

**CITY OF SAN ANTONIO**  
**Finance Department**  
**Interdepartmental Correspondence Sheet**

TIME CERTAIN  
ITEM NO. 5  
1:45PM

**TO:** Mayor and City Council

**FROM:** Ben Gorzell Jr., Public Utilities Supervisor/Assistant Director of Finance and V. Gary Schaub, Secretary-Treasurer, Senior Vice President, CPS

**THROUGH:** Terry M. Brechtel, City Manager

**COPIES TO:** Melissa Byrne Vossmer, Assistant City Manager; Milo Nitschke, Director, Finance Department; Thomas G. Wendorf, P.E., Director of Public Works; Andrew Martin, City Attorney; File

**SUBJECT:** An Ordinance Authorizing City Public Service to Issue \$250 Million in Junior Lien Revenue Bonds and Authorizing the Delegation of Authority to Issue and Set Pricing of the Bonds to the General Manager and CEO of City Public Service; and, Authorizing a Reimbursement Resolution For Prior Construction Costs Not to Exceed \$400 Million

**DATE:** May 01, 2003

**SUMMARY AND RECOMMENDATION**

This Ordinance and Resolution approve and authorize actions related to the issuance of electric and gas system junior lien revenue bonds and are summarized as follows:

- An Ordinance authorizing CPS to issue \$250 Million in Junior Lien Revenue Bonds, Series 2003, issued as Variable Rate Demand Obligation Bonds (VRDOs), to fund electric distribution, gas distribution, and general property construction. This Ordinance will authorize the delegation of authority to issue and set pricing of the bonds to the General Manager and CEO of City Public Service through a "Q" Authorization; and,
- A Reimbursement Resolution for prior construction costs not to exceed \$400 Million.

Approval of this Ordinance and Resolutions is recommended.

**BACKGROUND**

CPS' debt financing program includes the corporate objective to maintain a 15% to 20% variable rate and a 80% to 85% fixed rate debt structure. CPS' current debt structure is approximately 88% fixed and 12% variable. Fitch Ratings advises that a reasonable level of variable rate debt for highly rated systems, such as CPS, could reach 30% while Standard and Poor's recommends 15% to 20% variable rate debt as an upper limit. The proposed plan to issue \$250 Million of VRDOs will put CPS' variable rate component of their debt structure at just under 20%.

Variable rate debt and fixed rate debt have both similar and dissimilar attributes: both can be issued as long term 20-30 year bonds; both require a paying agent to make the principal and interest payments for the issuer; and both require the issuance of an Official Statement (OS) that provides details about CPS and the bonds. The key attribute where the two types of debt are different is that fixed rate debt has a rate that is fixed over the life of the bonds while variable rate debt will have rates reset periodically. VRDOs have the option of being issued in a daily, weekly, monthly, commercial paper, or auction rate mode. The modes define how often the interest rates are reset. The issuance of variable rate debt also requires additional parties. A remarking agent is required to reset interest rates on the bonds and to "remarket" the bonds to the bondholders or buyers. A liquidity bank is also required to purchase the bonds as insurance in the event there are no purchasers available.

Historically, average variable rates are lower than those of average fixed rates. Asset/liability management will match variable rate interest costs with the earnings on CPS' short-term investments, providing somewhat of a hedge against changes in interest rates. CPS can earn slightly higher returns on short-term investments to offset variable rate interest costs, resulting in lower interest costs. The bonds are callable with short notice and therefore provide CPS with future debt restructuring opportunities. The bonds will become a permanent part of CPS' capital structure. CPS routinely evaluates its debt structure for any potential to realize interest cost savings and/or to restructure debt in such a way to realize a reduction in overall debt service costs.

