



City of San Antonio

Agenda Memorandum

File Number: 16-3123

Agenda Item Number: 23.

Agenda Date: 6/2/2016

In Control: City Council A Session

DEPARTMENT: Finance

DEPARTMENT HEAD: Troy Elliott, Finance Director

COUNCIL DISTRICTS IMPACTED: City Wide

SUBJECT: CPS Energy Financial Transaction

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 2016 ("Refunding Bonds"), in one or more series and in an aggregate par amount not to exceed \$609,035,000, and other financial matters as necessary to refund certain maturities of the City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2008 and the City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2009A ("Refunded Obligations") for debt service savings and b) distribution of an Official Statement relating to the Refunding Bonds.

The Ordinance authorizes issuance of the Refunding Bonds, and includes a delegation of authority by the San Antonio City Council to CPS Energy's Designated Financial Officers, defined in the Ordinance to include the CEO or any Treasurer, to be exercised by any of such parties, to issue and set pricing of the Refunding Bonds, as permitted by Chapters 1207 and 1371, as amended, Texas Government Code, respectively, and to undertake necessary matters relating to the foregoing.

BACKGROUND:

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. The 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 authorizes CPS Energy to issue debt not to exceed \$609,035,000 par 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 legal 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 not to exceed \$609,035,000 par is estimated to generate a range of \$75 million to \$100 million of debt service savings, subject to change based on market conditions, with an average net present value savings ranging from 12.3% to 16.4%. These savings will be realized in various annual amounts from 2017 to 2034. The overall savings generated are subject to the market conditions at pricing and could vary compared to the prior statement.

TRANSACTION SCHEDULE

<u>Date</u>	<u>Transaction</u>
June 2, 2016	Approve bond ordinance pursuant to a delegated authority
TBD - Within 12 months	Price and Sell Refunding Bonds
TBD - Within 12 months	Close Refunding Bonds

ISSUE:

The proposed ordinance would authorize CPS Energy to issue debt not to exceed \$609,035,000 par in one or more series of senior lien fixed rate obligations to refund the Refunded Obligations in order to take advantage of significant debt service savings.

ALTERNATIVES:

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.

FISCAL IMPACT:

The proposed transaction will have no fiscal impact to the City.

RECOMMENDATION:

Staff recommends approval of the Bond Ordinance authorizing issuance of the Refunding.