



# ***FY 2019 FINANCING TRANSACTIONS***

*PRESENTED BY:*

**Paula Gold-Williams**

President & CEO

**Cory Kuchinsky**

Interim VP, Finance

*June 14, 2018*

*Approval Requested*

# AGENDA



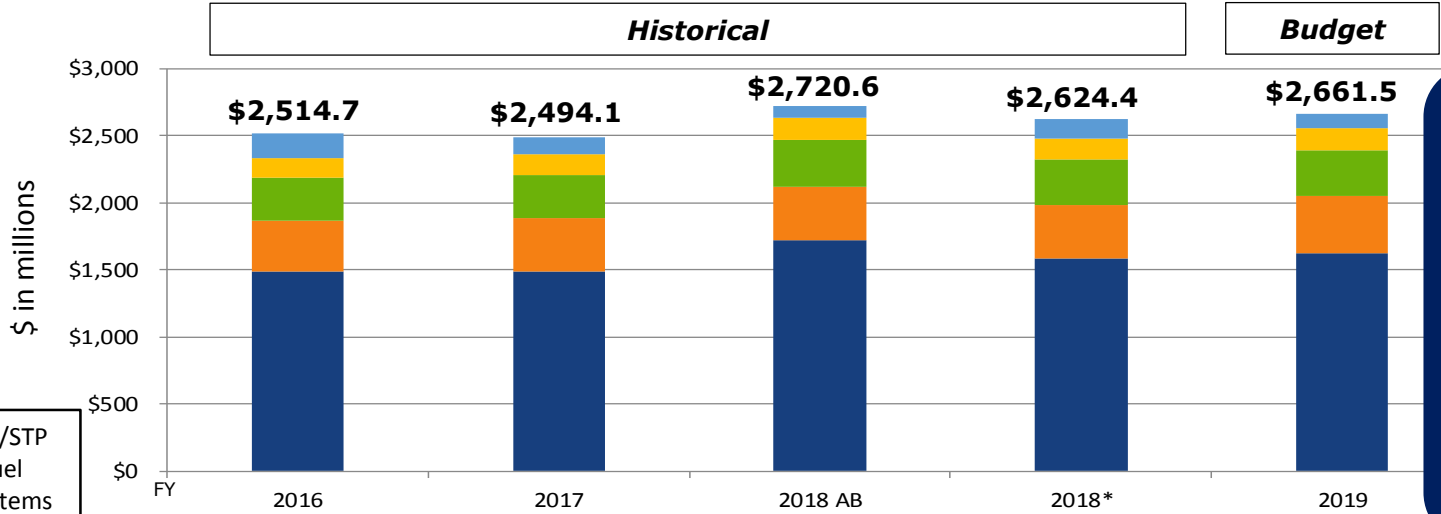
- **PRUDENT FINANCIAL PLAN**
- **COMPARISON: USES OF REVENUE**
- **MARKET UPDATE**
- **DEBT PORTFOLIO OVERVIEW**
- **FY 2019 FINANCING TRANSACTIONS**
- **REQUEST OF CITY COUNCIL**

# PRUDENT FINANCING PLAN



- **OUR FINANCING REMAINS FOCUSED ON:**
  - ❑ **Driving strategic value**
  - ❑ **Controlling costs**
  - ❑ **Maintaining key financial metrics**
- **ALL OF THE DEBT SERVICE COSTS FIT WITHIN OUR CURRENT COST STRUCTURE**

# COMPARISON: USES OF REVENUE



Total Uses are projected to increase \$37.1M, or 1.41%. Additional increases in operating expenses will be offset by lower R&R.

Includes CPS/STP O&M & Fuel /Regulatory items

■ Operating Expenses ■ Debt Requirements from Revenue ■ City Payment ■ R&R 6% of Revenue ■ R&R Remaining Deposit

