

City of Fort Worth, Texas

Mayor and Council Communication

DATE: 04/23/24 M&C FILE NUMBER: M&C 24-0321

LOG NAME: 13WATER AND SEWER SYSTEM REVENUE BONDS SERIES 2024

SUBJECT

(ALL) Adopt Forty-Second Supplemental Ordinance Authorizing City of Fort Worth, Texas Water and Sewer System Revenue Bonds, Series 2024, in an Aggregate Principal Amount Not to Exceed \$195,000,000.00, 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 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; and Adopt Appropriation Ordinance

RECOMMENDATION:

It is recommended that the City Council:

1. Adopt the attached forty-second supplemental ordinance (i) authorizing the issuance of City of Fort Worth, Texas Water and Sewer System Revenue Bonds, Series 2024, in an aggregate principal amount not to exceed \$195,000,000.00, 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) providing for the establishment of rates and collection of revenues sufficient to pay the principal and interest on said bonds; and (iv) enacting other provisions related thereto;
2. 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 \$225,000,000.00 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; and (v) extending the delegated authority to effect the sale of refunding bonds through April 22, 2025; and
3. Adopt the attached appropriation ordinance increasing estimated receipts and appropriations in the Water and Sewer Revenue Bonds Series 2024 Fund by \$195,000,000.00, 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.

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 bonds for system improvements (Forty-Second Supplement), extending standby refunding authority to facilitate the System's Commercial Paper (CP) program (Amended and Restated Thirty-Second Supplement), and adopting an associated appropriation ordinance.

Forty-Second Supplement

Recommendations 1 and 3 relate to the Forty-Second supplemental ordinance, which authorizes issuance and sale of up to \$195,000,000.00 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 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. This issuance would be the forty-second supplemental ordinance since the master ordinance was adopted.

Staff anticipates that these bonds will be sold through a competitive bid sale. However, to provide maximum flexibility to address any disruption to market conditions, the attached ordinances authorizes the City Manager or the Chief Financial Officer to conduct either a competitive or negotiated sale and 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, 2054; the maximum true interest cost is 6.00%; and the maximum net effective interest rate, calculated per chapter 1204 of the Government Code, is 15.00%.

Rating agency calls with Fitch and S&P will be conducted prior to the sale of the bonds. Ratings are anticipated to be received the week of May 7, 2024. Bids for the sale of the bonds are scheduled to be submitted on May 21, 2024. Subsequent to accepting the best bid 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 of June 18, 2024.

The attached appropriation ordinance reflects the maximum appropriation amount for bond proceeds for each of the identified purposes. The ordinance 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 the ordinance, 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 2 of this M&C 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 \$225,000,000.00 in Water and Sewer revenue refunding bonds if needed to facilitate the system's commercial paper (CP) program.

As approved by the City Council in December 2017, the CP ordinance was adopted by M&C C-28496 and authorized up to \$150,000,000.00 in short-term commercial paper for the Water and Sewer System to be outstanding at any time with the initial version of the thirty-second supplemental ordinance enacted at the same time in order to provide corresponding authority for refunding bonds. Because delegated authority under the thirty-second supplement is time-limited to comply with legal restrictions, in subsequent years the thirty-second supplemental ordinance has been amended and restated (M&Cs G-19266, G-19531, 20-0224, 21-0262, 22-0260, and 23-0278). On February 14, 2023, City Council approved increasing the CP program and refunding bond authority from \$150,000,000.00 to \$225,000,000.00 (M&C 23-0105).

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 long 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 ordinance 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.

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 \$225,000,000.00 in revenue refunding bonds through April 22, 2025. 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.

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.

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 ordinance, the sale of the Series 2024 Water and Sewer System Revenue Bonds will occur as required under the parameters set forth therein and that funds will be available in the W&S Rev Bonds Series 2024 Fund to record the appropriate and necessary transactions. Prior to any expenditures being incurred, the Water Department has the responsibility to validate the availability of funds.

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Expedited