



# City of San Antonio

## Agenda Memorandum

**File Number:**

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**Agenda Item Number:** 23

**Agenda Date:** December 1, 2022

**In Control:** City Council A Session

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**DEPARTMENT:** Finance Department

**DEPARTMENT HEAD:** Troy Elliott

**COUNCIL DISTRICTS IMPACTED:** Citywide

**SUBJECT:**

CPS Energy's Refunding Bond Transactions

**SUMMARY:**

Authorizing CPS Energy's FY 2024 Refunding Bond Transactions

**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 BOND ORDINANCE:**

Proposed Potential Bond Transactions: To Be Executed Before 12/1/2023	Authorization Amount
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Bond Refunding	\$ 200 M
Commercial Paper (CP) Refunding	600 M
Refunding Bonds Transaction Total	\$ 800 M

### **Refunding Bonds:**

The bond ordinance (the “Bond Ordinance”) authorizes CPS Energy to issue debt not to exceed \$200 million par in one or more series of refunding obligations and as further designated by purpose, series, lien priority, time of issuance, sale method, tax treatment, transaction structure, and method of calculating interest (whether fixed or variable) to refund certain outstanding bonds up to the same amount, pay related costs and expenses of issuing the bonds, and distribute one or more offering documents with respect thereto. This Bond Ordinance requires CPS Energy to deposit proceeds of such refunding bonds and cash with an escrow agent, portions of which will be used to purchase noncallable obligations of the United States Government, and/or noncallable obligations of an agency or instrumentality of the United States Government, in the amount necessary to effectuate the legal defeasance of the refunded obligations. Such cash and investments will be held by an escrow agent in a fund irrevocably pledged to the payment of the principal of and interest on the refunded obligations.

Based on the current market (which is subject to change), refunding of the current targeted refunding candidates (of which a portion includes refunding candidates previously authorized by City Council) not to exceed \$200 million in total par is estimated to generate present value debt service savings (“NPV”) savings. These savings are expected to be realized in various annual amounts from fiscal years 2024 to 2044. The overall savings generated are subject to 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 management/delegated authority will consider internal parameters, such as achieving NPV savings as a percentage of refunding bonds, prior to execution. However, management/delegated authority will also consider the efficiencies and administrative costs associated with each transaction when considering execution of one or more series of refunding bonds.

### **Commercial Paper (“CP”) Refunding Bonds:**

The Bond Ordinance also authorizes the defeasance and refunding into long-term obligations of approximately \$600 million in outstanding CP. CP represents a short-term variable rate obligation and is generally used for interim financing purposes pursuant to the previously-authorized commercial paper program (the “CP Program”). This CP Program allows for short term financing to appropriately 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 \$600 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 \$600 million par at one time, the offering can be split up into multiple 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.

#### **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 Bond 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 Bond Ordinance without stating the interest rates or sales price, as applicable, each of which will be formally set, within pricing parameters specified in the Bond 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 Bond 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.

#### **BOND TRANSACTION SCHEDULE:**

Date	Action
December 1, 2022	Approve Bond Ordinance pursuant to a delegated authority
TBD	Within 12 months, price Bonds in one or more transactions

#### **ISSUE:**

CPS Energy requests authorization to execute on one or more refunding bond transactions in aggregate not to exceed \$800,000,000.

#### **ALTERNATIVES:**

The City could wait to adopt the Bond Ordinance at any time in the next twelve months. However, due to a rising interest rate environment, it is prudent and advisable to proceed with adopting the Bond Ordinance now. Adoption on December 1, 2022 allows CPS Energy, in consultation with its Co-Financial Advisors, to determine when to execute each refunding 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 Bond 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 FY2024 Bond Ordinance.