

**State of Texas
County of Bexar
City of San Antonio**



**Meeting Minutes
City Council B Session**

Council Briefing Room
City Hall
100 Military Plaza
San Antonio, Texas 78205

2023 – 2025 Council Members

Mayor Ron Nirenberg
Dr. Sukh Kaur, Dist. 1 | Jalen McKee-Rodriguez, Dist. 2
Phyllis Viagran, Dist. 3 | Dr. Adriana Rocha Garcia, Dist. 4 Teri
Castillo, Dist. 5 | Melissa Cabello Havrda, Dist. 6 Marina
Alderete Gavito, Dist. 7 | Manny Pelaez, Dist. 8 John
Courage, Dist. 9 | Marc Whyte, Dist. 10

Wednesday, November 1, 2023

2:00 PM

Council Briefing Room

The City Council convened a B Session meeting in the Council Briefing Room beginning at 2:03 PM. City Clerk Debbie Racca-Sittre took the Roll Call noting a quorum with the following Council Members present:

PRESENT: 11 – Nirenberg, Kaur, McKee-Rodriguez, Viagran, Rocha Garcia, Castillo, Cabello
Havrda, Alderete Gavito, Pelaez, Courage, Whyte

ABSENT: None

ITEMS

1. Briefing by the Chief Financial Officer on the Proposed Financial Policy on CPS Energy and the Staff of CPS Energy on federal grants and the Grid Resilience and Innovation Partnerships Program [Ben Gorzell Jr., Chief Financial Officer; Troy Elliott, Deputy Chief Financial Officer]

City Manager Erik Walsh introduced the Item noting that Chief Financial Officer Ben Gorzell was expected to present on an alternative policy recommendation resulting from a Council Consideration Request (CCR) sponsored by Councilmember Cabello Havrda related to CPS Energy revenues. City Manager Walsh mentioned that representatives from CPS Energy were in attendance to describe their plan for resiliency and pursuit/use of Federal grant funding.

Gorzell stated that the City had owned CPS Energy since 1942 and the community had benefitted from reliable energy at competitive rates and 14% of CPS Energy's gross revenues were transferred to the City's General Fund for basic services which allowed CPS Energy free access to the City's rights-of-way and tax free status for their facilities.

Gorzell reported that the original CCR was intended to improve CPS Energy's resiliency and reliability and stave off rate increases for a minimum of five years by reducing the City's share of CPS Energy's Gross revenues by 2-3% which would cost the City's General Fund revenues \$60-\$90 million annually. Gorzell provided an overview of the City's FY 2024 General Fund Budget which would be impacted by the reduced revenues. Gorzell stated that, of the City's \$1.6 billion Budget, \$1.1 billion was allocated for personnel.

Gorzell recommended an alternative to the CCR that would meet the objectives without negatively impacting City services. He noted that the alternative, which was supported by the Governance Committee, would revise the City's financial policy related to CPS Energy revenues to annually assess the City's payment from CPS Energy, and set aside amounts in excess of 10% of the CPS Energy adopted revenues in that year's annual Budget. Gorzell stated that the 10% buffer was important because CPS Energy revenues were volatile.

Gorzell reported that the new policy would allocate the excess revenues as follows: 80% to CPS Energy resiliency and reliability projects and 20% to the City's Resilience, Energy Efficiency and Sustainability (REES) Fund. Gorzell stated that if the policy had been in place for the last 20 years, \$137.6 million would have been distributed for these projects. Of that total, \$61.1 million would have been from the last two fiscal years. However, Gorzell explained that the policy would only be in effect for future revenues and due to the vast fluctuations in CPS Energy revenues, no projections could be made.

Gorzell stated that the staff recommendation focused on objectives of the CCR which included: reinvestment of City payment towards CPS Energy projects which could assist in lowering the level of potential future rate increases, no significant change to the General Fund, should be viewed favorably by the rating agency and further defined the City's action when unexpected CPS Energy revenues were received. Gorzell closed his presentation noting that the financial policy would need to be updated in the spring of 2024 for FY 2025.

