

CITY OF SAN ANTONIO
Finance Department
Interdepartmental Correspondence Sheet

AGENDA ITEM NO. **31**

TO: Mayor and City Council
FROM: Ben Gorzell Jr., CPA, Supervisor of Public Utilities/Assistant Director of Finance and
Richard E. Williamson, Treasurer, Senior Vice President of Financial Services and
Chief Financial Officer, City Public Service
THROUGH: Terry M. Brechtel, City Manager
COPIES: Melissa Byrne Vossmer, Assistant City Manager; Milo D. Nitschke, Director of
Finance; Thomas G. Wendorf, P.E., Director of Public Works; Andrew Martin, City
Attorney; File
SUBJECT: Authorizing the Approval of Ordinances Relating to the City of San Antonio, Texas
Electric and Gas Systems Commercial Paper Notes, Series A and the City of San
Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2003
both issued by the City of San Antonio, Texas for the benefit of City Public Service of
San Antonio

DATE: September 2, 2004

SUMMARY AND RECOMMENDATION

The following ordinances will be presented for City Council consideration on Thursday, September 2, 2004:

- An Ordinance approving the execution of a revolving credit agreement providing liquidity to the \$350,000,000 City of San Antonio, Texas Electric and Gas Systems Commercial Paper Notes, Series A, with State Street Bank and Trust Company and Bank of America, N.A., for a term of three years and approving the execution of Amended and Restated Dealer Agreements and an Amended and Restated Commercial Paper Issuing and Paying Agency Agreement.
- An Ordinance approving and authorizing an Amendment related to the extension of the term and updating Authorized Representatives of the \$250,000,000 Standby Bond Purchase Agreement provided by Bank of America, N.A., for the City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2003, issued as Variable Rate Demand Obligations.

Approval of these Ordinances is recommended.

BACKGROUND INFORMATION

CPS' capital structure has an authorized \$450,000,000 tax-exempt commercial paper program (TECP) and \$250,000,000 in Variable Rate Demand Obligations (VRDOs), which provide short-term, variable interest rate financing. The interest rate on variable rate debt has, historically, been lower than that of long-term fixed rate debt. Since the interest rate on these types of debt can vary, a capital structure should include only a limited amount of variable rate debt to take advantage of this lower cost financing, with a limited exposure to interest rate volatility. CPS' debt financing program includes a corporate objective to maintain a 15% to 20% variable rate and 80% to 85% fixed debt structure. This capital structure is in line with the benchmarks established by the national rating agencies. Proceeds from both of these debt programs were used to finance expansion and improvements of CPS' gas and electric systems. The proposed transactions summarized below are related to the liquidity facilities for both CPS' TECP and VRDO programs.

Tax-Exempt Commercial Paper Program (TECP)

The TECP program, which has been amended numerous times since its inception in 1983, currently is authorized to have Commercial Paper Notes (Notes) outstanding thereunder in an aggregate principal amount not to exceed \$450,000,000. CPS currently has \$350,000,000 in aggregate principal amount of Notes outstanding and CPS may not have more principal amount of Notes outstanding than the amount of the liquidity facility. The liquidity facility provides the funds in the event that the remarketing agents are not able to remarket the Notes in the financial markets. CPS' current TECP liquidity is provided by a consortium of banks comprised of WestLB AG, New York Branch as Agent Bank, Landesbank Baden-Württemberg, The Bank of New York and JPMorgan Chase Bank.

On June 9, 2004, CPS distributed a Request for Proposal (RFP) for liquidity facility provider services to a comprehensive list of banks providing these services, and five proposals were received by CPS. CPS staff analyzed the proposals utilizing the evaluation matrix that was included as an attachment to the RFP. CPS' Co-Financial Advisors team of Estrada Hinojosa & Company, Inc. and First Southwest Company independently evaluated the proposals and concurred with the selection of the State Street Bank and Trust Company and Bank of America, N.A. proposal as the best overall proposal. As such, CPS is proposing to enter into a revolving credit agreement with State Street Bank and Trust Company and Bank of America, N.A. to provide liquidity for the TECP program for a three-year term. Under the terms of Section 2.18 of the 1997 Ordinance, a replacement of the credit agreement requires approval by City Council through the adoption of an Ordinance. The new revolving credit agreement will result in savings of \$157,500 annually to CPS.

As part of the process of executing a new revolving credit agreement, CPS will also be executing an Amended and Restated Dealer Agreement with Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. as co-dealers for the TECP program. CPS will also amend and restate the Issuing and Paying Agency Agreement with Deutsche Bank Trust Company Americas. Both of these new agreements will be executed in coordination with Fulbright & Jaworski L.L.P., CPS' bond counsel.

Variable Rate Demand Obligations (VRDO)

On May 1, 2003, City Council adopted Ordinance No. 97564 (Original Ordinance), which authorized the issuance of City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2003 in the aggregate principal amount of \$250,000,000. These VRDOs were issued as variable rate demand obligations in a weekly rate mode and the proceeds were used to fund electric distribution, gas distribution, and general property construction.

A liquidity bank is required to purchase the VRDOs in the event there are no buyers available as the VRDOs are being remarketed. This helps insulate CPS from any unforeseen cash demands. The liquidity facility was approved through a Standby Bond Purchase Agreement (SBPA), which was entered into through the Original Ordinance authorizing the issuance of the VRDOs.

The SBPA for this transaction among the City of San Antonio, Texas, Wachovia Bank, National Association, as Paying Agent/Registrar and Bank of America, N. A., as Liquidity Provider was entered into on May 15, 2003. In April 2004, the SBPA was extended to the current expiration date of May 14, 2005. The market analysis performed in relation to the TECP liquidity facility indicated that the German banks losing their state guarantees in July 2005 might adversely affect the pricing of liquidity facilities in the 2005 market. To allow CPS to avoid any potential adverse market conditions in 2005, CPS negotiated with Bank of America, N.A. to amend the SBPA to extend its term to January 31, 2006.

The SBPA for CPS' VRDOs, entered into May 15, 2004, was for a one-year period. In order to maintain the favorable 12 basis points per annum pricing, the expiration of the current SBPA could only be extended to January 31, 2006. The Commitment Fee will remain at the current 12 basis points per annum; however, the amendment will involve up-front fees not to exceed \$13,500. Under the terms of Article IV Section 4.1 (C) of the Original Ordinance, an extension of the SBPA requires approval by City Council Ordinance. The amendment also includes an update to the Authorized Representatives to reflect the organizational changes that have been implemented at CPS.

The Remarketing Agreement with Lehman Brothers Inc. and the Paying Agent/Registrar Agreement with Wachovia Bank, National Association will not be amended or restated.

POLICY ANALYSIS

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

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. The cost of the TECP liquidity facility is being reduced from 18.5 basis points per annum to 14 basis points per annum and the VRDO liquidity facility will remain at 12 basis points per annum, and both are funded from CPS' operating budget.

COORDINATION

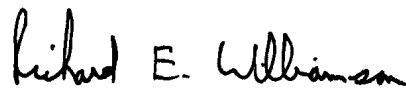
This item has been coordinated with CPS, the City Attorney's Office, bond counsel Fulbright & Jaworski L.L.P. and co-financial advisors Estrada Hinojosa & Company, Inc., and First Southwest Company.

SUPPLEMENTAL COMMENTS

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



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Supervisor of Public Utilities/
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Richard E. Williamson
Treasurer
Senior Vice President
Financial Services,
Chief Financial Officer

Approved:



Melissa Byrne Vossmer
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Terry M. Brechtel
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