



City of San Antonio

Agenda Memorandum

File Number: 14-2669

Agenda Item Number: 31B.

Agenda Date: 10/30/2014

In Control: City Council A Session

DEPARTMENT: Finance

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICT(S) IMPACTED: City Wide

SUBJECT:

CPS Energy Financial Transaction

SUMMARY:

CPS Energy requests City Council approve separate Ordinances that authorizes the issuance of the City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015A and Series 2015B (collectively, the "Bonds"), in a combined principal amount not to exceed \$255,000,000, and other financial matters as necessary to refund \$250,000,000 in outstanding variable rate demand obligations designated as the City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2003 ("Refunded Obligations"), for the purpose of refinancing existing variable debt into new series variable debt that will have low cost initial interest rate modes and no requirement to obtain third party liquidity (which eliminates bank counterparty risk), which is a requirement of the Refunded Obligations; and further authorizes the distribution of an Official Statement relating to the Refunding Bonds.

The respective Ordinances authorizing issuance of the Bonds include a delegation of authority by the San Antonio City Council to CPS Energy's Designated Financial Officers, defined in the Ordinance to include the President and Chief Executive Officer ("CEO") and the Group EVP - Financial & Administrative Services, CFO & Treasurer of CPS Energy ("CFO"), to be exercised by either of such parties, to issue and set pricing of the 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:

Refunding Bonds: The Ordinances pertaining to the Bonds authorize CPS Energy to issue debt not to exceed \$255 million to refund the Refunded Obligations, and to pay related costs and expenses, and to distribute an Official Statement with respect thereto. The Ordinances provide that CPS Energy will deposit certain Bond proceeds and cash with an Escrow Agent, in the amount necessary to effectuate a 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.

The Bonds are being issued in two series to achieve low cost short-term funding while eliminating the need for bank credit facilities and diversifying CPS Energy's portfolio away from reliance on bank credit facilities. The debt service savings relating to this

refunding is expected to be minimal. The primary purpose of this transaction is to remove bank counterparty risk which is the monetary risk to which CPS Energy would be exposed if the banks encounter difficulty meeting their obligations as defined in their credit agreements with CPS Energy.

The respective initial interest rate period relating to the Bonds will be laddered within 1 - 5-year periods, to reduce the amount remarketed in any one year ("put" risk). This structure will eliminate the need and price / renewal risk for a liquidity facility from a third-party bank, which the Refunded Obligations currently require. The Bonds instead will trade on CPS Energy's credit and include a step-up provision that introduces a penalty interest rate should the Bonds not be remarketed. The penalty rate is expected to roughly equal the rate charged by a liquidity provider if its credit facility were to actually be drawn upon. CPS Energy's financial advisors estimate that the penalty rate will be within a 7% to 8% range.

TRANSACTION SCHEDULE:

Refunding Bonds

<u>Date</u>	<u>Transaction</u>
December 2014*	Price and Sell Bonds
January 2015*	Close Bonds

* Specific dates may change, as needed to effectuate the actual completion of this transaction.

ALTERNATIVES:

City Council could opt not to approve this transaction; however, CPS Energy would continue to be exposed to bank counterparty risk.

FISCAL IMPACT:

These proposed transactions will not have a fiscal impact to the City.

RECOMMENDATION:

On October 27, 2014, the CPS Energy Board of Trustees, by resolution, authorized CPS Energy to proceed with this transaction and request their adoption by the City Council. City staff recommends approval of the proposed Ordinances.