Elaina Ball, Chief Strategy Officer for CPS Energy, presented information on Federal grant opportunities being reviewed by CPS Energy. She stated that their focus was on new technology, climate transformation, ownership and grid transformation. She announced that CPS Energy recently received notice that its application to the Grid Development Office (GDO) of the U.S. Department of Energy had been conditionally selected to support CPS Energy's Community Energy Resiliency Program which would help reduce outages through optimization efforts. Rudy Garza, Chief Executive Officer with CPS Energy, closed the presentation by commending the efforts to strategically apply for and receive grants with the help of the local delegation.

DISCUSSION:

Mayor Nirenberg commented that everything being discussed at today's meeting was driven by the City Council priorities of resiliency, reliability, affordability and emissions reduction strategies. Mayor Nirenberg reported that CPS Energy was a stronger organization than a few years ago when the community experienced Winter Storm Uri and the COVID-19 Pandemic and asserted that there was an obligation to provide services with a focus on the City Council priorities which were also community priorities.

Mayor Nirenberg noted that CPS Energy received \$146 million in off-system sales this past summer with \$15 million coming in over the forecasted amount and in 2022, natural gas prices were higher than usual and resulted in a large surplus. Mayor Nirenberg noted that City Council had passed a financial policy earlier this year to standardize how surpluses were handled and set aside 10% to account for volatility. Mayor Nirenberg supported staff recommendations to provide funding to address climate change for both resiliency and to help vulnerable residents through the REES Fund.

Mayor Nirenberg stated that the appropriate time to approve the financial policies were in April 2024 with the start of the FY 2025 budgeting process and he reminded the City Council that today's B Session was an opportunity for the Councilmembers to provide feedback to the staff.

Councilmember Rocha Garcia requested clarification on the amount budgeted by CPS Energy for capital expenditures. Gorzell stated that CPS Energy's annual Budget was \$900 million per year. Garza stated that over the next 10-15 years, at least a \$14 billion investment was needed for upgrades, replacements and new infrastructure, and noted that \$14 billion was the amount of the current assets. Councilmember Rocha Garcia requested clarification on future potential rate increases including whether the staff proposal would have a positive impact. Garza stated that it would help but did not guarantee there would be no future rate increases.

Councilmember Rocha Garcia suggested that since the excess had occurred two years in a row, she wondered if it was the new norm and expressed concern that there might still be a rate increase. She asked if the new policy would have any impact on the City's bond ratings. Gorzell confirmed that this policy should have no impact because it was keeping the current 14% revenue model.

Councilmember Rocha Garcia noted that the amount of excess revenues in the past years funded important and necessary street and sidewalk improvements in the City, particularly in her council district. Councilmember Rocha Garcia clarified that CPS Energy leadership was committed to providing reliable electricity currently so the new plan might not help CPS Energy as much as it might help a neighborhood that needed sidewalks.

Councilmember Viagran hoped that the staff recommended policy could help stave off rate increases. Councilmember Viagran proposed her own breakdown of where she thought the money should be allocated as follows: 20% for the REES Fund, 20% for streets and alleys, 20% for housing, up to 30% for CPS Energy and 10% for Budget amendments.

Councilmember Alderete Gavito requested clarification on the rule that the City could receive up to 14%. Gorzell stated that there were a few categories of revenues not included in the calculation and if the company's revenues were insufficient to meet its obligations, the City's portion could be reduced. Mayor Nirenberg clarified that sometimes, CPS Energy's revenue forecast came in short so there

needed to be a buffer.

Councilmember Alderete Gavito asked how much of the last rate increase went to resiliency programs. Ball stated that there were about \$30 million allocated for resiliency. Councilmember Alderete Gavito asked if there were any other grant opportunities and how successful CPS Energy had been in obtaining grants. Ball stated that the utility had two other grants underway, but they were always looking for more.

Councilmember McKee-Rodriguez credited Councilmember Cabello Havrda with the CCR but noted that there were three goals of the proposal, which was to increase resiliency, create sustainability and reduce CPS Energy's need to request a rate increase; noting that the latter goal was not being addressed by the staff recommendation. Councilmember McKee-Rodriguez expressed concern with future rate increases that placed a burden on residents and small businesses. Councilmember McKee-Rodriguez suggested that funds be allocated as follows: 50% for home weatherization, 30% for streets and drainage and 20% for the REES Fund.

