

Mayor and Council Communication

DATE: 04/12/22

M&C FILE NUMBER: M&C 22-0260

LOG NAME: 132022 WATER AND SEWER BOND SALES

SUBJECT

(ALL) Adopt Attached Thirty-Eighth Supplemental Ordinance Authorizing City of Fort Worth, Texas Water and Sewer System Revenue Refunding Bonds, Taxable Series 2022, in an Aggregate Principal Amount Not to Exceed \$91,200,000.00 and Adopt Attached Thirty-Ninth Supplemental Ordinance Authorizing City of Fort Worth, Texas Water and Sewer System Revenue Bonds, Series 2022, in an Aggregate Principal Amount Not to Exceed \$150,000,000.00, with Each Ordinance Establishing Parameters with Respect to the Sale of the Bonds, Delegating to Designated City Officials Authority to Effect the Sale of Bonds by Competitive Bid or Negotiated Sale, Authorizing Related Agreements, and Enacting Other Related Provisions; Adopt Attached Amended and Restated Thirty-Second Supplemental Ordinance to Extend Period of Delegated Authority for Water and Sewer Refunding Bonds in Support of the Commercial Paper Program; Adopt Attached Appropriation Ordinances; and Amend the Fiscal Year 2022 Adopted Budget

RECOMMENDATION:

It is recommended that the City Council:

1. Adopt the attached thirty-eighth supplemental ordinance (i) authorizing the issuance of City of Fort Worth, Texas Water and Sewer System Revenue Refunding Bonds, Taxable Series 2022, in an aggregate principal amount not to exceed \$91,200,000.00, for the purpose of refunding outstanding debt and paying costs of issuance, (ii) delegating to designated City officials authority to effect the sale - subject to certain parameters as set forth in the ordinance - by competitive bid or negotiated sale as determined most advantageous based on current market conditions; (iii) approving execution of an agreement for the retirement of any refunded obligations and other instruments related to the issuance of the bonds, (iv) providing for the establishment of rates and collection of revenues sufficient to pay the principal and interest on said bonds; and (v) enacting other provisions related thereto;
2. Adopt the attached thirty-ninth supplemental ordinance (i) authorizing the issuance of City of Fort Worth, Texas Water and Sewer System Revenue Bonds, Series 2022, in an aggregate principal amount not to exceed \$150,000,000.00, for the purpose of funding system improvements and paying costs of issuance (ii) delegating to designated City officials authority to effect the sale - subject to certain parameters as set forth in the ordinance - by competitive bid or negotiated sale as determined most advantageous based on current market conditions; (iii) approving execution of an agreement for the retirement of any refunded obligations and other instruments related to the issuance of the bonds, (iv) providing for the establishment of rates and collection of revenues sufficient to pay the principal and interest on said bonds; and (v) enacting other provisions related thereto;
3. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Water and Sewer Revenue Bonds Series 2022 Fund by \$151,500,000.00, subject to the sale of bonds and receipt of proceeds, for the purpose of funding capital improvements and paying the costs of issuance, with such amount subject to reduction to conform to final figures reflected in bond closing documents and with any excess cost of issuance funds remaining after closing being transferred to the Water and Sewer Debt Service Fund;
4. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Water Prior Lien Debt Service Fund in the amount of \$90,250,000.00, subject to the sale of the bonds and receipt of proceeds, for the purpose of funding the required escrow to refund existing debt, with such amount subject to reduction to conform to final figures reflected in bond closing documents;
5. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Water and Sewer Fund in the amount of \$950,000.00, subject to the sale of the bonds and receipt of proceeds, for the purpose of paying costs of issuance related to the bonds associated with the thirty-eighth supplement, with such amount subject to reduction to conform to final figures reflected in bond closing documents and with any excess cost of issuance funds remaining after closing being transferred to the Water and Sewer Debt Service Fund; and
6. Adopt the attached amended and restated thirty-second supplemental ordinance, which mirrors the prior thirty-second supplement in (i) authorizing issuance and sale of City of Fort Worth, Texas Water and Sewer System Revenue Refunding Bonds in an aggregate principal amount not to exceed \$150,000,000.00 to allow outstanding commercial paper to be refunded/refinanced, if needed; (ii) approving the sale of the bonds subject to certain parameters being met, (iii) authorizing instruments related to the issuance of the bonds; (iv) providing for the establishment of rates and collection of revenues sufficient to pay the principal and interest on said bonds; (v) waiving the provision in the Financial Management Policy Statements that outlines the revenue debt of the City shall generally have an average life of approximately seventeen-to-eighteen years; and (vi) extending the delegated authority to effect the sale of refunding bonds through May 31, 2023; and
7. Amend the Fiscal Year 2022 Adopted Budget.

