



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 25

Agenda Date: December 1, 2022

In Control: City Council A Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

CPS Energy Commercial Paper Program Capacity Increase

SUMMARY:

Authorizing CPS Energy's FY 2024 Commercial Paper Program ("CP Program") Capacity Increase

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 focuses on lowering debt service costs by refunding outstanding debt to achieve savings, utilizing alternative financing methods to capitalize on favorable market conditions, outlining an optimal capital structure, and maintaining favorable financial ratios.

FY2024 CP ORDINANCE:

| Proposed Potential CP Transactions: To Be Executed Before 12/1/2023 | Authorization Amount |
|--|---------------------------------|
| CP Capacity Increase of \$300 M and Related Documentation Approval | \$ 1 B |

CP Program Programmatic Capacity Increase and Approval of Related Documentation:

CPS Energy historically maintained a CP Program to provide taxable and tax-exempt interim financing for various purposes. The CP Program, which has been amended numerous times since its inception (most recently in 2019), currently permits commercial paper (“CP”) to be issued in an aggregate principal amount not to exceed \$700,000,000.00 at any one time outstanding. Because the CP Program continues to be a low interest rate option for capital plan financing, CPS energy is now seeking to expand the program capacity by \$300,000,000.00 (from \$700,000,000.00 to \$1,000,000,000.00 in principal amount of CP notes at any one time outstanding) and extend the CP Program’s permitted date of final maturity pursuant to an amended and restated CP Program ordinance (the “CP Ordinance”). The foregoing will permit CPS Energy to match the projected increasing average annual cost of capital expenditures. Additionally, the CP Ordinance would permit CPS Energy’s Designated Financial Officers to negotiate the terms of favorable credit agreements (and extensions of current agreements), dealer agreements, and any other necessary documentation related to the management and administration of the CP Program to permit the lowest cost of borrowing.

Procedures Applicable to the Foregoing Transactions:

The delegation of authority, pursuant to Chapter 1371, as amended, Texas Government Code, allows CPS Energy’s Designated Financial Officers, such as the President & CEO or CFO, as defined in the CP 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 CP Ordinance without stating the interest rates or sales price, as applicable, each of which will be formally set, within pricing parameters specified in the CP 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 provide savings to ratepayers. The CP 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.

CP PROGRAM TRANSACTION SCHEDULE:

| <u>Date</u> | <u>Action</u> |
|------------------|--|
| December 1, 2022 | Approve CP Ordinance pursuant to a delegated authority |
| TBD | Execute modifications to the CP Program |

ISSUE:

CPS Energy requests authorization to execute on the expansion of capacity by \$300,000,000.00 of the existing commercial paper program, in an updated total principal amount not to exceed \$1,000,000,000.00, extension of the program's maturity date, and approval of all related documentation.

ALTERNATIVES:

The City could wait to adopt the CP Ordinance at any time in the next twelve months. However, due to (1) a rising interest rate environment, (2) the need for additional capacity to appropriately match the capital program's anticipated expenditures, and (3) the expiration of liquidity related to CPS Energy's short-term financing programs, it is prudent and advisable to proceed with adopting the CP Ordinance now. Adoption on December 1, 2022 allows CPS Energy, in consultation with its Co-Financial Advisors, to determine when to execute each CP transaction in accordance with market conditions that will generate financial savings to the City and CPS Energy.

FISCAL IMPACT:

The debt service from the FY 2024 CP 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 and City Staff recommend approval of the FY 2024 CP Ordinance.