



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 18

Agenda Date: April 20, 2023

In Control: City Council A Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Authorizing CPS Energy's FY2024 Tendered Bond Transactions

SUMMARY:

CPS Energy requests authorization to engage in one or more tender offers of taxable outstanding bonds for purchase and the issuance of tax-exempt refunding bonds to achieve debt service savings.

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 obligations to achieve savings, utilizing alternative financing methods (such as tendered bond transactions), to capitalize on favorable market conditions, outlining an optimal capital structure, and maintaining favorable financial ratios.

Tender for Purchase and Refunding Bonds:

CPS Energy currently has outstanding taxable debt obligations, which generally have a higher interest rate than tax-exempt debt. On August 18, 2022, City Council approved an ordinance in support of submitting a Private Letter Ruling request to the IRS (PLR) seeking authorization to convert some of the 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. The tender bond ordinance (the "Tendered Bond Ordinance") authorizes CPS Energy to issue debt not to exceed \$1,227,900,000 par in one or more series of 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) to permit CPS Energy to engage in a tender offer for purchase and thereafter refund such tendered bonds up to the same amount, pay related costs and expenses of issuing the bonds, and distribute one or more invitations and offering documents with respect thereto. This Tendered Bond Ordinance requires CPS Energy to legally defease the tendered obligations upon the refunding thereof.

Based on the current market conditions, the tender offer and refunding transactions are estimated to generate debt service savings. The overall savings is subject to market conditions at the time of the tender offer and pricing of each series of refunding bonds and could vary compared to projections. The individual series of the bonds being tendered for purchase will be considered separately and management/delegated authority will consider internal parameters, such as achieving debt service savings, and the efficiencies and administrative costs associated with each transaction prior to execution.

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 Tendered 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 Tendered 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 Tendered 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 maximize the tendered amount of outstanding bonds to provide savings to ratepayers. The Tendered 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
April 20, 2023	Approve Bond Ordinance pursuant to a delegated authority

TBD

Within 12 months, launch a tender offer and price Bonds in one or more transactions

ISSUE:

CPS Energy requests authorization to execute on one or more tender offers and refunding bond transactions in aggregate not to exceed \$1,227,900,000.

ALTERNATIVES:

The City could wait or choose not to adopt the Tendered Bond Ordinance. However, due to a volatile interest rate environment, it is advisable to proceed with adopting the Tendered Bond Ordinance now. Adoption on April 20, 2023 allows CPS Energy, in consultation with its Co-Financial Advisors, to determine when to execute each tender and refunding transaction in accordance with market conditions that will generate financial savings to the City and CPS Energy.

FISCAL IMPACT:

The debt service from the FY2024 Tendered 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 FY2024 Tendered Bond Ordinance.