EL PASO WATER
PURCHASING DEPARTMENT
1154 HAWKINS BLVD.
EL PASO, TEXAS 79925

Direct Funded Revolving Loan or Note Purchase Agreement

REQUEST FOR PROPOSAL NUMBER RFP38-18

ADDENDUM NUMBER 1

March 07, 2018

Attention of all respondents is directed to the following addendum to this Request for Proposal:

A. Response(s) to Bidder's question(s):

- I see you are looking at either a revolving loan or a note purchase agreement. Is a note purchase agreement similar to a maintenance tax note in structure, with the source of repayment and security being utility revenues rather than tax receipts?
  - **A note purchase agreement is similar to a commercial paper note program. Some banks offer similar products that can also be considered like a revolving loan with a maximum term. This is not like a maintenance tax note and no taxes are considered for repayment. This is a stand-alone drainage utility system from the City with a dedicated Stormwater Monthly Fee structure that generates revenue for the utility.**

- Are you looking for 2,3 and 5 year quotes for the note purchase agreement? Will you accept fixed rate quotes for the note purchase agreement?
  - **The City is looking for 2, 3, and/or 5 year quotes for the program, if available through your bank. The City wants to use this program for short-term financing and will eventually take out the "loan" or "debt" with other financing vehicles available to them. Your bank could offer a fixed rate if that is what works for your bank. The City will compare all responses to see which one is the most cost effective for the utility.**

- Would the note purchase agreement be fully amortizing or a "bullet" payment at maturity?
  - **The intent of the City is to treat this in a similar fashion as a commercial paper program. The City could have up to the term of the note or revolving program to pay the "loan" or "debt" to the bank. This will not be amortized over the term of the time outstanding. It would be paid off much like a bullet, for your purposes.**

- Why would this transaction be taxable? Is that only in the case of a revolving loan?
  - **The program is not taxable, but the City would like to have the option to use it (or a portion of it), as taxable if needed.**

- Will the legal name of the issuer be the City of El Paso, Texas?
    - **Yes, the legal name of the issuer is the City of El Paso, Texas.**

- Copy of the Master Ordinance for Senior Lien Bonds;
    - **There is no Master Bond Ordinance for the "senior lien" bonds since each issue of MDUS senior lien bonds is authorized by its own separate ordinance; however, the respective ordinances contain comparable parity bond provisions. Therefore, any of the MDUS senior lien parity bond ordinances will provide the respondent with the terms of the senior debt. Attached is a copy of the 2017 MDUS Ordinance for reference. (Attachment 1)**

- Copy of Draft Ordinance for Subordinate Lien Obligations.

  If not available, please provide the following information on anticipated legal covenants for the subordinate lien obligations: Rate Covenant; ABT; Reserve Requirement (if any)
    - **There is no draft of the ordinance authorizing this facility yet (which will be secured on a subordinate lien basis).**
    - **It is anticipated that the City will covenant to maintain rates and charges to produce Net Revenues in an amount reasonably estimated to be not less than 1.0 times the annual principal and interest requirements of the Outstanding Prior Lien/Senior Lien Obligations and the Outstanding Notes (assuming 30 year level debt service amortization on the Notes). No ABT for issuance of notes but program is currently limited to $25 million. No reserve fund anticipate for note program.**

- As part of the Flow of Funds for outstanding revenue bonds, deposits are made (as needed) to the Improvement Fund. As of fiscal year end 2017, how much was in the Improvement Fund and where are these monies held (reflected in the Balance Sheet)?
    - **The balance in the Stormwater Improvement Fund as of 2/28/2017 was $12.9 million In the Balance Sheet these assets are reflected as part of the: Assets/Restricted for Construction and Improvements/Cash and cash equivalents.**

- What factors or outlying costs, if any, attributed to the significant increase to P&I for debt service coverage in FY 2017?
    - **The City has issued drainage utility debt on an annual basis to fund capital improvement projects. The increase in debt has been included in the Utility's Five Year Financial Plan.**

- What is the strategy and reasoning behind issuing the debt on a subordinated basis? How much additional senior debt will be issued in the next 5 years? - Please provide a tentative breakdown of debt plans for each year, corresponding rate increases and coverage calculations for the next 5 years.
    - **The City intends to use this short-term financing mechanism to fund projects in a similar fashion to a commercial paper program. The City will be offering a subordinate lien on this form of mechanism. Attached is the anticipated new debt financing, which includes both long-term bonds and short-term financing, and projected fee increases based on the Utility's Five Year Financial Plan. Every year during the budget process operating, debt and capital needs are reevaluated and the budget and five-year financial plan is revised as needed. (Attachment 2)**

