therefore, City staff proceeded with the refunding through the TWDB.

The TWDB accepted the City's application and did its required due diligence of reviewing the application in the months of August and September 2017. On October 17, 2017, the TWDB unanimously approved by resolution a request from the City for \$34,835,000 in financial assistance from the TWDB to refinance the construction of the Choke Canyon Dam project. Approximately \$8 million of the outstanding balance will be cash funded through the "Reserved for Choke Canyon" account – leaving a balance in that account of approximately \$4.5 million that can be used by the Water Fund. The TWDB debt is structured as 12-year Utility System Third Lien Revenue Bonds at an estimated interest rate of 2.45% - with the last payment being made in September 2029. This structure reduces the outstanding amount owed by approximately \$7.9 million and eliminates 15 years of debt payments since the original loan was payable until 2044.

The other very appealing feature of this transaction is that the TWDB is willing to accept a subordinate, third lien on net revenues for the repayment of the proposed bonds. This means that the bonds will be on parity with the current loan and will not impact debt service coverages or utility rates. This willingness from the TWDB to accept a third lien on net revenues was one of the main deciding factors in proceeding with the TWDB. Additionally, savings will be realized since no bond ratings will be required, and no underwriters' discount will be paid since the bonds will be purchased by the TWDB.

Now that the application was approved by the TWDB on October 17, 2017, the next step is for the City Council to approve the issuance of the City's Utility System Subordinate Lien Revenue Refunding Bonds and financing agreement. If approved, it is anticipated that the transaction will close on March 27, 2018.

ALTERNATIVES:

Do not refund the Bureau of Reclamation's loan to the City of Corpus Christi.

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

FINANCIAL IMPACT:

X 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 | - | \$ - | - | \$ - |
| BALANCE | - | \$ - | - | \$ - |
| FUND(S): | | | | |

COMMENTS:

n/a

RECOMMENDATION:

Staff recommends approval of the ordinance as presented.

LIST OF SUPPORTING DOCUMENTS:

Ordinance

Financing Agreement

Letter from the United States Department of Interior Bureau of Reclamation regarding
Repayment of Obligation