



City of San Antonio

Agenda Memorandum

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Agenda Item Number: 23

Agenda Date: February 27, 2025

In Control: City Council A Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Authorizing CPS Energy's FY2026 Bond Transactions

SUMMARY:

This ordinance authorizes CPS Energy to issue tax-exempt revenue and refunding bonds to support the capital plan and engage in one or more tender offers of outstanding bonds.

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 financings and debt transactions are managed. The Plan includes lowering debt service costs by tendering for purchase outstanding debt and the issuance of refunding certain obligations to achieve savings, utilizing alternative financing methods, eliminating risks associated with Sequestration, issuing revenue bonds to support the Plan, capitalizing on favorable market conditions, outlining an optimal capital structure, and maintaining favorable financial ratios.

Tender for Purchase, Revenue Bonds, and Refunding Bonds:

The bond ordinance (the “Bond Ordinance”) authorizes CPS Energy to issue debt not to exceed \$4,549,400,000 par in one or more series of revenue and refunding obligations and as further designated by purpose, series, lien priority, time of issuance, sale method, tax treatment, transaction structure, and method of calculating interest (whether fixed or variable, and if variable, the associated indices) to permit CPS Energy to (i) engage in a tender offer for purchase, (ii) refund various outstanding obligations as set forth in the table below, (iii) issue new money revenue bonds to support capital improvements, (iv) pay related costs and expenses of issuing the bonds, and (v) distribute one or more invitations and offering documents with respect thereto. This Bond Ordinance also includes approval of a credit agreement related to and required for any variable rate demand obligations issued prospectively.

CPS Energy currently has outstanding taxable debt obligations, which generally have a higher interest rate than tax-exempt debt. On August 18, 2022, Council approved an ordinance in support of submitting a Private Letter Ruling request to the IRS (the “PLR”) seeking authorization to convert outstanding taxable debt to tax-exempt. The IRS’ issuance of the PLR and current bond market conditions have created an opportunity to convert some of CPS Energy’s taxable debt to tax-exempt debt through the tender for purchase of these outstanding taxable bonds and the subsequent tax-exempt refunding thereof. Market conditions may also provide for the tender of outstanding tax-exempt bonds that would result in debt service savings.

CPS Energy currently plans to refund certain outstanding obligations, comprised of bonds, commercial paper notes, and flexible rate revolving notes. This Bond Ordinance requires CPS Energy to deposit proceeds of such refunding bonds and cash with an 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 an escrow agent in a fund irrevocably pledged to the payment of the principal of and interest on the refunded obligations.

CPS Energy’s refunding candidates consist of a variety of outstanding and prospective debt obligations. In addition to refunding the remaining outstanding Series 2015 new money bonds and Series 2015 refunding bonds for debt service savings, CPS Energy has the potential to refund one or more of its three currently outstanding Build America Bond transactions (subject to continuing legal and tax analysis) to eliminate the continued risks associated with Sequestration.

CPS Energy has two series of outstanding variable rate obligations (Series 2018 and Series 2020) that will conclude their current term periods in FY2026. To the extent market conditions generate additional savings, CPS Energy plans to refund these transactions into long-term fixed rate debt obligations, as opposed to remarketing into subsequent rate periods.

In accordance with and to support the Plan, CPS Energy issues, from time to time, commercial paper notes and flexible rate revolving notes to improve the Systems pursuant to previously approved programs by City Council. These obligations are periodically refunded to convert interim financing to permanent financing.

In conjunction with the prior approval of CPS Energy’s Extendible Municipal Commercial Paper

Program, the Texas Attorney General requires, on a yearly basis, the approval of associated refunding bonds in the maximum amount of the entire program to receive their approving opinion.

The issuance of new money revenue bonds provide support for the Plan, fund Systems improvements, and preserve CPS Energy's short-term debt capacity without additional cost, while recognizing short-term rates related to interim financing products remain high.

Based on the current market conditions as of January 8, 2025, the tender offer and traditional refunding bond transactions are estimated to generate debt service savings in a range of approximately \$13.0 million to \$78.5 million. Based on the current market conditions as of January 8, 2025, the refunding of Build America Bonds is estimated to generate a gross loss of approximately \$15.4 million, with authorization requested for a maximum gross loss of \$9.8 million (which is likely less than the continued risks and costs associated with Sequestration). The refunding of short-term debt obligations will not result in debt service savings but will instead restore liquidity capacity to CPS Energy's various note programs. The overall projections are subject to market conditions at the time of the tender offer, refunding transactions, and pricing of each series of refunding bonds and could vary compared to initial estimates.

