City of San Antonio

Agenda Memorandum

File Number: 18-3421

Agenda Item Number: 27.

Agenda Date: 6/14/2018

In Control: City Council A Session

DEPARTMENT: Finance

DEPARTMENT HEAD: Troy Elliott, Deputy Chief Financial Officer

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Consider approval of an Ordinance authorizing the issuance of CPS Energy Revenue Refunding Bonds

SUMMARY:

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

A. Ordinance authorizing the issuance of obligations designated City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, in one or more series and in an aggregate amount not to exceed $530,000,000, and authorizing other matters incident and related thereto.

The Ordinance authorizes issuance of multiple series of Bonds (within parameters outlined in the Ordinance), 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 approve the pricing provisions of each series of Bonds (within the parameters outlined in the Ordinance), as permitted by Chapters 1207 and 1371, as amended, Texas Government Code, respectively, and to undertake necessary matters relating to the foregoing and approves and authorizes the use of related transaction documents.

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 costs 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 strategies to decrease and / or manage debt service requirements.

2012A, 2012B, and 2012C Junior Lien Variable Rate Bonds:

The Ordinance authorizes CPS Energy to issue Bonds not to exceed $145.0 million par in one or more series of fixed rate obligations secured by and payable from a senior or junior lien on a 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 refund existing individual 2012A, 2012B, and 2012C Junior Lien Variable Rate Bonds into fixed rate obligations. With only nine years left until maturity, fixing out the debt in a low-interest rate environment can prove to be more cost efficient for future debt service considerations when compared to remarketing these bonds into new variable rate modes.

Refunding Bonds:

The Ordinance also authorizes CPS Energy to issue debt not to exceed $100 million par in one or more series of senior or junior lien fixed rate obligations to refund certain outstanding senior lien obligations in the same amount, 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 refunding candidates not to exceed $100 million par is estimated to generate a range of $2.7 million to $3.9 million of debt service savings, which equates to a range of 2.70% to 3.90% NPV savings. These savings will be realized in various annual amounts from 2019 to 2021. The overall savings generated are subject to the market conditions at the pricing of this series of refunding Bonds and could vary compared to the prior statement. While the anticipated debt service savings are below internal parameters set at 5.0% NPV savings, because this is a current refunding transaction, from CPS Energy's perspective, the transaction is efficient when completed in conjunction with another issuance of Bonds.

Commercial Paper (CP) Refunding Bonds:

The Ordinance authorizes the defeasance and refunding into long-term debt of approximately $285 million in outstanding CP. CP represents a short-term variable rate 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 $285 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 $285 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 a 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 CP financing. 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 at the times when market conditions are most favorable to CPS Energy. 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:

Date	Transaction
June 14, 2018	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:

In order to take advantage of favorable market conditions, CPS Energy is requesting approval to issue Revenue Refunding Bonds, in one or more series and in an aggregate amount not to exceed $530 million.

ALTERNATIVES:

The City 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 June 14, 2018 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 from the proposed Ordinance is within the current rate structure approved by City Council and will have no financial impact on the City.

RECOMMENDATION:

The CPS Energy Board to Trustees and City Staff recommend approval of this Ordinance.