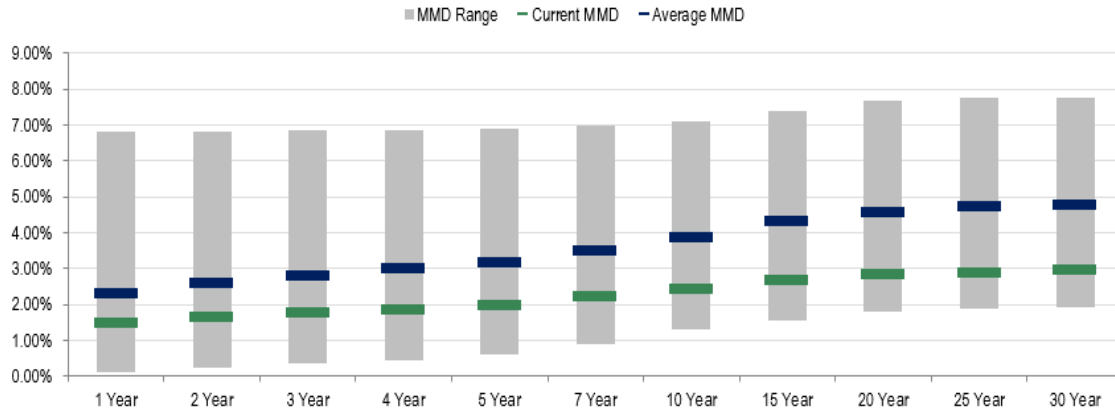
<i>Fiscal Year</i>	<b>2016</b>	<b>2017</b>	<b>2018 AB</b>	<b>2018*</b>	<b>2019</b>
Operating Expenses	\$1,484.7	\$1,489.7	\$1,718.2	\$1,587.9	\$1,626.0
Debt Requirements from Revenue	379.8	395.1	406.0	397.7	421.5
City Payment	320.5	324.5	350.6	338.4	345.9
R&R 6% of Revenue	150.9	149.6	163.2	157.5	159.7
R&R Remaining Deposit	178.8	135.2	82.6	142.9	108.4
<b>Total Revenues = Costs</b>	<b>\$2,514.7</b>	<b>\$2,494.1</b>	<b>\$2,720.6</b>	<b>\$2,624.4</b>	<b>\$2,661.5</b>

\* FY 2018 Actual results are unaudited

# MARKET UPDATE



AAA MMD Rate Position  
(June 9, 1988 to June 8, 2018)



Summary of June 8, 2018 vs. Historical (30 Years) MMD Rates

Statistic	1-Year	2-Year	3-Year	4-Year	5-Year	7-Year	10-Year	15-Year	20-Year	25-Year	30-Year
June 8, 2018	1.50%	1.69%	1.80%	1.89%	1.99%	2.24%	2.46%	2.69%	2.86%	2.93%	2.98%
Historical Average	2.34%	2.63%	2.83%	3.02%	3.19%	3.52%	3.89%	4.35%	4.61%	4.75%	4.79%
Spread to Average	-0.84%	-0.94%	-1.03%	-1.13%	-1.20%	-1.28%	-1.43%	-1.66%	-1.75%	-1.82%	-1.81%
Minimum	0.11%	0.25%	0.36%	0.44%	0.62%	0.89%	1.29%	1.57%	1.80%	1.88%	1.93%
Maximum	1.39%	1.44%	1.44%	1.45%	1.37%	1.35%	1.17%	1.12%	1.06%	1.05%	1.05%
% of Time Lower	6.80%	6.80%	6.85%	6.85%	6.90%	7.00%	7.10%	7.40%	7.70%	7.75%	7.75%

Rates have remained below historical averages on every maturity on the yield curve.

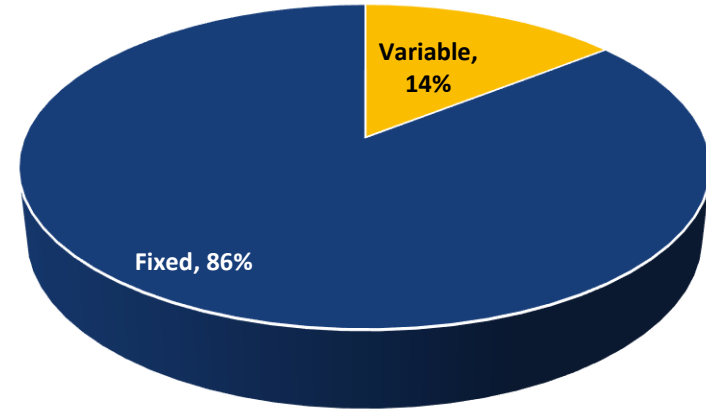
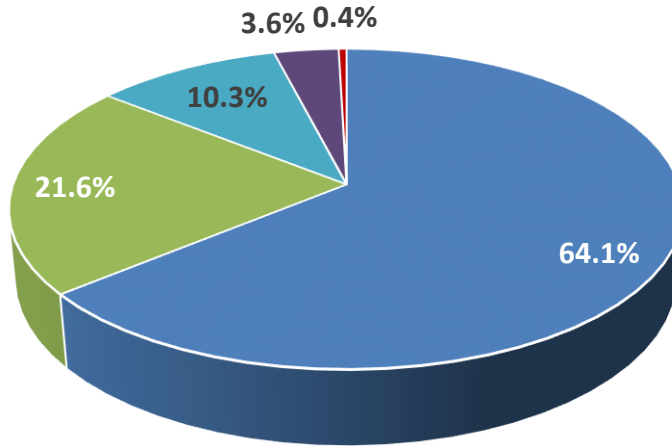
While short-term rates continue to rise, they still provide a low cost form of financing.

In addition, there has been little movement on the longer end of the yield curve, supporting issuance of long-term debt.