The individual series of the bonds being tendered for purchase and refunded, the issuance of refunding bonds, and the issuance of revenue bonds will be considered separately and management/delegated authority will consider internal parameters, such as achieving debt service savings/loss, and the efficiencies and administrative costs associated with each transaction prior to execution.

Table 1
Potential Transactions

<u>Refunded Obligations / New Money</u>	<u>Amount</u>	<u>Purpose</u>
Potential New Money and /or CP and flexible rate revolving notes	\$1.5B	Issue New Money and / or convert short-term debt into long-term debt obligations to support capital plan

<u>Potential Refunding Obligations</u>	<u>Amount</u>	<u>Purpose</u>
Ref. New Series 2015 and New Series 2015	\$381.8M	Debt service savings
Series 2018 & 2020 Bonds	\$262.6M	Convert short-term debt into long-term debt obligations
Extendible CP	\$150M	Required refunding authority pursuant to the Texas Attorney General's administrative policies
New Series 2016, New Series 2017, Ref. New Series 2017, New Series 2018A, Taxable New Series 2020, & New Series 2022	\$1.3B	Tender outstanding tax-exempt and taxable debt obligations for debt service savings
Refunding of Build America Bonds (New Series 2009C, 2010A and Series 2010A)	\$955.0M	Limit the risks associated with Sequestration

CPS Energy's Board has approved the FY 2026 budget, which includes up to \$1.5 billion in debt funding for their capital program. This funding will be sourced through their commercial paper program and/or a New Money Issuance based on market conditions. Any resulting short-term debt will be converted to long-term debt periodically.

Procedures Applicable to the Foregoing Transactions:

The Ordinance contains a delegation of authority, pursuant to Chapters 1207 and 1371, as amended, Texas Government Code, that allows CPS Energy's Designated Financial Officers, such as the President & CEO or CFO, as defined in the Bond Ordinance, the flexibility to effectuate the transactions at the times when market conditions are most favorable to CPS Energy. This delegation authorization permits the adoption of the Bond Ordinance without stating the interest rates or sales price, as applicable, each of which will be formally set, within pricing parameters specified in the Bond Ordinance pursuant to the Plan, upon the execution of an Approval Certificate related to each transaction by CPS Energy's Designated Financial Officers. This practice permits CPS Energy to avail itself of advantageous market conditions allowing the greatest opportunity to receive the lowest interest rates on new money revenue bonds, obtain debt service savings related to refunding bonds, refund outstanding Build America Bonds to eliminate risks associated with Sequestration, create capacity for short-term obligation programs, and maximize the tendered amount of outstanding bonds to provide savings to ratepayers. The Bond Ordinance allows transactions to be completed over a one-year period to fully accomplish its purpose. The amounts disclosed for the transactions discussed herein, as well as the pricing and execution dates, are preliminary and subject to change based on actual market conditions.

BOND TRANSACTION SCHEDULE:

Date	Action
February 20, 2025	Approve Bond Ordinance pursuant to a delegated authority
TBD	Within 12 months, price new money and/or refunding Bonds in one or more transactions and launch a tender offer

ISSUE:

CPS Energy requests authorization to execute on the issuance of revenue and refunding bond transactions and one or more tender offers in aggregate not to exceed \$4,549,400,000.

ALTERNATIVES:

The City could wait or choose not to adopt the Bond Ordinance. However, due to a volatile interest rate environment, it is advisable to proceed with adopting the Bond Ordinance now. Adoption on February 20, 2025 allows CPS Energy, in consultation with its Co-Financial Advisors, to

determine when to execute each tender offer, revenue transaction, and/or refunding transaction in accordance with market conditions that will, as applicable, support the Plan and as applicable, generate financial savings to the City and CPS Energy, and eliminate Sequestration risks, as appropriate.

FISCAL IMPACT:

This ordinance authorizes CPS Energy to issue tax-exempt revenue and refunding bonds to support the capital plan and engage in one or more tender offers of outstanding bonds. The debt service from the FY 2026 Bond Ordinance is within the current rate structure approved by City Council and will have no fiscal impact on the City.

RECOMMENDATION:

The CPS Energy Board of Trustees, the Supervisor of Public Utilities, and City Staff recommend approval of the FY2026 Bond Ordinance.