



# City of San Antonio

## Agenda Memorandum

**File Number:**17-1528

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**Agenda Item Number:** 21.

**Agenda Date:** 2/23/2017

**In Control:** City Council A Session

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**DEPARTMENT:** Finance

**DEPARTMENT HEAD:** Troy Elliott

**COUNCIL DISTRICTS IMPACTED:** City Wide

**SUBJECT:** CPS Energy Financing Transactions

### **SUMMARY:**

CPS Energy requests approval by the City Council (the "Council") of the City of San Antonio, Texas (the "City") of the following:

A. An Ordinance authorizing the issuance and sale of one or more series of new money and / or refunding obligations up to \$580.1 million designated as "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds", and as further designated by purpose, series, lien priority, federal income tax treatment, and method of calculating interest rate (whether fixed or variable).

The Ordinance authorizes issuance of each series of Bonds (within parameters set by the Council), and includes a delegation of authority by the 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 each series of Bonds (within the parameters set by the Council), as permitted by Chapters 1207 and 1371, as amended, Texas Government Code, respectively, and to undertake necessary matters relating to the foregoing and authorizes the approval of related financial agreements.

### **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 anticipated transactions are consistent with the Plan, and its ongoing review and use of financing, refunding, and cash defeasance to decrease and / or manage debt service requirements.

#### **New Money Bonds:**

The Ordinance authorizes CPS Energy to issue Bonds not to exceed \$300,000,000 par in one or more series of fixed or variable rate obligations secured by and payable from a senior or junior lien on and pledge of system net revenues, and to pay related costs and expenses of issuing the Bonds, and to distribute one or more offering documents with respect thereto. These funds will be used to finance CPS Energy's new capital construction and capital improvement projects.

#### **Refunding Bonds:**

The Ordinance also authorizes CPS Energy to issue debt not to exceed \$50,100,000 par in one or more series of senior lien fixed rate obligations to refund certain outstanding senior lien obligations in the same amount, and to pay related costs and expenses of issuing the Bonds, and to distribute one or more offering documents with respect thereto. This Ordinance provides that CPS Energy will deposit proceeds of such refunding Bonds 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 of the current targeted bond candidates not to exceed \$50,100,000 par is estimated to generate a range of \$1.4 million to \$2.1 million of debt service savings, with an average net present value savings ranging from 3.6% to 4.3%. These savings will be realized in various annual amounts from 2018 to 2021. The overall savings generated are subject to the market conditions at the pricing of each series of Bonds and could vary compared to the prior statement. While the anticipated debt service savings are not well above internal parameters, because this is a current refunding transaction, it makes it efficient from CPS Energy's perspective to execute this deal in conjunction with a new money issuance of Bonds.

#### **Commercial Paper (CP) Refunding Bonds:**

The proposed Ordinance will authorize the defeasance and refunding into long-term debt of approximately \$230 million in outstanding CP. CP represents a short-term obligation, and is generally used for interim financing purposes. This CP program allows for short term financing to better match the timing of capital expenses with funding availability.

The Bonds, which will be issued at a premium (subject to market conditions), will be utilized to (1) defease and refund \$230 million of outstanding CP Obligations and (2) pay costs and expenses relating to the issuance of the Bonds. In the event that market conditions are not favorable for issuance of the entire \$230 million par at one time, the offering can be split up into two or more series of Bonds, as deemed appropriate by CPS Energy

and its financing team.

The Bonds will be long-term, fixed or variable rate obligations secured by and payable from a senior or junior lien on and pledge of system net revenues, and will defease and replace the shorter term, variable rate CP. Interest rates on this long-term financing, which are below historical averages, provide a prudent opportunity to replace the interim financing of the CP. In addition, once the CP is defeased, new CP can be issued on an as-needed basis to provide interim financing for current or future capital projects.

#### **Procedures Applicable to the Foregoing Transactions:**

The delegation of authority, pursuant to Chapters 1207 and 1371, as amended, Texas Government Code, allows CPS Energy's Designated Financial Officers (CPS Energy's CEO, and / or any Treasurer) the flexibility to issue and set pricing terms on the Bonds. This delegation authorization permits the adoption of the Ordinance authorizing the issuance of the Bonds without stating the interest rate or sales price in the Ordinance, both of which will be formally set, within pricing parameters specified in the Ordinance, upon the execution of the Approval Certificate by CPS Energy's Designated Financial Officers. The Ordinance allows the Bonds to be issued in multiple series over a one year period to fully accomplish its purpose. The amounts disclosed for the transaction discussed herein, as well as the pricing dates, are preliminary and subject to change based on actual market conditions on the date of sale of the Bonds.

#### **Transaction Schedule:**

<u><b>Date</b></u>	<u><b>Transaction</b></u>
February 23, 2017	Approve Ordinance pursuant to a delegated authority
TBD - Within 12 months	Price Bonds in one or more transactions
TBD - Within 12 months	Sell Bonds in one or more transactions

#### **ISSUE:**

CPS Energy requests approval of an Ordinance authorizing the issuance and sale of one or more series of new money and / or refunding obligations up to \$580.1 million in order to maintain debt service requirements compared to financial plans while preserving healthy financial metrics.

#### **ALTERNATIVES:**

CPS Energy could wait to adopt the Ordinance at any time in the next twelve months. However, with tax-exempt interest rates still below historical averages, it is prudent and advisable to proceed with adopting the Ordinance now, especially in today's market in anticipation of the general rise of interest rates later this year. Adoption of the Ordinance on February 23, 2017 allows CPS Energy, in consultation with its co-Financial Advisors, to determine when to issue each series of Bonds in accordance with market conditions that will generate financial savings to the City and CPS Energy.

#### **FISCAL IMPACT:**

The debt service associated with these financing transactions will not require additional rate increases. The new money Bonds' transaction is in line with current budget expectations within CPS Energy's FY 2018

forecast. The proposed \$50.1 million refunding transaction will have a positive fiscal impact because the Bonds issued to refund the refunded obligations will be issued to achieve debt service savings. Refunding the aforementioned CP will provide additional liquidity for CPS Energy.

**RECOMMENDATION:**

City staff recommends approval of the Ordinance delegating the authority to Designated Financial Officers to approve the terms and provisions of each series of Bonds, including authorizing the distribution of the updated offering documents, and the issuance of the Bonds, respectively. The CPS Energy Board of Trustees approved the Resolution recommending the City adopt the Ordinance on January 30, 2017.