



AGENDA MEMORANDUM

One-Reading Ordinance for the City Council Meeting of March 30, 2021

DATE: March 18, 2021

TO: Peter Zaroni, City Manager

FROM: Heather Hurlbert, CPA, Finance and Business Analysis Director
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<p>Ordinance approving the issuance of \$35M Utility System Junior Lien Taxable Revenue Notes, Series 2021A</p>

CAPTION:

One-reading ordinance by the City Council of the City of Corpus Christi, Texas authorizing the issuance of "City of Corpus Christi, Texas Utility System Junior Lien Revenue Notes, Taxable New Series 2021A", in an amount not to exceed \$35 million for funding needed for the Gas Utility as a result of the February 2021 Extreme Weather Event; 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: and providing an effective date.

SUMMARY:

The approval of the issuance of Utility System Junior Lien Taxable Revenue Notes, Series 2021A in an amount not to exceed \$35M is being requested to minimize the immediate impact of extraordinary natural gas prices for the Gas Utility customers caused by the February 2021 extreme winter weather event and to spread the impact to the Gas Utility customers over a ten (10) year period.

BACKGROUND AND FINDINGS:

During February 14-19, 2021, the State of Texas experienced exceptionally cold weather across the state. This event caused extreme strain on the electric power grid which resulted in rolling black-outs and a historical spike in prices of natural gas and electricity. The unprecedented price spike caused the average monthly price of natural gas provided to the City's Gas Utility customers to increase from \$4.09 per one thousand cubic feet (mcf) the week prior to the extreme weather event to over \$100 per mcf for several days during the event. This unprecedented pricing along with increased demand resulted in the City receiving a \$40.7M billing from the City's natural gas supplier, NextEra, for February gas usage. The average monthly natural gas bill during winter months is typically \$1.5 million, and so receiving a bill that is \$40.7M for one month put a undue

strain on the Gas Department's budget.

The cost for the purchased gas is passed on to the Gas Utility customer every month. To minimize the immediate impact on the Gas Utility customers, City staff worked with the City's financial advisor, Estrada Hinojosa, and the City's bond counsel, Norton Rose Fulbright, to explore various financing alternatives to spread the payback to the customer over a period of time. After analyzing various alternatives, City staff decided the best alternative would be to issue private placement taxable utility revenue notes in the amount of \$35M. It is anticipated that the Gas Department will receive approximately \$6M in additional revenue during the month of February due to high gas usage. This revenue will be applied to the February natural gas bill, leaving \$35M that needs to be financed.

A private placement bond offering is a funding mechanism for securities that are not sold through a public offering but rather through a private offering mostly to a small number of chosen investors including institutional investors. The issuer sends out bids to various investors, and the security is sold to the investor that provides the most advantageous bid terms. The City (who is the issuer) sent out bids on March 15, 2021 to 13 financial institutions. Responses from 7 institutions were received March 25, 2021. Staff recommends awarding the bid to Huntington Bank for a term of ten (10) years at a rate of 1.85%. The security will be structured so that the notes can be called in July 2026 and refunded or paid in full if sufficient revenue is collected prior to the maturity date.

This item is a one-reading ordinance to allow the City to receive the funds in the most expeditious manner. Issuance of municipal obligations are exempted from the City of Corpus Christi's charter provision regarding dual reading and/or emergency adoption provisions pursuant to the provisions of Section 1201.028, as amended, of the Texas Government Code.

ALTERNATIVES:

The alternative is to not finance the cost of the natural gas and pass the full cost to the customers of the City's Gas Utility in their next bill.

FISCAL IMPACT:

The City will receive \$35M from the issuance of the bonds to be repaid over a ten (10) year period from the revenues received from Gas utility customers.

RECOMMENDATION:

Staff recommends awarding the bid to Huntington Bank for a term of ten (10) years at a rate of 1.85% for taxable revenue notes to be repaid by the City's Gas Utility customers through a minimal monthly charge over the 10 year term.

LIST OF SUPPORTING DOCUMENTS:

Ordinance
Bid Sheet