



April 21, 2016 Council Agenda

Austin Water Debt

April 19, 2016

April 21, 2016 Council Agenda Items

- Application for loans from Texas Water Development Board (TWDB)
- Defeasance of \$18.2 million debt with cash
- Refunding bonds up to \$295.0 million for cost savings and conversion of short-term commercial paper to long-term debt

Texas Water Development Board

(TWDB)



- Application for loans from TWDB
 - Smart Meter System – up to \$80,195,000
 - Wastewater Treatment Plant and Reclaimed Water capital improvements – up to \$86,980,456
- Savings on project financing costs
 - Offer 35% reduction on interest rates based on TWDB's AAA credit rating on loans with up to 20 year term
- Initial loan closings by December 2016
- Project funding plan over next seven years

Defeasance of \$18.2 million debt

- Defeasance – outstanding bonds will be paid in full, redeemed legally and financially
 - Issue refunding bonds
 - Use available cash
- Use cash accumulated from Impact Fee/Capital Recovery Fee (CRF) collections
- Texas Statute restricts use of CRF
 - Pay costs of constructing capital or facility improvements
 - Pledge for debt service payments on debt issued to finance capital or facility improvements in Impact Fee Capital Improvements Plan 5-Year Update
- Planned defeasances – component of strategy to manage debt costs

2016 Bond Refinancing*

- Refunding bonds up to \$295.0 million
 - Conversion of \$190.0 million short-term tax-exempt commercial paper to long-term debt
 - Restore commercial credit line capacity for future borrowing
 - Cost savings due to favorable market conditions
- Estimate \$12.1 million net present value (NPV) debt service savings or 10.94%*
 - City Financial Policy sets target NPV savings of at least 4.25% of refunded bonds

* Based on March 28, 2016 market rates

2016 Bond Refinancing*

- Market conditions
 - Impact savings, par value of sale, feasibility of sale
 - If unable to achieve Policy target of 4.25% NPV savings, would not proceed with refunding for savings
- Benefits
 - Improve key financial metric - Debt Service Coverage
 - Debt service savings over time
 - Savings help maintain lower utility rates

* Based on March 28, 2016 market rates

2016 Bond Refinancing Timeline

- April 2016 Proposed “Parameter” Ordinance
 - Delegates authority to complete bond sale to City Manager and Chief Financial Officer
 - Provides flexibility should market conditions warrant changing bond sale date
 - Allows for sale of bonds within specified period of time (typically within 180 days)
- May 2016 Bond Pricing
 - “Locks in” pricing; secures interest rates
- June 2016 - Bond Closing and Funding

Credit Rating Scale

CREDIT RATING SCALE					
INTEREST RATE			MOODY'S	STANDARD & POOR'S	Fitch Ratings
Lowest	Investment Grade	Strongest	Aaa	AAA	AAA
			Aa	AA	AA
			A	A	A
			Baa	BBB	BBB
	Non-Investment Grade	Weakest	Ba	BB	BB
			B	B	B
			Caa	CCC	CCC
			Ca	CC	CC
			C	C	C
Highest			C	D	D

Credit Ratings

- Combined Utility and Austin Water separate lien
 - Investment grade bonds with strong ratings
 - Should sell at some of the lowest interest rates
 - Interest cost savings help maintain lower utility rates

Description	Moody's Investors Service, Inc.	Standard and Poor's	Fitch, Inc.
Combined Utility revenue bonds – prior lien	Aa1	AA	AA
Combined Utility revenue bonds – subordinate lien	Aa2	AA	AA
Utility revenue bonds – Water separate lien	Aa2 Negative	AA	AA- Negative

Questions