- Please provide the sources of Funding for the approximately $190MM in capital improvements planned in the next five years.
  - **The City intends to fund the capital improvements through a combination of rate revenues (pay-go) and debt mechanisms (short-term and long-term options available to the City.) Per our FY 2018-19 Budget Five Year Financial Plan the CIP in the next five years is projected to be around $161 million of which $72 million would need financing. (Attachment 2)**

- Is there an established schedule for rate increases or is it determined on an annual basis?
  - **The City's municipal utility has hired a rate consultant and evaluates Stormwater fees yearly based on future operating, debt service and capital improvement needs of the utility. The projected fee increase are included as Attachment 2.**

- Are internally prepared financial statements available for FYE 2/28/2018 or latest available?
  - **See attachment for latest financial report provided to the Public Service Board. (Attachment 3)**

- What is the expected usage under the proposed facility in the next 3 to 5 years?
  - **As outlined within the RFP, the City has requested up to $25 million of debt for this program. The City might repay the debt once a year, or could decide to leave the debt outstanding up to the term limit of the proposed facility. This is similar to a commercial paper program and the City does not intend to leave this debt outstanding for a long-term. Based on the latest Five Year Financial Plan the Utility estimates financing from $9 million to $24 million on an annual basis. (Attachment 2)**

- Is the intent to pay down the line and then re-borrow? If so, what is the source of repayment (Bond market, etc.)? If not, is the request for a non-revolving line of credit?
  - **Yes, the intent is for the City to pay down the debt and then re-borrow for as long as the facility is in place. The source of repayment is expected to be from the issuance of long-term bonds issued by the City through the Utility system revenues.**

- In the RFP on page 5, section 2.4 (2) it is requesting pricing assuming the Drainage Utility's public debt rating of AA+ by both S&P and Fitch. This is the public rating for the senior lien bonds, and we understand the proposed revolving loan will be on a subordinate basis. Does the Utility have a subordinated debt public rating?
  - **No, the City's utility system currently does not have any subordinate debt outstanding. The City does not expect to seek a rating for the utility system subordinate debt credit.**

- What is the intended combined rate covenant and Additional Bonds Test for the combined Senior and Subordinate debt?
  - **It is anticipated that the City will covenant to maintain rates and charges to produce Net Revenues in an amount reasonably estimated to be not less than 1.0 times the annual principal and interest requirements of the Outstanding Prior Lien/Senior**

Lien Obligations and the Outstanding Notes (assuming 30 year level debt service amortization on the Notes). No ABT for issuance of notes but program is currently limited to $25 million. No reserve fund anticipate for note program.

- Under Section 2.1 the reference is made to individual maturities of one year or less. However, under the pricing matrix Terms are listed for 2, 3, 5, and other terms. Could you please clarify?
  - **The terms are listed for 2, 3, 5 years and/or as offered by the lending institution. This is to be a short-term program similar in fashion to a commercial paper program and the Utility will take out the short-term funding with long-term debt at a future date within the terms provided by the agreement.**

- How does EPWU intend on taking out the Direct Funded Loan or Note? With long-term bond financing?
  - **The City intends to issue municipal drainage utility refunding long-term bonds/debt to retire the loan or note program draws.**

- Can you provide expected usage of the Commercial Paper Program (actual funding) by year over the next 5 years?
  - **The City intends to use up to $25 million of funds from the short-term financing program on a yearly basis. Based on the latest Five Year Financial Plan the Utility estimates financing from $9 million to $24 million on an annual basis. See Attached Five Year Financial Plan.**

- Can you please provide the Municipal Drainage Districts Tax Identification Number?
  - **El Paso Water Utilities Public Service Board Tax ID: 74-6003579**

- Will an ABT and minimum debt service coverage with rate covenant be available for subordinate debt? If so, what will the test be? Will the short term bullet be incorporated into the test?

  - **It is anticipated that the City will covenant to maintain rates and charges to produce Net Revenues in an amount reasonably estimated to be not less than 1.0 times the annual principal and interest requirements of the Outstanding Prior Lien/Senior Lien Obligations and the Outstanding Notes (assuming 30 year level debt service amortization on the Notes). No ABT for issuance of notes but program is currently limited to $25 million. No reserve fund anticipated for note program.**

- Will acceleration at commitment maturity for a payment default (90 day cure period) be acceptable?
  - **The Utility would entertain reviewing an acceleration provision, but does not commit to accepting any provisions at this time until all responses have been reviewed and vetted by the utility.**

Respondent shall acknowledge receipt of this addendum and submit this acknowledgment with their Proposal. Failure to acknowledge addendum(s), may result in rejection of proposal.

Levi Chacon
Purchasing Agent

RESPONDENT'S ACKNOWLEDGEMENT OF RECEIPT

R Guevara