City of San Antonio

Legislation Details (With Text)

File #: 15-3705

Type: Miscellaneous Item

In control: City Council A Session

On agenda: 6/18/2015

Title: An Ordinance authorizing the a) issuance of one or more series of City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015 ("New Money Junior Lien Bonds"), and other financial matters as necessary and b) distribution of an Offering Memorandum relating to the New Money Junior Lien Bonds.

Sponsors:

Indexes:

Code sections:

Attachments: 1. Ordinance 2015-06-18-0598

Date	Ver.	Action By	Action	Result
6/18/2015	1	City Council A Session	adopted	Pass

DEPARTMENT: Finance

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: City Wide

SUBJECT: CPS Energy Financing Transactions

SUMMARY:

CPS Energy requests City Council approval of the following:

A. An Ordinance authorizing the a) issuance of the City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2015 ("Refunding Bonds"), in one or more series and in an aggregate principal amount not to exceed $370 million, and other financial matters as necessary to refund certain maturities of the City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2007 ("Refunded Obligations") for debt service savings and b) distribution of an Official Statement relating to the Refunding Bonds.

B. Approval of a Reimbursement Resolution for prior construction costs for the City's combined electric and gas systems (the "Systems") not to exceed $500 million.

C. Separate Ordinances, identified below, authorizing a combined amount of not to exceed $435 million in new money bonds (collectively, the "New Money Bonds") for capital improvements to the Systems:

1) an Ordinance authorizing the a) issuance of one or more series of City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2015 ("New Money Senior Lien Bonds"), and other financial matters as necessary and b) distribution of an Official Statement relating to the New Money Senior Lien Bonds.

2) an Ordinance authorizing the a) issuance of one or more series of City of San Antonio, Texas Electric and Gas Systems

Variable Rate Junior Lien Revenue Bonds, Series 2015 ("New Money Junior Lien Bonds"), and other financial matters as necessary and b) distribution of an Offering Memorandum relating to the New Money Junior Lien Bonds.

The respective Ordinances authorizing issuance of the Refunding Bonds, New Money Senior Lien Bonds, and New Money Junior Lien Bonds, includes a delegation of authority by the San Antonio City Council to CPS Energy's Designated Financial Officers, defined in the Ordinances to include the President and Chief Executive Officer ("CEO"), Group Executive Vice President - Financial Administrative Services, Chief Financial Officer, and Treasurer of the Board, ("CFO"), or the Senior Vice President - Finance & Accounting, to be exercised by any of such parties, to issue and set pricing of the Refunding Bonds, New Money Senior Lien Bonds, and New Money Junior Lien Bonds, as permitted by Chapters 1207 and 1371, as amended, Texas Government Code, respectively, and to undertake necessary matters relating to the foregoing.

BACKGROUND INFORMATION:

CPS Energy issues revenue debt periodically to finance new capital construction and capital improvement projects and/or to refinance, defease, or restructure outstanding revenue debt. CPS Energy has a Debt Management Plan (the "Plan") providing guidelines under which financing and debt transactions are managed. The Plan focuses on providing financial tools to lower debt service cost on outstanding debt, utilizing alternative financing methods to capitalize on present market conditions, outlining an optimal capital structure, and maintaining favorable financial ratios. The proposed Refunding Bonds will realize significant debt service savings, while the issuance of the New Money Bonds will provide a source of payment for additional needed capital for the Systems. These results are consistent with the Plan, and its on-going review and use of financing, refunding, and cash defeasance to decrease and/or manage debt service requirements.

Refunding Bonds: The Ordinance pertaining to the Refunding Bonds authorizes CPS Energy to issue debt not to exceed $370 million in principal in one or more series of senior lien fixed rate obligations to refund the Refunded Obligations, and to pay related costs and expenses, and to distribute an offering document with respect thereto. This Ordinance provides that CPS Energy will deposit certain Refunding Bond proceeds and cash with the Escrow Agent, portions of which will be used to purchase noncallable obligations of the United States Government, and/or noncallable obligations of an agency or instrumentality of the United States Government, in the amount necessary to effectuate the defeasance of the Refunded Obligations. Such cash and investments will be held by the Escrow Agent in a fund irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Based on current market conditions, refunding on the current targeted bond candidates totaling $303.26 million in principal is estimated to generate approximately $26.9 million savings, with a net present value savings as percentage of 8.9%. These savings will be realized in various annual amounts from 2018 to 2032. The overall savings generated are subject to the market conditions at pricing and could vary.

