



# City of San Antonio

## Agenda Memorandum

**File Number:**19-2661

---

**Agenda Item Number:** 23.

**Agenda Date:** 4/11/2019

**In Control:** City Council A Session

---

**DEPARTMENT:** Finance

**DEPARTMENT HEAD:** Ben Gorzell Jr., Chief Financial Officer; Troy Elliott, Deputy Chief Financial Officer

**COUNCIL DISTRICTS IMPACTED:** Citywide

**SUBJECT:**

Approval of the following two items relating to financial matters of the City Public Service Board

**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 "Obligations"):

A. Ordinance for CPS Energy, approving up to \$700,000,000 (representing a \$100,000,000 increase from the previously authorized not to exceed amount of \$600,000,000) in City of San Antonio, Texas Electric and Gas Systems Commercial Paper Notes, providing replacement liquidity for expiring credit facilities, updating the Commercial Paper Notes Program Components to allow future issuance flexibility, authorizing contracts and agreements in connection with the foregoing, and approving an Offering Document. ("CP Ordinance").

The CP Ordinance authorizes and continues CPS Energy's ability to issue CP and includes a delegation to Designated Financial Officers, defined in the Ordinance to include the President & CEO, CFO, Secretary, Treasurer or Assistant Treasurer, to be exercised by any of such parties, to approve programmatic modifications, including the selection of counterparties to provide program services, as permitted by Chapter 1371, as amended, Texas Government Code, and to undertake necessary matters relating to the foregoing and approves and authorizes the use of related transaction documentation. The increase of \$100,000,000 is requested in anticipation of a reduction in a like amount of liquidity elsewhere in CPS Energy's debt portfolio.

B. Ordinance authorizing the issuance of obligations designated as 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

\$765,000,000. ("Plan of Finance Ordinance", and together with the CP Ordinance, the "Ordinances").

The Plan of Finance Ordinance authorizes issuance of multiple series of Bonds (within parameters outlined in the Plan of Finance Ordinance), and includes a delegation of authority by the Council to CPS Energy's Designated Financial Officers, defined in the Plan of Finance Ordinance to include the President & CEO, CFO, Secretary, Treasurer or Assistant 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 Plan of Finance 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. It is also recommended that staff periodically issue request for proposals to solicit responses for liquidity facilities, dealer services and other financing options to help ensure CPS Energy obtains the lowest service rates that constitute the best value for CPS Energy. As such, CPS Energy previously issued a request for proposals in anticipation of receiving qualified responses (the "Responses") to implement into its Commercial Paper Program (the "CP Program"). 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.

## **COMMERCIAL PAPER PROGRAM:**

### **Liquidity Facility Agreements, Dealer Services and other Financing Options:**

The CP Ordinance amends and restates, in its entirety, the existing Commercial Paper Ordinance to provide for the issuance of Notes in an amount not to exceed \$700,000,000 (representing a \$100,000,000 increase from the previously authorized not to exceed amount of \$600,000,000) and extend the CP Program's permitted date of final maturity (from November 1, 2042 to April 11, 2049) in accordance with applicable law. It also approves CPS Energy entering into separate credit agreements and dealer agreements, and any other necessary documentation advantageous to the CP Program. The increase of \$100,000,000 is requested in anticipation of a reduction in a like amount of liquidity elsewhere in CPS Energy's debt.

CPS Energy staff estimates approximately \$700,000 annually in savings based on potentially lower facility fees.

## **2019 PLAN OF FINANCE:**

### **Refunding Bonds:**

The Plan of Finance Ordinance also authorizes CPS Energy to issue debt not to exceed \$420 million par in one or more series of refunding obligations and as further designated by series, style, lien priority, tax treatment and method of calculating interest rate, (whether fixed or variable) to refund certain outstanding 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 Plan of Finance 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 \$420 million par is estimated to generate \$20.4 million of debt service savings, which equates to 4.9% NPV savings. These savings will be realized in various annual amounts from 2020 to 2041. The overall savings generated are subject to the market conditions at the pricing of this series of refunding Bonds and could vary compared to projections. 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 Plan of Finance Ordinance authorizes the defeasance and refunding into long-term obligations of approximately \$345 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 subject to market conditions, will be utilized to (1) defease and refund \$345 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 \$345 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 and / 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 refunded, 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 President & CEO, CFO, Secretary and any Treasurer or Assistant 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 Plan of Finance Ordinance authorizing the issuance of the Bonds without stating the interest rate or sales price in the Plan of Finance Ordinance, both of which will be formally set, within pricing parameters specified in the Plan of Finance Ordinance, upon the execution of the Approval Certificate by CPS Energy's Designated Financial Officers. The Plan of Finance 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.

### **OBLIGATIONS' COMBINED TRANSACTION SCHEDULE:**

<u>Date</u>	<u>Action</u>
April 11, 2019	Approve Ordinances pursuant to a delegated authority
May 2019	Implement Responses, new Liquidity Facility Agreements, Dealer Service Agreements and Nontraditional Financing Options
June 21, 2019	Effective date of new CP Program updates
TBD -	Within 12 months Price Bonds in one or more transactions
TBD -	Within 12 months Sell Bonds in one or more transactions

## **ALTERNATIVES:**

The City could wait to adopt the Ordinances 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 Ordinances now, especially in today's market in anticipation of the general rise of interest rates over the next twelve months. In addition, liquidity facility agreements related to the CP Program expire on June 21, 2019 and could be extended, which would eliminate the possibility to achieve savings related to the CP Program. Adoption of the CP Ordinance on April 11, 2019 allows CPS Energy, in consultation with its co-Financial Advisors, to select qualified Responses to benefit all aspects of the CP Program. Adoption of the Plan of Finance Ordinance on April 11, 2019 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 Ordinances are within the current rate structure approved by City Council and will have no negative financial impact on the City.

## **RECOMMENDATION:**

The CPS Energy Board to Trustees and City Staff recommend approval of these Ordinances.