# DEBT PORTFOLIO OVERVIEW



- Sr. Lien Fixed
- Jr. Lien Fixed
- Jr. Lien Variable Rate
- Commercial Paper
- FRRN



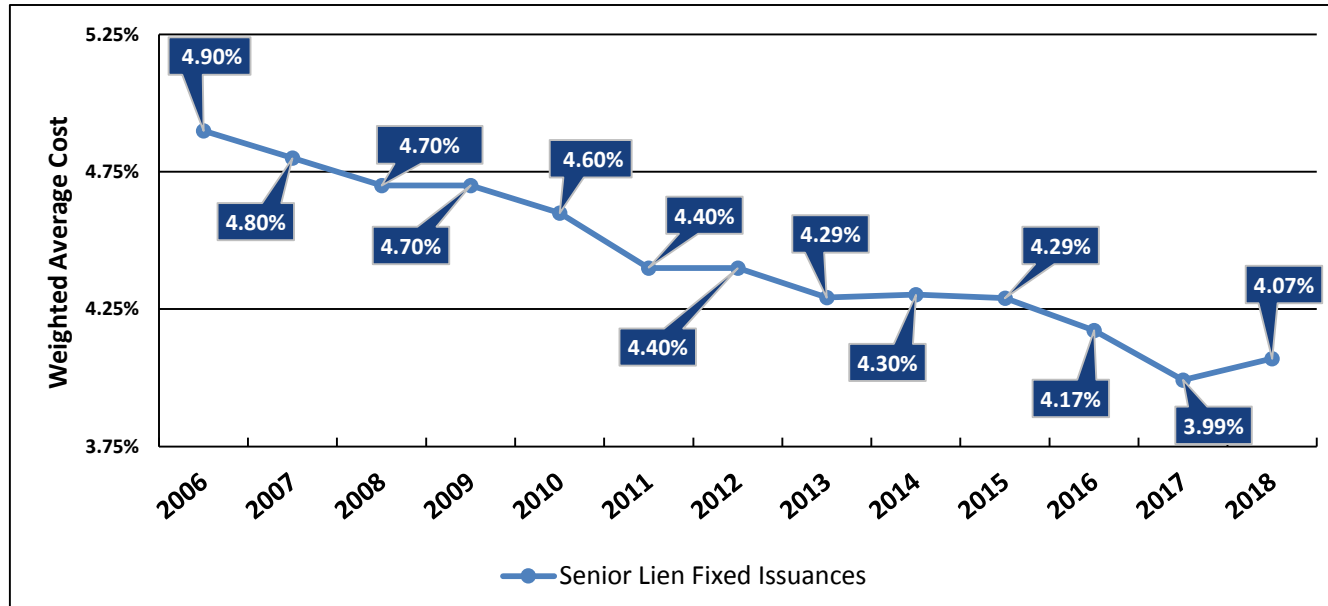
DEBT PORTFOLIO OVERVIEW		
Debt Instrument	Par Outstanding (\$000s)	Ratings (Fitch, Moody's, S&P)
Senior Lien (Fixed)	3,661,315	AA+, Aa1, AA
Junior Lien (Fixed)	1,233,545	AA+, Aa2, AA-
Junior Lien (Variable)	590,115	AA+, Aa2, AA-
Commercial Paper	205,000	F1+, P-1, A-1+
FRRN	25,200	F1+
<b>Total</b>	<b>\$5,715,175</b>	

**We focus on ensuring we have a diversified debt portfolio.**

# HISTORICAL COST OF DEBT



Since FY 2006, CPS Energy refinanced \$2.8B of debt to achieve over \$378MM of gross debt service savings.



# PROPOSED FINANCING TRANSACTIONS



Transaction Description		Estimated Amount	Anticipated Execution	CPS Energy Approval	City Council Request	Commentary
1)	Refunding of Commercial Paper (CP) Notes <sup>(1)</sup>	Up to \$285MM	4 <sup>th</sup> Quarter 2018	Received May 21, 2018	June 14, 2018	<ul style="list-style-type: none"> <li>- Frees up liquidity</li> <li>- Converts short-term debt to long-term debt</li> <li>- Maintains DLOH metric</li> </ul>
2)	Fix out 2012A, 2012B, & 2012C Jr. Lien Variable Rate Bonds <sup>(1)(2)</sup>	<u>2012As</u> - ~\$47.1MM <u>2012Bs</u> - ~\$47.7MM <u>2012Cs</u> - ~\$47.5MM	Mandatory Tender Date of Dec. 1, 2018			<ul style="list-style-type: none"> <li>- Given the current rate environment and term of bonds (9 years to maturity), fixing out provides value for the portfolio</li> <li>- Eliminates costs associated with future required re-marketings</li> </ul>
3)	Refunding Bond – 2009D Sr. Lien Bonds <sup>(1)</sup>	~99.1MM	4 <sup>th</sup> Quarter 2018			<ul style="list-style-type: none"> <li>- Provides NPV savings of \$3.3MM (Average of \$1.1MM / year thru 2021)</li> </ul>

<sup>(1)</sup> City Council approval would propose giving authority to execute as appropriate during the next twelve month period.

