



## Recommendation for Action

**File #:** 23-3329, **Agenda Item #:** 7.

11/30/2023

### **Posting Language**

Approve an ordinance amending the Fiscal Year 2023-2024 Austin Water Operating Budget (Ordinance No. 20230816-008), for the purpose of defeasing and redeeming outstanding bonds by increasing transfers in by \$1,000,000 and increasing transfers out by \$16,000,000; and amending the Fiscal Year 2023-2024 Combined Utility Revenue Bond Redemption Fund (Ordinance No. 20230816-008) to increase transfers in by a net amount of \$16,750,000 and increase expenditures by a net amount of \$16,750,000. Related to Item #18.

### **Lead Department**

Austin Water.

### **Fiscal Note**

Funding is available in the ending balances of the Fiscal Year 2023-2024 Austin Water operating funds. Reduction of these ending balances will maintain Austin Water's compliance with relevant City financial policies. Fiscal notes are attached.

### **Prior Council Action:**

August 16, 2023 - Council approved Ordinance No. 20230816-008 adopting the Operating Budget for the Fiscal Year 2023-2024.

### **For More Information:**

Blanca Madriz, Program Coordinator, Austin Water, blanca.madriz@austintexas.gov, 512-972-0115.

### **Council Committee, Boards and Commission Action:**

November 8, 2023 - the Water and Wastewater Commission recommended approval of this budget amendment ordinance.

### **Additional Backup Information:**

This budget amendment will transfer the funds into the correct account to make them available for defeasance transactions. It is related to the defeasance item that would authorize Austin Water to pay off certain maturities of the City's outstanding Water and Wastewater System Revenue Refunding Bonds. A defeasance is a method of using available cash to pay off outstanding debt. The cash is placed in an escrow account held by a trustee to make principal and interest payments on the required payment date for the bonds being defeased until redemption or maturity. Once the defeasance is funded, the obligations payable from the escrow are no longer secured by or payable from the revenues initially pledged to their payment.

The proposed related defeasance item seeks authorization to pay off certain maturities of the City's outstanding Water and Wastewater System Revenue Refunding Bonds. This process allows Austin Water to remove the debt from its books, which reduces debt levels, reduces interest expense, and improves debt service coverage by lowering the burden of debt service payments in the short term. This proposed defeasance action is in direct relation to achieving a Water and Wastewater System rate stability over the next few years.

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The total source of funds for the defeasance of \$60,750,000 will be provided from a combination of \$20,000,000 in Austin Water Operating Funds, \$20,000,000 in Impact Fee/Capital Recovery Fee (CRF) collections, \$20,000,000 in Capital Improvement Program, and up to \$750,000 of surplus debt service reserve funds in the Reserve Fund. The final defeasance transaction and savings amount are dependent upon market conditions.

Debt service reserve funds are restricted funds that are set aside to provide additional security to Austin Water's revenue bond holders. Because most of Austin Water's debt service reserve funds were funded with proceeds from prior bond issuances, such funds are only permitted to be used towards debt service and are not available for any other purpose. As outstanding revenue bonds secured by a Debt Service Reserve Fund are paid off, the restricted debt service reserve funds will be contributed to defease (prepay) outstanding revenue bonds. To utilize the excess debt service reserve funds, the Combined Utility Revenue Bond Redemption Fund's requirements must be increased. There will be a zero-dollar net impact as the reserve proceeds will serve as "revenue" to offset the increased requirements. The prepayment of debt with debt service reserve funds will reduce future interest costs to ratepayers.

Impact fee/CRF collections are restricted in use by Texas Local Government Code Section 395.012. Allowable uses include paying costs of constructing capital or facility improvements and pledging for payment of debt service issued to finance capital or facility improvements identified in the Impact Fee Capital Improvements Plan Five-Year Update.

This budget amendment will transfer the funds into the correct account to make those funds available for this defeasance.

For this transaction, PFM Financial Advisors, LLC, will serve as financial advisor, McCall, Parkhurst & Horton, L.L.P., will serve as bond counsel and The Arbitrage Group will serve as verification agent.