



# NBU Commercial Paper Program

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City Council Meeting  
March 25, 2019

# Overview

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What is Commercial Paper (CP)  
Why CP for NBU  
Surrounding Entities that issue CP  
CP Benefits  
Potential Drawbacks  
NBU CP Program Parameters  
Projected Financings by Year  
Funding by Source  
CP Issuance Flowchart  
Involved Parties  
Selected Parties  
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# What is Commercial Paper

## Short Term Debt Instrument

Maximum maturity of 270 days  
Most issues mature in one to six months

## Promissory Note

Usually backed by a line of credit with a bank

## Rolling Program

Issuer typically pays maturing principal of outstanding commercial paper with newly issued commercial paper

## Variable Rate Financing

Rates are fixed but short term and are consistently rolled over





# Why Commercial Paper for NBU



## High Growth

Comal County and New Braunfels among the fastest growing communities in the United States

## Infrastructure

Long term planning to meet the capital needs of projected growth requires significant investment in the infrastructure of NBU

## Large Capital Program

5 year \$483M capital plan  
\$300M debt financed


\$50M financed with 2018 Bond Issuance

Utilize CP as interim financing for remaining \$250M


Estimated savings of \$3M in interest expense over the initial program term  
CP Program savings could soften the impact of rate increases

## Liquidity

Financing mechanism will allow NBU to remain flexible and liquid to allow quicker access to funds when needed for projects



Surrounding  
Entities  
that issue  
CP



Austin Energy  
Brownsville  
City of Dallas  
City of Garland  
City of Houston  
CPS Energy  
El Paso Water  
Lower Colorado River Authority  
San Antonio Independent School District  
San Antonio Water System  
Texas A&M  
Texas Municipal Power Agency  
Texas Public Finance Authority  
Texas State University  
University of Houston  
University of North Texas System  
University of Texas



# Benefits of Commercial Paper

## Interest Rate Savings

Generally carries lower interest repayment rates than bonds due to the short term maturities of CP

## Interim Financing

Can match construction funding availability with construction expenditure needs

Can issue CP with maturities tailored to match cash flow needs

## Minimum Correspondence

Minimum documentation requirements between issuer and investor once program is established  
However, there will be an increase in the frequency of transactions as CP is remarketed

## Potential Long-Term Alternative

Can choose to continuously include CP in debt portfolio as additional financing option





## Interest Rate Risk

Risk that the 30-year fixed borrowing rate will be higher in one to three years than it is today

## Potential Drawbacks

## Remarketing Risk

Risk that a note can't be remarketed to a buyer at a reasonable rate of interest



## Initial Setup

As intensive as issuing long term debt



# NBU CP Program Parameters

## Legal Authority

Texas Government Code, Chapter 1371

## Financial Policy

10% of assets program limit

At least \$50M in size

Roll program into long term debt once authorized amount is fully utilized, determined that market conditions are no longer favorable, or at end of the program term