<sup>(2)</sup> We can potentially combine this debt into one transaction if we fix out the 2012 A, B, Cs.



# TODAY'S REQUEST



## Approval:

- Authorize the execution of the transactions noted below over the next 12 months:
  - Refunding Commercial Paper, up to \$285MM
  - Fix out 2012A, 2012B, 2012C Jr. Lien Variable Rate Bonds ~ \$143MM
  - Refunding Bond Issue – 2009D Sr. Lien Bonds ~ \$99.1MM
- Delegate authorization for final pricing terms to CPS Energy's President & CEO or Treasurer

**Requesting City Council approval of an Ordinance to execute these transactions totaling ~ \$530MM.**



***Thank You***



# ***Appendix***

# UNDERWRITING POOL



**We will ensure diversity as we select syndicates for our transactions later this year.**

## Current Underwriting Pool (23 firms)

	Wall Street Firms	Regional Type Firms	MBE / WBE / SBE <sup>(1)</sup>
1	Barclays Capital	Frost Bank	Blaylock Van
2	BofA Merrill Lynch	FTN Financial	Drexel Hamilton
3	Citigroup	Hilltop Securities (FirstSouthwest)	Loop Capital Markets
4	Goldman Sachs	Hutchinson Shockey Erley	Ramirez & Co
5	Jefferies & Co.	Mesirow Financial	Siebert, Cisneros, Shank & Co.
6	JP Morgan Chase	Piper Jaffray & Co.	
7	Morgan Stanley	Raymond James	
8	RBC Capital Markets	Stifel, Nicolaus, & Co.	
9	UBS		
10	Wells Fargo Securities		
<b>TOTAL</b>	<b>10</b>	<b>8</b>	<b>5</b>

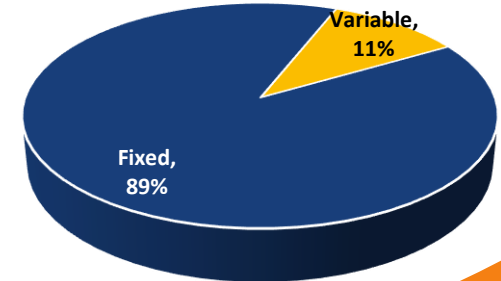
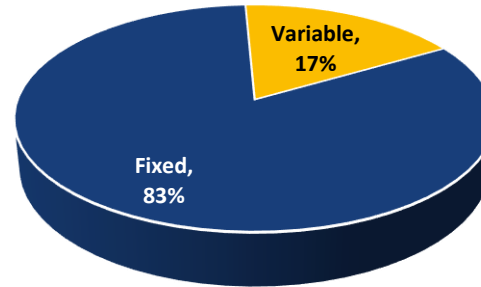
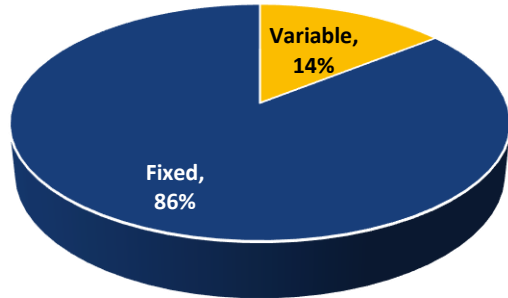
<sup>(1)</sup> MBE / WBE / SBE is a Minority-Owned, Women-Owned, or Small Business Enterprise, respectively.

# DEBT PORTFOLIO FORECAST



## FORECAST OF PORTFOLIO COMPOSITE FOR FY 2019

Debt Instrument	Current Par Outstanding (at 04/30/18)	Estimated Par Outstanding (at 10/31/18)	Estimated Par Outstanding (at 01/31/19)
Senior Lien (Fixed)	3,661,315	3,661,315	3,946,315
Junior Lien (Fixed)	1,233,545	1,233,545	1,375,830
Junior Lien (Variable)	590,115	590,115	447,830
Commercial Paper	205,000	415,000	160,000
FRRN	25,200	25,200	25,200
<b>Total</b>	<b>\$5,715,175</b>	<b>\$5,925,175</b>	<b>\$5,955,175</b>



### Major Assumptions:

- \$143MM of 2012 A, B, Cs are converted from Jr. Lien variable rate debt to Jr. Lien Fixed rate debt.
- \$285MM of Commercial Paper issued throughout year is converted to Sr. Lien Fixed rate debt.