Councilmember Castillo stated that she was uncomfortable with the Program as it did not reduce the potential for a rate increase and did not create additional resiliency centers for our vulnerable neighborhoods. Councilmember Castillo also noted that there had been an increase in water pipe leaks due to the hot/dry weather and challenged the assumption that the hot summers were not a trend. Councilmember Castillo advocated for more funding for streets, sidewalks and flood control infrastructure. She commented that there was a huge need for funding to address the needs of employees such as increased salaries and the City's resiliency programs.

Councilmember Castillo requested clarification on how much additional funding CPS Energy received this year and last including a line item breakdown in revenues/expenditures. CPS Energy Chief Financial Officer Cory Kuchinsky, stated that fuel was merely a pass through for CPS Energy but the off-system sales produced an excess of \$100 million which would be invested. Councilmember Castillo clarified that the proposed financial policy did not guarantee there would not be a rate increase.

Councilmember Kaur requested clarification on how staff developed the 80%/20% split. Gorzell stated that the priority was developed based on the CCR objectives with a balance of the City Council priorities. Councilmember Kaur commented that climate change was occurring and suggested that the funding should go toward resiliency efforts. She noted that there were multiple new programs included in the REES Fund but she requested more outcome measures to see which strategy worked best and a plan from the staff. Councilmember Kaur requested a prioritized list of what CPS Energy would use the funding for.

Councilmember Whyte requested clarification on the Budget breakdown slide related to transfers and what constituted a delegate agency. Deputy City Manager Maria Villagomez stated that she could provide a list of the one-time projects that were funded by the General Fund and she indicated that delegate agencies were those service contracts managed by the Department of Human Services. Councilmember Whyte recommended a discussion on where the City might be able to cut \$60 million from the Budget to meet the goals of the original CCR.

Councilmember Whyte recommended more funding for infrastructure such as streets and sidewalks but also supported investment in CPS Energy's infrastructure, however, he expressed concern regarding

the potential for a rate increase to CPS Energy customers. Councilmember Whyte supported the staff's proposal noting that it was better than having nothing at all, but he still recommended an analysis of the original CCR.

Councilmember Courage asked how many CPS Energy customers today qualified for its Affordability Program. Kuchinsky stated that 65,000 customers were enrolled in the Affordability Program which was subsidized by the utility. Councilmember Courage recognized that CPS Energy needed to upgrade its infrastructure and systems in order to be resilient and reliable so he understood the need for potential rate increases. Councilmember Courage was cautious about rate increases and wanted to ensure that every dollar of a rate increase must be a requirement so that excess funds did not sit in reserves like at SAWS.

Councilmember Courage expressed concern that establishing the new policy would tie the hands of future City Councils. Councilmember Courage suggested a comparison of the Budgets for two years so City Council could better understand future allocations noting that City Council did not have control of the 10%. City Manager Walsh stated that the City Council Goal Setting and Budget Work Sessions provided the City Manager with priorities so he could build the Budget. He stated that the process was transparent with the Trial Budget and second year costs were shown to City Council when they existed and were approved by the City Council. He also provided his professional recommendations to City Council which made the final decisions on how the funds were allocated. Councilmember Courage did not support cutting \$60 million out of the Budget.

Councilmember Pelaez clarified that it was at City Council's discretion to approve a rate increase for CPS Energy and SAWS precisely because the utilities were owned by the City of San Antonio. Councilmember Pelaez stated that he had voted to approve to support the utilities' rate increases because they made cases in good faith for the need even though many of his own constituents did not support the increase.

Councilmember Pelaez commented there could be no guarantees for anything in the future but asked how much might be needed to mitigate future costs. Garza stated that he expected an \$85 million gap in the next few weeks but that number could change each year because revenues fluctuated. Councilmember Pelaez agreed and added that natural disasters could also cost CPS Energy more money due to damage or destruction to infrastructure, however, homeowners would also be impacted for their own damages or rising insurance costs.

Councilmember Cabello Havrda noted that although there were no guarantees against natural disasters and future needs, this policy would help provide resiliency and power grid reliability. He noted that it was a top priority of residents, maybe even more than streets because every resident needed to keep their heat, air conditioning and lights on in their homes. Councilmember Cabello Havrda clarified that CPS Energy could only use their 80% for infrastructure and City Council would approve their spending plan.