DISCUSSION:

The purpose of this Mayor and Council Communication (M&C) is to adopt ordinances associated with revenue-based debt financing of infrastructure for the City's Water and Sewer System. The actions include authorizing taxable bonds to refinance existing Water and Sewer debt obligations to achieve a net savings (Thirty-Eighth Supplement), authorizing bonds for system improvements (Thirty-Ninth Supplement), extending standby refunding authority to facilitate the System's Commercial Paper (CP) program (Amended and Restated Thirty-Second Supplement), and adopting associated appropriation ordinances.

Thirty-Eighth Supplement

Recommendations 1, 4, and 5 relate to issuance, sale, and appropriation of proceeds for bonds associated with the thirty-eighth supplemental ordinance. The thirty-eighth supplement authorizes issuance and sale of up to \$91,200,000.00 in taxable Water and Sewer system revenue refunding and improvement bonds, in one or more series, for the purpose of refinancing existing Water and Sewer debt obligations to achieve net savings and paying costs of issuance. The ordinances under recommendations 4 and 5 appropriate the proceeds (i) in the debt service fund to pay the refunded obligations and (ii) in the operating fund to pay costs of issuance.

It is the City's practice to achieve positive debt service savings through refinancing when the opportunity presents itself. Staff and the City's Co-Financial Advisors, PFM Financial Advisors LLC and Tijerina Galvan Lawrence LLC, are recommending the callable Series 2014 Water and Sewer System Revenue Bonds be advanced refunded, with a par amount outstanding of \$82,375,000.00. The actual savings amount will not be determined until the time bids are received. However, in accordance with the City's Financial Management Policy Statements, the ordinance provides that the refunding debt shall not be sold unless the sale will result in net present value savings of at least 3.50% of the par amount being refunded. Currently, the refunding is projected to provide 6.35% net present value savings, or \$5,262,659.00.

Thirty-Ninth Supplement

Recommendations 2 and 3 relate to the thirty-ninth supplemental ordinance, which authorizes issuance and sale of up to \$150,000,000.00 in Water and Sewer system revenue improvement bonds, in one or more series, for the purpose of (i) extending and improving the system, and (ii) paying the costs of issuance of the bonds, and to the appropriation of the bond proceeds. The proposed debt transaction consists of \$150,000,000.00 in new money to fund capital projects in alignment with the Water Department's Capital Improvement Program.

In 1991, the City adopted a master ordinance establishing a Water and Sewer System Revenue Financing Program for the Water Department. Each time the Water Department issues debt, a supplemental ordinance must be adopted which contains details specific to the debt being issued. These issuances would be the thirty-eighth and thirty-ninth supplemental ordinances since the master ordinance was adopted. Due to current market conditions, public issuers are struggling to price favorably in the competitive market. In an effort to mitigate this downside risk, the ordinance provides delegated authority to the City Manager and Chief Financial Officer, individually, to effect the sale of the bonds. This includes authority to seek not only competitive bids for the sale of the bonds authorized but also a negotiated sale conducted as either a public or private offering negotiated through a purchase agreement with Underwriters. Staff is recommending that these bonds be sold with the City Manager or the Chief Financial Officer having authority to approve the terms of the sale so long as those terms come within the parameters set forth in the Council-adopted ordinance. Key parameters include: bonds must be rated in one of the four highest generic rating categories (BBB or higher); the maximum maturity is February 15, 2052 (improvement bonds) and February 15, 2034 (refunding bonds); the maximum true interest cost is 5.00%; and the maximum net effective interest rate, calculated per chapter 1204 of the Government Code, is 15.00%.

