



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 20

Agenda Date: August 18, 2022

In Control: City Council A Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Authorizing the amendment and extension of the Surety Policy terms satisfying the debt service reserve fund requirements related to the City's Electric and Gas systems new series bonds.

SUMMARY:

CPS Energy requests approval by the City Council (the "Council") of the City of San Antonio, Texas (the "City") of an Ordinance authorizing certain matters related to CPS Energy's Senior Lien Bond Surety Policy, including the execution of a term extension and coverage increase. Current policy coverage and expiration constrain the amortization duration of new Senior Lien issuances below historical thresholds.

BACKGROUND INFORMATION:

Surety Policy - CPS Energy is required, under its bond ordinances, to fund a debt service reserve related to the issuance of Senior Lien (New Series) bonds. Senior Lien bonds typically represent the lowest cost of debt and ordinances permit the required reserve fund to be met with a qualified Surety Policy. However, the amortization period of new Senior Lien bonds using the Surety Policy to satisfy the reserve requirement cannot exceed the expiration date of the Surety Policy. Therefore, CPS Energy periodically updates the Surety Policy by extending the policy term dates and

coverage to align with anticipated future issuances of Senior Lien debt. CPS Energy's current policy expiration of December 31, 2049 and maximum coverage of \$300M constrain the amortization of new Senior Lien bond issuances (which have in the past been issued with up to 30-year final maturity). With a rising interest rate environment, CPS Energy is strategically anticipating financing options to ensure bond structuring flexibility to minimize future debt costs and generate savings for customers.

ORDINANCE:

The Ordinance authorizes Designated Financial Officer to negotiate and enter into with one or more providers for the purpose of an insurance agreement providing one or more Surety Policies to satisfy the Senior Lien bond's debt service reserve fund requirements. In addition to the foregoing, the interest due on any repayment obligations of the City by reason of payments made under such Surety Policy shall not exceed the highest lawful rate of interest which may be paid by the City at the time of delivery of any Surety Policy.

Procedures Applicable to the Foregoing Transaction:

Upon approval of the Ordinance, Designated Financial Officers will engage in discussions and negotiations with qualified Surety Policy providers to obtain advantageous policy terms to satisfy CPS Energy's debt service reserve fund requirements. Once obtained, the policy and related transaction documentation will be submitted to the Texas Attorney General's office for review and approval. After approving opinions are received from that office, the policy will be declared effective, and the City will have the ability to amortize Senior Lien obligations in accordance with the terms of the policy.

TRANSACTION SCHEDULE:

Date	Action
August 18, 2022:	Approve Surety Policy Ordinance
TBD:	Within 12 months, negotiate updated Surety Policy terms
10 business days prior to policy's effective date:	Submit policy & documentation to the Texas Attorney General

ISSUE:

CPS Energy requests authorization to amend and extend the Surety Policy terms satisfying the debt service reserve fund requirements related to the City's Electric and Gas systems new series bonds.

ALTERNATIVES:

The City could postpone authorizing the maintenance of CPS Energy's Surety Policy; however, with a rising interest rate environment and the Federal Reserve's aggressive monetary policy to tame 40-year high inflation, it is prudent and recommended to proceed with approving the

Ordinance now. With this approval, CPS Energy, in consultation with its Co-Financial Advisors, will have the opportunity to generate savings for customers by obtaining flexibility in bond structuring at the Senior Lien lower cost of debt.

FISCAL IMPACT:

Approval of the Ordinance will have no financial impact on the City.

RECOMMENDATION:

The CPS Energy Board of Trustees and City Staff recommend approvals of the Ordinance.