Reimbursement Resolution: Periodically CPS Energy secures an enabling "Reimbursement Resolution" that allows it to use cash for an interim period and subsequently reimburse itself with replenished debt proceeds. CPS Energy is requesting approval of a new Reimbursement Resolution allowing it to reimburse its Repair and Replacement Cash Account up to $500 million of future construction expenditures. The Reimbursement Resolution provides CPS Energy with the flexibility to use revenues from its Repair and Replacement Account to initially fund construction costs with cash (rather than drawing upon available commercial paper) while deferring the issuance of new money revenue bonds (and interest accrued thereon) to a later, more optimum, date. Generally, CPS Energy can reimburse itself for eligible expenditures made up to 18 months after the capital item is placed in service (but not more than the three years after the expenditure for which reimbursement is sought was made). The Reimbursement Resolution complies with the requirements of the Internal Revenue Service and Texas Law.

New Money Senior Lien Bonds and New Money Junior Lien Bonds: The respective Ordinances authorizing the issuance of the New Money Bonds provide CPS Energy with the flexibility to issue either tax-exempt Senior Lien new money, Junior Lien variable rate new money, or any combination thereof, in multiple series but in a combined principal amount in no event exceeding $435 million. Proceeds resultant from the issuance of New Money Bonds will allow CPS Energy to continue financing construction work in progress and take advantage of the tax-exempt market's currently low cost of long-term borrowing and to pay related costs and expenses.

TRANSACTION SCHEDULE:

Date	Transaction
June 18, 2015 - Approve Reimbursement Resolution and each bond ordinance pursuant to a delegated authority	
July 2015	Price and Sell Refunding Bonds
August 2015	Close Refunding Bonds

September/October 2015	Price and Sell New Money Senior Lien Bonds
October/November 2015	Close New Money Senior Lien Bonds
September/October 2015	Price and Sell New Money Junior Lien Bonds
October/November 2015	Close New Money Junior Lien Bonds

The transaction dates may be modified depending on market conditions; however, the transactions are expected to be completed within 12 months of Council approval.

ISSUE:

CPS Energy issues bonds periodically to finance new capital construction and capital improvement projects and/or to refinance, defease, or restructure outstanding debt. CPS Energy has a Debt Management Plan that focuses on providing financial tools to lower debt service cost on outstanding debt, utilizing alternative financing methods to capitalize on present market conditions, outlining an optimal capital structure, and maintaining favorable financial ratios. The proposed Refunding Bonds will realize significant debt service savings, while the issuance of the New Money Bonds will provide a source of payment for additional needed capital for the Systems. The Reimbursement Resolution will allow CPS Energy to reimburse itself for eligible expenditures made in the eligible reimbursement period occurring prior to the issuance of a series of new money bonds from which reimbursement will be made.

ALTERNATIVES:

The Refunding Bond Ordinance:

CPS Energy could wait and refund the Refunded Obligations sometime in the future. However, with tax-exempt interest rates at all-time lows, it is prudent and advisable to refund them in today’s market to lock in significant debt service savings for the CPS Energy rate payers.

The New Money Bond Ordinances:

Current fund balances are projected to provide an adequate source to fund capital expenditures until November 2015. Issuing the New Money Bonds will ensure adequate liquidity within the Repair and Replacement Account, and locks in current favorable interest rates.

FISCAL IMPACT:

These proposed transactions will not have a fiscal impact to the City because the Refunding Bonds will be issued for debt service savings and the debt service payments on the New Money Bonds were included in CPS Energy's approved rate case and budget provided to the City.

RECOMMENDATION:

The CPS Energy Board of Trustees will consider approval by separate Resolution the proposed Reimbursement Resolution and Bond Ordinances at their June 16, 2015 Board meeting. Staff recommends approval of the proposed Reimbursement Resolution and Bond Ordinances authorizing issuance of the Refunding Bonds and the New Money Bonds pursuant to a delegated authority.