



City of Austin

Recommendation for Action

File #: 24-4446, Agenda Item #: 14.

5/2/2024

Posting Language

Approve an ordinance authorizing the issuance and sale of tax-exempt City of Austin, Texas, Water and Wastewater System Revenue Refunding and Improvement Bonds, Series 2024, in a par amount not to exceed \$500,000,000, 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 November 1, 2024.

Lead Department

Financial Services Department.

Fiscal Note

The Fiscal Year 2025 debt service requirements and estimated annual administration fees for the paying agent/registrar for the proposed bond sale are included in the 2024-25 Proposed Operating Budget of the Combined Utility Bond Redemption Fund.

For More Information:

Belinda Weaver, Treasurer, City of Austin, 512-974-7885.

Additional Backup Information:

The Water and Wastewater System Revenue Refunding and Improvement Bonds, Series 2024 (Series 2024 Bonds) are being issued to refinance \$200 million of short-term commercial paper previously issued by Austin Water to fund capital improvements, refinance up to \$250 million of outstanding Austin Water revenue bonds for debt service savings, and fund up to \$50 million of additional capital improvements for Austin Water.

Austin Water uses short term debt, called “commercial paper,” to fund many of its capital expenditures. The commercial paper is periodically paid off using bonds that refinance the commercial paper into long-term debt to better match the useful life of the capital assets and that are backed solely by the revenue of the utility, rather than property taxes. This transaction will allow Austin Water to take advantage of currently favorable market conditions and restore the available capacity under its tax-exempt commercial paper program for future borrowing needs by refinancing up to \$200,000,000 of tax-exempt commercial paper into long-term bonds. Additionally, due to current favorable conditions in the municipal bond market, the City’s financial advisor, PFM Financial Advisors LLC, has advised that refinancing, or “refunding” certain maturities from the Water and Wastewater System Revenue Refunding Bonds, Series 2012, 2013A, and 2014 may result in present value savings (lower debt service costs) that exceed the City’s target guideline of 4.25% of the refunded bonds. Using interest rates as of April 2024, the transaction is estimated to produce \$28.8 million in present value savings (or, expressed as a percentage of the refunded bonds, a present value savings of 11.5%). Finally, Austin Water will be seeking up to \$50,000,000 in new money to fund an Austin Water facility and other capital projects.

The Series 2024 Bonds being requested to refinance commercial paper and refund existing maturities of the Series 2012, 2013A, and 2014 Bonds of Austin Water are known as “revenue refunding” bonds. The Series 2024 Bonds issued to raise new money are known as “revenue improvement” bonds. The Series 2024 Bonds

are backed solely by the revenue of Austin Water. 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 if the City can achieve a present value debt service savings on the refunded bonds of not less than 4.25%. In addition, the authority of the Pricing Officer delegated by Council under the ordinance expires on November 1, 2024.

The transaction will be sold through the following underwriting team:

Senior Manager: Ramirez & Co
Co-Senior Manager: Loop Capital
Co-Managers: Hilltop Securities
Stifel Nicolaus & Co.
Jefferies

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