

Legislation Text

File #: 20-236, Version: 1

Presenter/Contact
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SUBJECT:

Discuss and consider approval of an ordinance authorizing the issuance of "City of New Braunfels, Texas, Utility System Revenue Refunding and Improvement Bonds, Series 2020," pledging the net revenues of the City's Waterworks, Sanitary Sewer and Electric Light and Power Systems to the payment of the principal of and interest on said bonds; enacting provisions incident and related to the issuance, payment, security, sale and delivery of said bonds; establishing procedures for the sale and delivery of said Bonds; delegating matters relating to the sale and issuance of said Bonds to authorized City and Systems officials and providing an effective date.

BACKGROUND / RATIONALE:

The New Braunfels Utilities Board of Trustees in its June 27, 2019 Board Meeting reviewed and approved NBU's Fiscal Year 2020 Budget and Five Year Financial and Operating Plan through Fiscal Year 2024. At the joint NBU and City Council workshop of October 7, 2019, NBU staff reviewed and discussed this plan with the City Council. In order to accomplish the operating and capital goals set out in the plan, it required a comprehensive strategy of obtaining appropriate (i) commercial paper notes, (ii) rates, and (iii) bond financing. The first goal of obtaining commercial paper notes was accomplished on March 25, 2019 when the City Council approved the implementation of a commercial paper program in the amount of \$75 million. The second goal of obtaining the necessary rates was accomplished on October 28, 2019 when the City Council approved updated rates for water and wastewater services. This agenda item is in regard to the third part of this comprehensive strategy - the bond financing requirements necessary to complete the capital projects included in the plan.

The Series 2020 bond issuance includes \$18.965 million for a current refunding of the Series 2012 bond issue and the refunding of up to \$74.75 million in commercial paper notes. The Series 2012 bond issue is available for optional redemption on July 1, 2020, but can be refunded with the Series 2020 bond issuance by depositing specified securities in escrow such that the combined proceeds of principal and interest at July 1, 2020 are sufficient to redeem the Series 2012 bond issue on that date. Based on current interest rates, it is estimated that NBU will realize potential savings ranging from \$1.2 million to over \$2.35 million and present value savings ranging from 4.25% to 10%. As a result of the current refunding, the associated liabilities after July 1, 2020 stemming from the Series 2012 bond issue will not be reflected on NBU's balance sheet. The remaining liabilities consisting of the principal and interest payments prior to July 1, 2020 will not be affected by the current refunding.

NBU's staff has determined that refunding the outstanding commercial paper notes will provide the necessary capacity to fund planned capital expenditures in fiscal year 2020. The refunding of the outstanding commercial paper notes adheres to NBU's Financial Policy, which states that NBU will

refund the outstanding commercial paper notes with long-term debt once the authorized commercial paper amount is fully utilized or if it is determined that market conditions are no longer favorable for the issuance and remarketing of commercial paper notes. The refunding of the commercial paper notes allows NBU to again utilize the \$75 million in commercial paper capacity and to continue to benefit from access to funds at the usually lower short term interest repayment rates associated with a commercial paper program.

The NBU Board of Trustees at its March 26, 2020 Board Meeting authorized NBU's staff, financial advisor and bond counsel to begin the bond offering process and preparation of documents relating to the issuance of approximately \$81 million in bonds.

The City is a qualified issuer under Government Code Chapter 1371 which allows the delegation of the authority by the City Council to finalize the bond transaction within certain parameters. Section 1207.007 of the Government Code allows for the parameter delegation of the refunding component of the bond issue. The approval to issue bonds under these authorities would set certain parameters, such as (i) the maximum original principal amount of \$93,715,000, (ii) a maximum maturity date that would not exceed July 1, 2050, (iii) a coupon interest rate that would not exceed 6%, and (iv) a minimum of 3% net present value savings on the par value of the refunded bonds. If all of these parameters are met, then the ultimate final approval of pricing would be delegated to certain appointed officials, such as the City Manager and CEO of NBU. This process eliminates the strict deadline (timeline) of having to coordinate pricing to the date of a Council meeting or calling a special meeting. This gives the City and NBU the flexibility to time its actions in the market by adjusting the pricing in response to potential positive market developments or to avoid adverse market developments. The City Manager would be fully advised once the financing is completed. This approach also has the advantage of not requiring an additional separate City Council meeting to approve the bond issue. This parameter bond process has been successfully utilized in prior NBU bond offerings and provides flexibility and the opportunity to achieve the best pricing of the bonds.

ADDRESSES A NEED/ISSUE IN A CITY PLAN OR COUNCIL PRIORITY:

N/A

FISCAL IMPACT:

There is no direct impact to the City of New Braunfels from the issuance of the bonds described above.

COMMITTEE RECOMMENDATION:

The NBU Board of Trustees at its March 26, 2020 Board Meeting authorized NBU's staff to proceed with the necessary steps for the issuance of approximately \$81 million in bonds.

STAFF RECOMMENDATION:

NBU's staff recommends approval of the ordinance.