Rating agency calls with Fitch and Moody's will be conducted prior to the sale of the bonds with the bonds expected to be offered for sale approximately two weeks after ratings are received. Subsequent to the pricing and awarding the sale of the bonds, the City will seek approval of the debt transactions from the Texas Attorney General with an estimated closing date approximately one month after the award of sale.

The attached appropriation ordinances reflect the maximum appropriation amount for bond proceeds for each of the identified purposes. The ordinances' structure accommodates variables associated with sale of debt under delegated authority such as the uncertain final interest rate to be achieved and the possibility of a premium or discount being associated with the sale of the bonds. To the extent numbers at closing are less than those reflected in each of the ordinances, the available appropriation amount will be reduced as needed to reflect final figures based on the closing documents to ensure appropriations do not exceed actuals. Similarly, to the extent there are any remaining proceeds after paying cost of issuance expense, those funds are to be moved to the Water Prior Lien Debt Service Fund.

Amended and Restated Thirty-Second Supplement

Recommendation 6 of this M&C also adopts an amended and restated thirty-second supplemental ordinance, which provides the officials identified and designated as pricing officers with the authority to issue up to \$150,000,000.00 in Water and Sewer revenue refunding bonds if needed to facilitate the system's CP program. As approved by the City Council in December 2017, the CP program authorizes up to \$150,000,000.00 in short-term commercial paper for the Water and Sewer System to be outstanding at any time (M&C C- 28496). Although it is not anticipated that commercial paper would actually be issued very regularly, the program authority provides the Water Department with liquidity and contracting authority so that it can efficiently design and commence capital projects that are ultimately planned to be financed out of longer term debt to be issued at a later date. As the program is structured, an issue of commercial paper cannot have a maturity that is later than the 270th day after the date on which the paper is initially issued. The thirty-second supplemental is an integral part of the CP program because it provides delegated authority that allows refunding bonds to be issued, within certain parameters, in the unlikely event that commercial paper is actually issued and cannot otherwise be retired or remarketed by the 270th day.

The thirty-second supplemental ordinance was initially adopted by M&C C-28496 and previously amended and restated (M&Cs G-19266, G-19531, M&C 20-0224, and M&C 21-0262). Among the parameters the ordinance sets for issuance of Water and Sewer revenue refunding bonds is that the bonds bear a "net effective interest rate" (as defined in and calculated in accordance with the provisions of Chapter 1204, Texas Government Code) that is no greater than 15.00%. In accordance with the practice of the Texas Attorney General, the prior versions of the thirty-second supplemental ordinance provided delegated authority that would expire a year after the ordinance (original or restated) was adopted.

Adoption of the attached amended and restated version of the thirty-second supplemental ordinance extends the delegated authority of the pricing officers to effect sale of all or any portion of up to \$150,000,000.00 in revenue refunding bonds through May 31, 2023. Prior restated versions of the thirty-second supplemental ordinance incorporated minor changes reflecting the impact of federal tax law changes on advance refunding and adding to the list of events that require disclosure under federal securities regulations. Because ongoing authority to issue refunding bonds is needed for proper operation of the CP program, a newly amended and restated thirty-second supplemental ordinance will be needed on an annual basis to extend the period of delegated authority. Staff anticipates bringing forward an amended and restated thirty-second supplemental ordinance each year as part of the City's annual debt issuance process.

The action in this M&C will amend the Fiscal Year 2022 Adopted Budget as approved in connection with Ordinance 25073-09-2021, Section 3.

