



NBU Evaluation of Commercial Paper

9/17/18

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NBU Evaluation of Financing Options

- 5 year \$385 million capital plan
- \$250 million debt financed
- \$50 million financed w/ 2018 bond issue
- CP or other interim financing options for remaining \$200 million
- Short term interest rate savings from interim financing
- Eventual refinancing with traditional bonds

Potential Financing Options

- Commercial Paper
- Short term Direct Placement Notes
- TWDB subsidized loan for water/wastewater

Commercial Paper

- \$50 to \$75 million minimum size
- Less than 270 day maturity
- Interest rate 1.85% (vs. 3.98% on NBU 2018 bonds)
- Letter of credit fee 0.45%
- Commercial Paper Dealer Fee 0.10%
- One time origination cost \$262,350 (assuming 4 year program term)
- Other annual costs \$30,000

Texas CP Issuers

- Utilities, like CPS Energy, LCRA, Austin, Garland, GVEC and Brownsville
- CP programs range 5.7% to 14.8% of assets
- NBU assets in excess of \$500 million, growing to \$885 million

Possible NBU CP Program

- 10% of assets program limit
- \$50 to \$75 million program
- 4 year program term
- Initiated in Spring 2019 when 2018 bond proceeds spent
- Issue as needed w/annual bond refinancing
- Cycle program 4 times to reach \$200 million interim financing

CP Program Benefit/Cost Analysis & Risks

- Prepared by SAMCO, Mr. Duane Westerman
- One time CP origination cost of \$262,350
- Projected interest savings of over \$1,100,000 each time program cycled
- Interest income on debt proceeds pending capital spend included in analysis
- Projected four year savings of over \$4,000,000
- Risk: Short term interest rate increase
- Risk: A rise in long term interest rates would offset savings over the life of the long term fixed issue.
- Risk: LOC draw in event of failure to reissue maturing paper

CP Program Benefit/Cost Analysis & Risks

Origination Costs

		Traditional Bond Issue		Commercial Paper
Printing & Distribution of POS and OS ^a		1,250		
Bond Counsel bond issue & expenses ^b		60,000		60,000
Bank Counsel				40,000
Paying Agent		400		10,000
Attorney General Filing Fee ^b		9,500		
Financial Advisor & expenses ^a		82,350		82,350
Ratings (3 ratings)		99,000		20,000
Total		252,500		212,350
Underwriting Discount	0.55%	275,000	0.10%	50,000
Total Origination Costs		\$527,500		\$262,350

Annual Ongoing Costs

Paying Agent		400		10,000
CP Dealer Fee	10 basis points of utilized amount			25,000
Revolving LOC fee	45 basis points of authorized par amount			225,000
Total Annual Expenses		\$400		\$260,000

CP Program Savings Options

- The savings from the CP Program were included in the Financial Operating Plan
- We could issue traditional debt and accomplish the same thing
- However rates would have to increase to offset the impact
- If we do not move forward with the CP Program water rates would need to be at least 8% each year to offset the savings

CP Program Reporting

- If implemented, NBU would commit to providing reports to City Council
- The reports would be provided on a semi-annual basis (similar to the Impact Fee report)
- Each report would detail out the program size, the draws and the expenditures on capital projects
- Whenever the program was rolled into traditional debt, we would come back to the City for approval as we do now for bond issuances

Next Steps

- Assuming potential program implemented Spring 2019
- Apprised City Staff about CP and other options on August 22
- Briefed NBU Board 8/30/18-Approved Financial Policy updates and authorized CEO to seek approval from City Council
- Regularly assess economic and financial viability of options-October
- Hold informational meetings with banks and investment bankers-Fall
- Develop detail action plan and timeline for parallel consideration of CP/other financing options with traditional bond issue
- Get approval from City Council-January