City of Austin

301 W. Second Street
Austin, TX

Recommendation for Action

File #: 22-2860, **Agenda Item #:** 3. 9/15/2022

Posting Language
Approve an ordinance authorizing the issuance and sale of tax-exempt City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, in one or more series, in an aggregate paramount not to exceed $600,000,000, in accordance with the parameters set out in the ordinance, authorizing related documents, approving the payments of the costs of issuance, and providing that the issuance and sale be accomplished by March 15, 2023.

Lead Department:
Financial Services Department.

Fiscal Note:
The Fiscal Year 2022-2023 debt service requirements and estimated annual administration fees for the paying agent/registrar for the proposed bond sale are included in the 2022-2023 Approved Operating Budget of the Combined Utility Bond Redemption Fund.

For More Information:
Belinda Weaver, Treasurer, Financial Services Department, 512-974-7885.

Additional Backup Information:
Bond Financing Plan

Austin Water is seeking authorization to (1) refinance outstanding bonds, Series 2012 and 2013A, for interest cost savings; (2) refinance variable rate bonds issued in 2008 to eliminate a swap agreement and transition to fixed-rate debt; and (3) refinance commercial paper notes into long term bonds to provide permanent financing for capital assets of Austin Water. The ordinance will provide the City with the flexibility to accomplish this financing plan by issuing bonds between now and March 15, 2023.

The new bonds being requested for issuance are known as “revenue refunding” bonds and are backed solely by the net revenues of Austin Water (revenue available after paying Austin Water’s operating expenses). Under State law, bondholders do not have a right to seek payment from property taxes. The ordinance sets parameters so that the City has the authority to enter into the transaction, as long as certain thresholds in the ordinance are met.

The proposed ordinance delegates the authority to the City Manager or Chief Financial Officer (each a Pricing Officer) to complete the sale of the refunding bond transaction. In addition, the authority of the Pricing Officer to exercise the authority delegated by Council under the ordinance expires on March 15, 2023. A more detailed summary of the purpose of the bond issuance is below.

- Refunding of Commercial Paper Notes
  Austin Water uses short term debt, called “commercial paper,” to fund many of its capital expenditures. The commercial paper is periodically paid off using long-term bonds that refinance the commercial paper and that are backed solely by the net revenues of Austin Water, rather than property taxes, converting interim financing into permanent, 30-year fixed-rate financing. At this time, Council is asked to approve an ordinance that will allow for the refinancing of outstanding commercial paper.

- Refunding of 2012 and 2013A Bonds
  Additionally, due to the call dates on certain outstanding Austin Water bonds and current favorable conditions in the municipal bond market, the City's financial advisor, PFM Financial Advisors LLC (PFM), has advised that refinancing, or "refunding" certain maturities from the Water and Wastewater System Revenue Refunding Bonds, Series 2012 (Series 2012 Bonds) and the Water and Wastewater System Revenue Refunding Bonds, Series 2013A (Series 2013A Bonds) may result in present value savings (lower debt service costs) exceeding the City's target guideline of 4.25% of the refunded bonds. Using interest rates as of August 2022, the 2012 bond refunding transaction was estimated to produce approximately $24.7 million in present value savings (or, expressed as a percentage of the refunded bonds, a present value savings of 14.3%). To lock in favorable interest rates and to comply with federal income tax law relating to refunding, the refunding of the Series 2013A Bonds may be structured as a "forward refunding", where a purchase agreement is executed more than 90 days prior to the first optional redemption date for the Series 2013A Bonds (May 15, 2023) and the bonds are delivered no earlier than 90 days prior to the redemption date. Using interest rates as of August 2022, the 2013A bond refunding transaction was estimated to produce approximately $22.5 million in present value savings (or, expressed as a percentage of the refunded bonds, a present value savings of 10.4%.)

- Refunding of 2008 Variable Rate Bonds
  In addition, the Water and Wastewater System Variable Rate Revenue Refunding Bonds, Series 2008 are being refunded. The City's financial advisor, PFM, has advised that the refunding of the 2008 bonds will reduce short-term interest rate risk for Austin Water's debt portfolio. The 2008 bonds were sold in conjunction with the establishment of an interest rate swap agreement (swap agreement). The swap agreement provided the city with fixed payments to a counterparty in exchange for a variable rate receipt, thus reducing the volatility associated with variable rate bonds. In 2008, the issuance of variable rate bonds with a swap agreement enhanced savings because of the then current favorable market conditions. Currently, tax-exempt bond rates remain favorable, although short-term rates are rising due to the Federal Reserve's activity to quiet inflation. Therefore, the City has the opportunity to terminate the swap agreement and issue fixed rate bonds. The termination of the swap agreement will result in a termination payment to the counterparty in an amount estimated, as of early August, at approximately $6.73 million. The payment will be funded with a portion of the refunding bond proceeds. The rating agencies will see this transaction as a benefit to Austin Water due to the "de-risking" of its debt portfolio. The refunding bonds do not exceed the life of the bonds being refunded.

- Financing Team.
  The Financial Services Department intends to use the underwriting team listed below to sell the bond transaction; each firm is part of the City's approved underwriting pool. The Financial Services Department may modify the underwriting syndicate for these bonds as market conditions warrant.

Senior Manager: Jefferies
Co-Senior Manager: Siebert Williams Shank
Co-Managers: Baird & Co., Ramirez & Co.

For this transaction, McCall, Parkhurst & Horton, L.L.P. will serve as bond counsel, Bracewell LLC. will serve as disclosure counsel, and Orrick, Herrington & Sutcliffe LLP will serve as underwriter's counsel. Rating agencies will include Moody's Investors Service, Inc., S&P Global Ratings, and Fitch Ratings, Inc.

Strategic Outcome(s):
Government that Works for All.