



City of San Antonio

Agenda Memorandum

File Number: 21-1806

Agenda Item Number: 25

Agenda Date: October 14, 2021

In Control: City Council A Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Authorizing CPS Energy refunding bonds in aggregate not to exceed \$795,000,000.

SUMMARY:

CPS Energy requests approval by the City Council (the "Council") of the City of San Antonio, Texas (the "City") of the following obligations (collectively, the "Obligations"):

An Ordinance authorizing the issuance of obligations designated as City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, in one or more series and in an aggregate amount not to exceed \$795,000,000 ("Plan of Finance Ordinance").

The Plan of Finance Ordinance authorizes issuance of multiple series of Bonds (within parameters outlined in the Plan of Finance Ordinance), and includes a delegation of authority by the Council to CPS Energy's Designated Financial Officers, such as the President & CEO or CFO, as defined in the Plan of Finance Ordinance, to issue and approve the pricing provisions of each series of Bonds (within the parameters outlined in the Plan of Finance Ordinance), as permitted by Chapters 1207 and 1371, as amended, Texas Government Code, respectively, and to undertake necessary matters relating to the foregoing and approves and authorizes the use of related transaction documents.

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 present market conditions, outlining an optimal capital structure, and maintaining favorable financial ratios.

FY2022 PLAN OF FINANCE (ORDINANCE):

| Proposed Potential Transactions: Executable before 9/9/2022 | Authorization Amount |
|--|-------------------------|
| Jr. Lien 2014 Refunding | \$ 240 M |
| Sr. Lien 2012 Refunding | 145 M |
| Subtotal: | \$ 385 M |
| Commercial Paper (CP) Refunding | 410 M |
| Total: | \$ 795 M |

Refunding Bonds:

The Plan of Finance Ordinance authorizes CPS Energy to issue debt not to exceed \$385 million par in one or more series of refunding obligations and as further designated by series, style, lien priority, tax treatment, time of delivery, and method of calculating interest rate (whether fixed or variable) to refund certain outstanding obligations, to pay related costs and expenses of issuing the Bonds, and to distribute one or more offering documents with respect thereto. This Plan of Finance Ordinance provides that CPS Energy will deposit proceeds of such refunding Bonds and cash with the Escrow Agent, portions of which will be used to purchase certain escrow securities, in the amount necessary to effectuate the legal defeasance of the refunded obligations. Such cash and investments will be held by the Escrow Agent in a fund irrevocably pledged to the payment of the principal of and interest on the refunded obligations.

Based on current market conditions (which are subject to change), refunding of the current targeted refunding candidates not to exceed \$385 million par is estimated to generate up to approximately \$43 million of net present value ("NPV") debt service savings in aggregate, which currently equates to 11.2% NPV savings. These savings are expected to be realized in various annual amounts from fiscal years 2023 to 2044. The overall savings generated are subject to the market conditions at the pricing of each series of refunding Bonds and could vary compared to projections. The individual series of the Bonds being refunded will be considered separately and Designated Financial Officers will consider internal parameters such as potentially achieving at least a 5.0% NPV savings as a percentage of each series of refunding Bonds, prior to execution. However, Designated Financial Officers will also consider the efficiencies and administrative costs associated with each transaction when considering execution of one or more

series of the Bonds.

Commercial Paper (“CP”) Refunding Bonds:

The Plan of Finance Ordinance also authorizes the defeasance and refunding into long-term obligations of approximately \$410 million in outstanding CP. CP represents a short-term variable rate obligation and is generally used for interim financing purposes pursuant to a previously-authorized program (the "CP Program"). This CP Program allows for short term financing to better match the timing of capital expenses with funding availability.

The Bonds, which will be issued subject to market conditions, will be utilized to (1) refund into long term obligations up to \$410 million of outstanding CP obligations and (2) pay costs and expenses relating to the issuance of the Bonds. In the event that market conditions are not favorable for issuance of the entire \$410 million par at one time, the offering can be split up into two or more series of Bonds, as deemed appropriate by CPS Energy and its financing team.

The Bonds will be long-term, fixed and / or variable rate obligations secured by and payable from a senior or junior lien on a pledge of system net revenues, and will defease and replace the shorter term, variable rate CP. Interest rates on this long-term financing, which are below historical averages, provide a prudent opportunity to replace the interim CP financing. In addition, once the CP is refunded, capacity under the CP Program is restored and available to fund future capital projects. This also saves money over the long term.

Procedures Applicable to the Foregoing Transactions:

The delegation of authority, pursuant to Chapters 1207 and 1371, as amended, Texas Government Code, allows CPS Energy’s Designated Financial Officers, such as the President & CEO or CFO, as defined in the Plan of Finance Ordinance, the flexibility to issue and set pricing terms on the Bonds at the times when market conditions are most favorable to CPS Energy. This delegation authorization permits the adoption of the Plan of Finance Ordinance authorizing the issuance of the Bonds without stating the interest rate or sales price in the Plan of Finance Ordinance, both of which will be formally set, within pricing parameters specified in the Plan of Finance Ordinance, upon the execution of an Approval Certificate related to each series of Bonds by CPS Energy’s Designated Financial Officers. This practice permits CPS Energy to avail itself of advantageous market conditions allowing the greatest opportunity to achieve debt service savings. The Plan of Finance Ordinance allows the Bonds to be issued in multiple series over a one-year period to fully accomplish its purpose. The amounts disclosed for the transactions discussed herein, as well as the pricing dates, are preliminary and subject to change based on actual market conditions on the date of sale of the Bonds.

OBLIGATIONS’ COMBINED TRANSACTION SCHEDULE:

| <u>Date</u> | <u>Action</u> |
|------------------|---|
| October 14, 2021 | Approve Ordinance pursuant to a delegated authority |
| TBD - | Within 12 months, price Bonds in one or more transactions |

ISSUE:

CPS Energy requests authorization to issue refunding bonds in aggregate not to exceed \$795,000,000.

ALTERNATIVES:

The City could wait to adopt the Plan of Finance Ordinance at any time in the next twelve months. However, with interest rates still at or near historical lows, it is prudent and advisable to proceed with adopting the Plan of Finance Ordinance now. Adoption of the Plan of Finance Ordinance on October 14, 2021 allows CPS Energy, in consultation with its Co-Financial Advisors, to determine when to issue each series of Bonds in accordance with market conditions that will generate the most financial savings to the City and CPS Energy.

FISCAL IMPACT:

The debt service from the proposed Plan of Finance Ordinance is within the current rate structure approved by City Council and will have no negative financial impact on the City.

RECOMMENDATION:

The CPS Energy Board of Trustees and City Staff recommend approval of this Plan of Finance Ordinance.