



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 1

Agenda Date: November 1, 2023

In Control: City Council B Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Proposed Financial Policy on CPS Energy and CPS Energy Federal Grants

SUMMARY:

The Chief Financial Officer will provide a briefing on the Proposed Financial Policy on CPS Energy and Staff of CPS Energy discuss their efforts to pursue federal grants and the Grid Resilience and Innovation Partnerships Program.

BACKGROUND INFORMATION:

During the B-Session, the City's Chief Financial Officer will provide a briefing on the Proposed Financial Policy on CPS Energy and Staff of CPS Energy discuss their efforts to pursue federal grants and the Grid Resilience and Innovation Partnerships Program. A brief summary of each of the items is provided below.

Proposed Financial Policy on CPS Energy

On October 18th, the City Council Consideration Request (CCR) submitted by Councilmember Cabello Havrda on CPS Energy was presented to the City Council Governance Committee. The CCR was requesting to return 2% to 3% of the City's 14% of gross revenues payment from CPS

Energy back to CPS Energy in order to improve CPS Energy's resiliency and reliability. Additionally, the CCR sought to stave off rate increases for a minimum of five years.

During the Governance Committee meeting, City staff presented information on the CCR which proposed to reduce the City Payment rate to 12% or 11% of Gross Revenues from the current 14% rate. Based on the FY 2024 Adopted Budget, a reduction in the City Payment rate of 2% or 3% equates to approximately \$60 million or \$90 million, respectively, in recurring General Fund revenue. If such a reduction in the rate of City Payment were adopted, a reduction in recurring General Fund expenses (services) would be required in the same amount to correspond to the reduction in General Fund revenues. It would also not have the intended effect of eliminating CPS Energy rate requests for the next five years.

After discussing the original CCR, City staff presented an alternative approach which was developed in collaboration with Councilmember Cabello Havrda focusing on the objectives identified in the CCR to include: supporting the business requirements of CPS Energy to include resiliency and reliability projects; re-investing a portion of the City's payment from CPS Energy into key projects at CPS Energy while not significantly impacting city services; and lowering the amount of future rate increases. The recommended alternative approach is to amend the City's current financial policy related to the City's Payment from CPS Energy.

In FY 2023, the City's financial policies were updated to include the following related to City's Payment from CPS Energy: "Annually assess the City's payment from CPS Energy to determine the portion, if any, deemed to be unusual, out of the ordinary, and one-time in nature, and make recommendations for that amount taking into consideration factors such as the City's overall financial position, impact on service delivery, benefit to the community, and responsible ownership." In practice, if the actual City Payment from CPS Energy exceeds 10% of the Adopted Budget for the fiscal year, the amount of funds above the 10% were to be set aside for input from the City Council before a recommendation from City Staff was made.

The proposed alternative would amend this financial policy and its application to distribute the amount of City Payment above 10% of the Adopted Budget to CPS Energy for resiliency and reliability projects and to the City's Resiliency, Energy Efficiency, and Sustainability (REES) Fund. The allocation would be as follows: 80% to CPS Energy resiliency and reliability projects and 20% to the City's REES Fund. The methodology for the development of the Adopted Budget for City Payment each year would continue to be based on a moderately conservative approach given the City's reserve levels and overall financial policies. Lastly, had this financial policy been in place over the past twenty fiscal years, a total of \$137.6 million would have been distributed back for these projects and of that total, \$61.1 million would have been from the last two fiscal years.

The Governance Committee supported the recommendation to amend the City's financial policy on the City's Payment from CPS Energy and to discuss it during the Goal Setting meeting with the City Council in the Spring of 2024. The Committee's vote was four in favor with one abstention.

Federal Grants and the Grid Resilience and Innovation Partnerships Program

During the B-Session, CPS Energy will discuss their efforts to pursue federal grants and the recent announcement regarding the Grid Resilience and Innovation Partnerships Program (GRIP). CPS Energy recently announced the receipt of a federal grant from the Bipartisan Infrastructure Law. The U.S. Department of Energy (DOE) recently selected CPS Energy to receive approximately \$30.2 million from GRIP to enhance CPS Energy's ongoing efforts to maintain grid reliability and resiliency. The DOE funds will advance CPS Energy's Community Energy Resiliency Program, focused on grid innovation such as installing microgrids to sustain the evolving needs of customers and businesses in the south and southwest portions of San Antonio. This 5-year project will include federal funding through the GRIP of \$30.2 million with an equal match from CPS Energy.

ISSUE:

During the B-Session, the City's Chief Financial Officer will provide a briefing on the Proposed Financial Policy on CPS Energy and Staff of CPS Energy discuss their efforts to pursue federal grants and the Grid Resilience and Innovation Partnerships Program.

ALTERNATIVES:

Item is for briefing purposes only.

FISCAL IMPACT:

Item is for briefing purposes only.

RECOMMENDATION:

Item is for briefing purposes only.