Councilmember Cabello Havrda supported the staff's plan even though it was different from her CCR because it focused on the issue and goals of the CCR, although she still supported her original CCR.

Councilmember McKee-Rodriguez asked how CPS Energy was going to spend its extra \$100 million. Garza stated that he would provide a plan for the funds, however, any additional funding always supported CPS Energy's operations, infrastructure, affordability programs and tree trimming.

Councilmember McKee-Rodriguez agreed that community needs always outweighed the resources that the City had through its General Fund but he needed to ensure that he and the residents trusted CPS Energy and recommended more transparency.

Councilmember Viagran expressed concern that there were no hospitals and less "critical infrastructure" on the south side as a result of historical redlining and wanted to ensure that CPS Energy considered the needs of all residents in an equitable manner. Councilmember Viagran recommended being more strategic to ensure that there would be less need for a rate increase.

Councilmember Whyte suggested that if CPS Energy had \$60 million more there would have to be an impact to the need for a rate increase and a review of the original CCR to cut the City's Budget.

Councilmember Castillo commented that the Home Rehabilitation Program did not have enough money and rates needed to be affordable because a person without electricity or gas had no heat in their home. Councilmember Castillo requested a timeline for staff recommendations. City Manager Walsh stated that the financial policies would be considered by City Council in April 2024. Councilmember Castillo noted that the proposal would take money from City of San Antonio residents as owners of the utility and give it back to CPS Energy for the benefit of all of its ratepayers, not just residents. Councilmember Castillo recommended bringing back the Rate Advisory Committee (RAC). Garza explained that the RAC's work was completed and the utility planned to create a new committee to review and advise on rates. City Manager Walsh clarified that no discussion today, would impact the FY 2024 Budget. Councilmember Castillo did not support cutting the City's Budget as there were always more requests and needs.

Councilmember Rocha Garcia noted that she sat on the Governance Committee and was happy the conversation was being heard by the full City Council in B session and suggested that any discussions regarding CPS Energy should not be delegated to Committee.

Councilmember Alderete Gavito clarified that CPS Energy's plan to use the 80% would be brought before City Council for consideration and whether it could be redirected. City Manager Walsh explained that the proposal included an action by City Council to approve CPS Energy's funds and the City reserved the right to use its funds as City Council saw fit. Segovia noted that the City could not direct CPS Energy on how to spend their own money, but these were City revenues being held by the City to be distributed back to CPS Energy for what City Council approved.

Mayor Nirenberg clarified that the City Council passed a budget every year with its Budget Ordinance and had full control to allocate its funds. Mayor Nirenberg noted that a committee could not approve policy which is why the full City Council was debating the issue today. Mayor Nirenberg reminded everyone that, this summer, CPS Energy and its customers' including large businesses agreed to proactively and voluntarily reduce load which resulted in no blackouts or brownouts in San Antonio.

Mayor Nirenberg stated that CPS Energy was a City owned utility and its resiliency issues were also the City of San Antonio's issues. Mayor Nirenberg suggested that there would have to be a discussion every year if there was excess revenue regardless of the policy and City Council had the authority to cut the Budget every year during the Budget Work Sessions.

EXECUTIVE SESSION

Mayor Nirenberg recessed the meeting into Executive Session at 4:18 p.m. to discuss the following:

- A. Economic development negotiations pursuant to Texas Government Code Section 551.087 (economic development).
- B. The purchase, exchange, lease or value of real property pursuant to Texas Government Code Section 551.072 (real property).
- C. Legal issues related to litigation involving the City including CPS litigation related to Winter Storm Uri and other litigation pursuant to Texas Government Code Section 551.071 (consultation with attorney).
- D. Legal issues relating to emergency preparedness pursuant to Texas Government Code Section 551.071 (consultation with attorney).
- E. Legal issues related to a contract related to expanding digital inclusion pursuant to Texas Government Code Section 551.071 (consultation with attorney).
- F. Legal advice regarding open meeting procedures pursuant to Texas Government Code Section 551.071 (consultation with attorney).

Mayor Nirenberg reconvened the meeting in Open Session at 5:15 p.m. and announced that no official action had been taken in Executive Session.

ADJOURNMENT

There being no further business, the meeting was adjourned at 5:15 p.m.

Approved

Ron Nirenberg
Mayor

Debbie Racca-Sittre
City Clerk