## Subordinate Lien

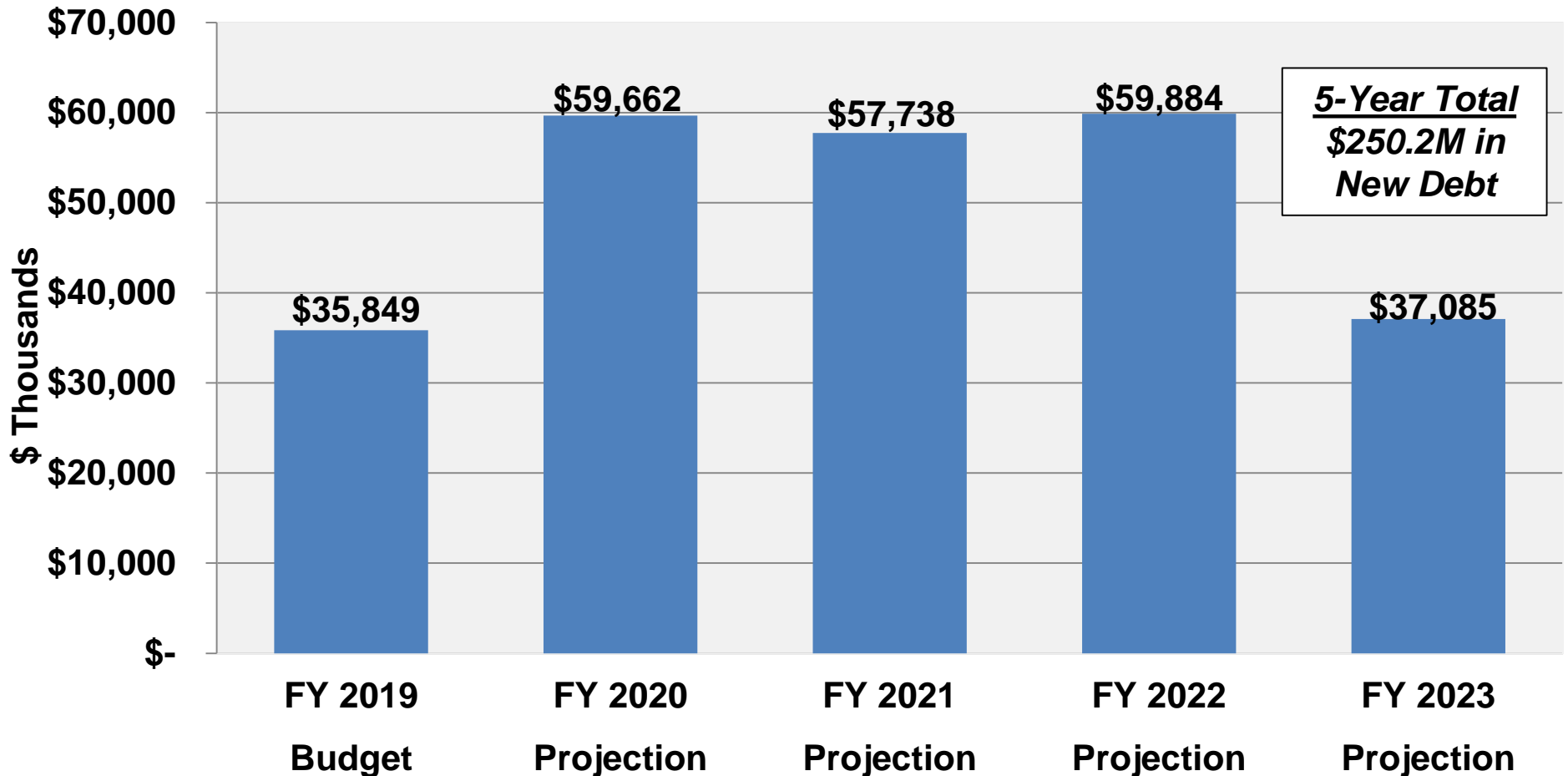
Subordinate lien to the current outstanding first lien net revenue pledge