This will mark the first time that CPS has issued long-term bonds with a floating rate of interest. Currently, CPS' only form of variable rate debt is short term Tax Exempt Commercial Paper (TECP). Although CPS is authorized to issue up to \$450 Million of TECP, only \$350 Million is currently outstanding. There are currently no plans to issue any additional TECP. The issuance of these bonds should not impact CPS' existing bond ratings for senior lien debt due to the fact that they will be on a lien level below that of senior lien debt and will receive their own bond ratings. A Standby Bond Purchase Agreement has been obtained to help insulate CPS from any unforeseen cash demands.

These bonds are different from fixed rate bonds in that the pricing of the VRDOs will occur and the bonds will be delivered within 2 days thereafter. In a fixed rate issue, City Council approval comes after pricing, with delivery of the bonds approximately 30-days thereafter. CPS will therefore request that delegation of authority be provided by the City Council to CPS' General Manager and CEO through approval of a "Q" Authorization. A "Q" Authorization, as permitted by Chapter 1371 of the Texas Local Government Code, will allow CPS' General Manager and CEO to issue and set pricing on the \$250 Million Junior Lien Revenue Bond issue. This authorization permits the adoption of the Ordinance authorizing the Bonds without the interest rates which will be formally set upon the execution of the Pricing Certificate. This rate setting approach is recommended to take advantage of market conditions.

CPS will also request approval of a new Reimbursement Resolution establishing the City's intent to reimburse itself for prior construction costs not to exceed \$400 million. This Resolution is included as a key target in CPS' debt management plan. A Reimbursement Resolution allows CPS to issue bonds and use the proceeds to reimburse itself for construction costs incurred within 18 months prior to a new bond issue. This is beneficial to CPS and the City in that it provides additional flexibility.

#### **POLICY ANALYSIS**

This transaction is consistent with the CPS debt plan and on-going review of financings, refundings, and cash defeasances to decrease interest cost.

#### **FINANCIAL IMPACT**

This transaction will have no impact on existing rates or on the budget of the City of San Antonio and will have no effect on the monthly City payment from CPS.

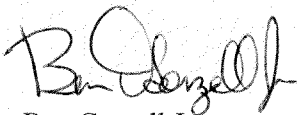
#### **COORDINATION**

This action has been coordinated with the CPS Board of Trustees, City's Finance Department, the City Attorney's Office, and CPS' co-financial advisors and co-bond counsel.

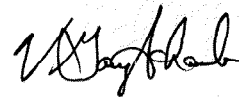
**SUPPLEMENTAL COMMENTS**

A working group team comprising of City Public Service staff; Remarketing Agent: Lehman Brothers, Inc.; Paying Agent: Wachovia Bank, N.A.; Standby Bond Purchase Agreement (liquidity provider): Bank of America, N. A.; Co-Financial Advisors: RBC Dain Raushcer, Inc. & Estrada Hinojosa & Company; Co-Bound Counsel: Fulbright & Jaworski, L.L.P and Escamilla & Poneck, Inc.; General Counsel: Matthews & Branscomb; and Lehman's Underwriters Counsel: Andrews & Kurth L.L.P. was assembled to work on this bond issuance. Selection of work group team members was accomplished by decision analysis within CPS that endeavors to include regional and minority owned firms.

The disclosure requirements of the City's Ethics Ordinance are not applicable.

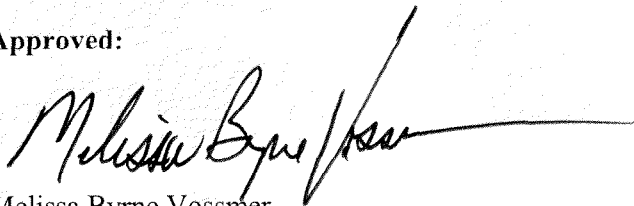


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Supervisor of Public Utilities/  
Assistant Director  
Finance Department  
City of San Antonio



V. Gary Schaub  
Secretary-Treasurer  
Senior Vice President  
Financial and Business Services  
City Public Service

**Approved:**



Melissa Byrne Vossmer  
Assistant City Manager



Terry M. Brechtel  
City Manager