Debt Service Funds, as listed on page 13 as follows;

Fund / Department	FY2022 Adopted Budget	Budget Adjustment	Revised FY2022 Budget
Budget Category			
Water Priority Lien Debt Service Fund			
Revenues			
Transfer from Water/Sewer	\$97,221,066.00		\$97,221,066.00
Taxable Series 2022 WSS Refunding Proceeds		\$90,250,000.00	\$90,250,000.00
Total Revenues	\$97,221,066.00	\$90,250,000.00	\$187,471,066.00
Expenditures			
Financial Management Services (Debt Obligation)	\$96,536,154.00	\$90,250,000.00	\$186,786,154.00
Contribution to Fund Balance/Net Position	\$684,912.00		\$684,912.00
Total Expenditures	\$97,221,066.00	\$90,250,000.00	\$187,471,066.00

The action in this M&C will amend the Fiscal Year 2022 Adopted Budget as approved in connection with Ordinance 25073-09-2021, Section 4. Enterprise Funds, as listed on page 18 as follows:

Fund / Department	FY2022 Adopted Budget	Budget Adjustment	Revised FY2022 Budget
Budget Category			
Water and Sewer Fund			
Revenues			
License and Permits	\$1,345,700.00		\$1,345,700.00
Charges for Services	\$459,626,060.00		\$459,626,060.00
Use of Money and Property	\$1,166,503.00		\$1,166,503.00
Other Revenue	\$9,885,000.00		\$9,885,000.00
Sale of Capital Asset	\$80,000.00		\$80,000.00
Salvage Sales	\$25,000.00		\$25,000.00
Transfer from Water Impact	\$11,500,000.00		\$11,500,000.00
Transfer from Sewer Impact	\$5,000,000.00		\$5,000,000.00
Transfer from Environ Protection Fund	\$452,726.00		\$452,726.00
Transfer from Stormwater Utility Fund	\$1,182,816.00		\$1,182,816.00
Transfer from Solid Waste Fund	\$1,318,236.00		\$1,318,236.00
COI Proceeds - Refunding Portion		\$950,000.00	\$950,000.00
Total Revenues	\$491,582,041.00	\$950,000.00	\$492,532,041.00
Expenditures			
Water	\$181,248,103.00		\$181,248,103.00
Reclaimed Water Department	\$108,421.00		\$108,421.00
Wastewater Department	\$100,646,434.00		\$100,646,434.00
Transfer to Water Capital Fund	\$5,121,000.00		\$5,121,000.00
Transfer to General Fund for Public Art	\$480,712.00		\$480,712.00
Transfer to General Fund for Position Expenses	\$78,953.00		\$78,953.00
Transfer to General Fund for Energy Savings Program	\$27,116.00		\$27,116.00
Transfer to Capital Fund	\$120,000.00		\$120,000.00
Transfer to Water/Sewer Capital Fund	\$77,625,532.00		\$77,625,532.00
Payment in Lieu of Taxes	\$5,355,686.00		\$5,355,686.00
Street Rental	\$23,549,018.00		\$23,549,018.00
Transfer to Water Debt Funds	\$97,221,066.00		\$97,221,066.00
COI Proceeds		\$950,000.00	\$950,000.00
Total Expenditures	\$491,582,041.00	\$950,000.00	\$492,532,041.00

A Form 1295 is not required because: This M&C does not request approval of a contract with a business entity.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that upon approval of the above recommendations and adoption of the attached appropriation ordinances, the sale of the Series 2022 Water and Sewer System Revenue Bonds and taxable Series 2022 Water and Sewer System Refunding Bonds will occur as required under the parameters set forth therein and that funds will be available in the Water Prior Lien Debt Service Fund and the W&S Rev Bonds Series 2022 Fund to record the appropriate and necessary transactions. Pursuant to the recommended actions, appropriation authority up to \$150,000,000.00 will be restored in the W&S Commercial Paper Fund. Prior to any expenditures being incurred, the Water Department has the responsibility to validate the availability of funds.

Submitted for City Manager's Office by: Reginald Zeno 8517

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Additional Information Contact: Anthony Rousseau 8338

Expedited