## \$75M Authorization

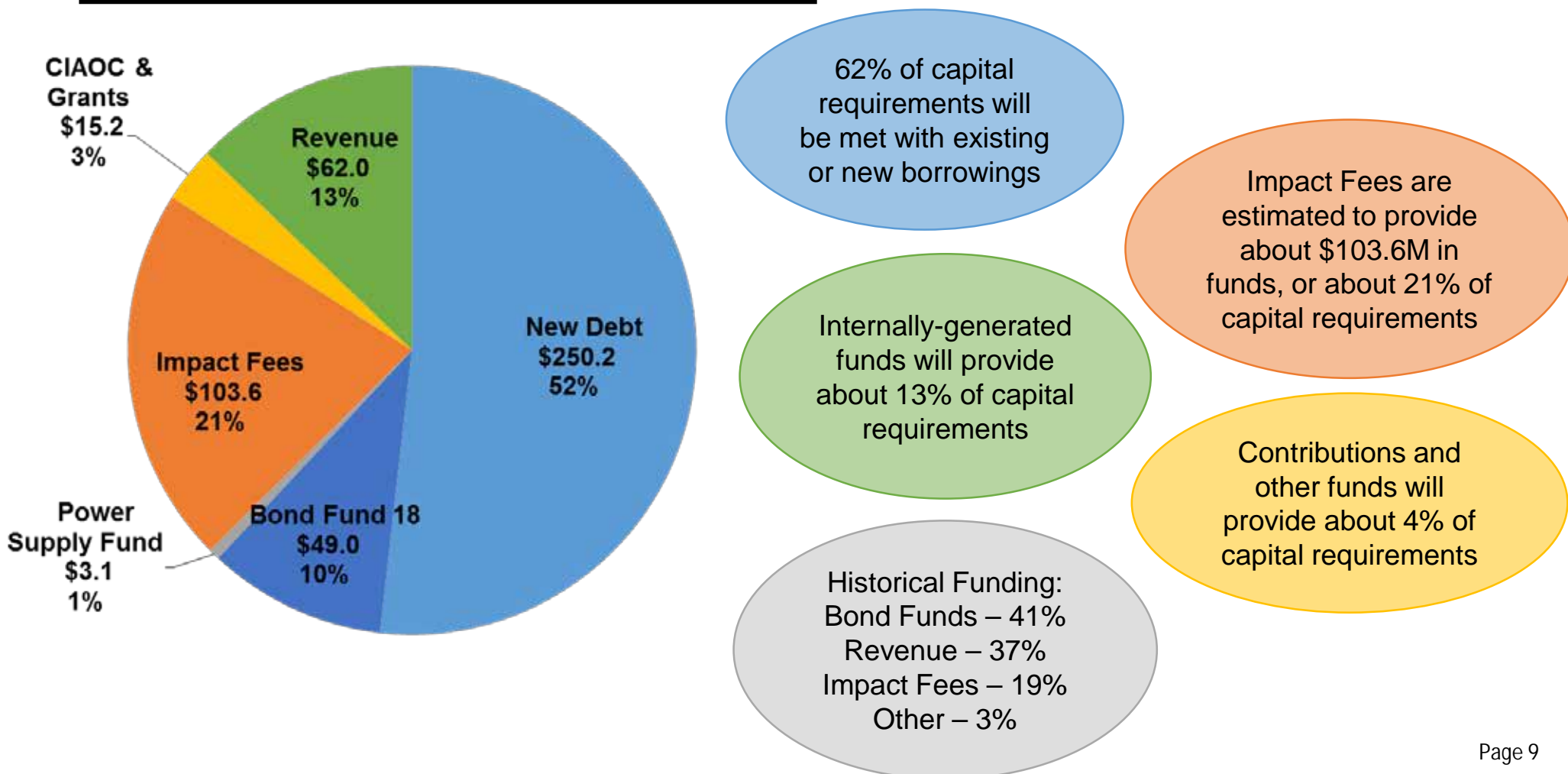




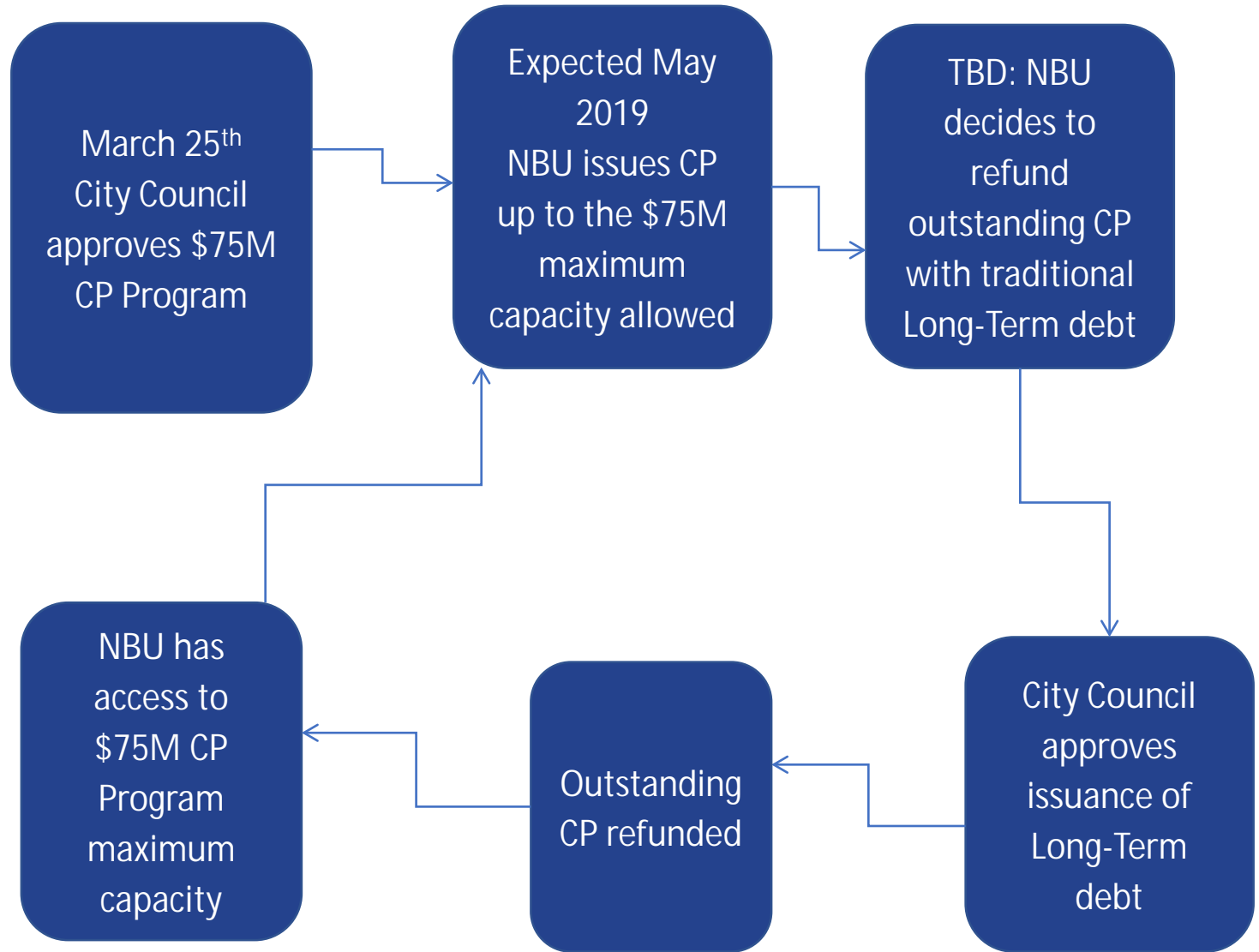
# Projected Financings by Year



# Funding by Source



# CP Issuance Flowchart





## Involved Parties

### Liquidity Facility Provider

Provides a letter of credit or other arrangement to purchase securities that have been tendered to the issuer or its agent but which cannot be immediately remarketed to new investors

### Dealer

Responsible for reselling to investors securities that have been tendered for purchase by their owner  
Typically responsible for resetting the interest rate for a variable rate issue

### Issuing and Paying Agent

Responsible for processing CP note issuances as completed and transmitting payments of interest and principal



### Other Involved Parties

Financial Advisor; Bond Counsel; General Counsel; Finance Team



## Request for Proposals (RFP)

NBU solicited proposals from qualified banks to serve as Liquidity Facility Provider, Dealer and Issuing and Paying Agent for a Tax-Exempt Commercial Paper Program (TECP), or alternative financing mechanism

### Selected Parties

#### Selections:

Liquidity Facility Provider: **JP Morgan Chase Bank, N.A.**

Dealer: **Piper Jaffray**

Issuing and Paying Agent: **Amegy Bank**

#### Evaluation Team

NBU staff and Financial Advisor evaluated proposals pursuant to the criteria established in the RFP



# Next Steps

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Date	Action
March 20, 2019	NBU Board approved CP Program
March 25, 2019	Seek approval of City Council
April 2019	Finalize and execute legal documents
May 2019	Closing of Revolving Credit Agreement (RCA) to include the 1st drawdown of funds
Ongoing	Semi-annual report to the City of Commercial Paper Program transactions



Questions?

