

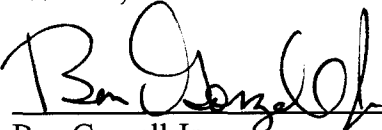
**CITY OF SAN ANTONIO
PUBLIC UTILITIES OFFICE
CITY COUNCIL AGENDA MEMORANDUM**

**PUBLIC HEARING
TIME CERTAIN
ITEM NO. 4
1:30PM**

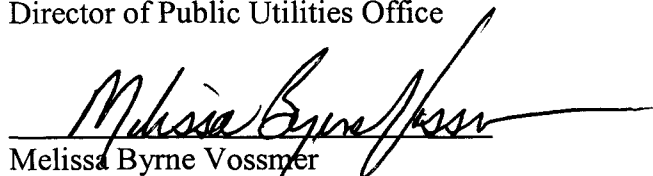
TO: Mayor and City Council
FROM: Ben Gorzell Jr., Director, Public Utilities Office
SUBJECT: An Ordinance Authorizing the Issuance of City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2005 and Other Related Matters
DATE: March 3, 2005

This item will authorize the (1) a) issuance of tax-exempt "City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2005"; b) the distribution of an Official Statement pertaining thereto; and c) execution of a Paying Agent/Registrar Agreement, an Escrow and Trust Agreement, and a Bond Purchase Agreement; (2) the delegation of authority by the San Antonio City Council to issue and set pricing of the bonds to the Designated Financial Officers, defined as either the Chief Executive Officer (CEO) or the Chief Financial Officer (CFO) of City Public Service (CPS), through a "Q" Authorization; and (3) approval of a Reimbursement Resolution for prior construction costs not to exceed \$400 million.

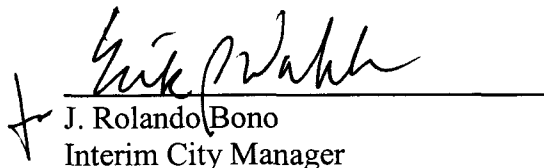
CPS staff, in coordination with its' financial consultants, are in the process of determining the size of the proposed bond issuance taking into consideration changing market conditions. Proceeds from this issuance will be utilized to refund certain currently outstanding CPS bonds resulting in interest cost savings to CPS. The issuance will also provide new money which will be utilized to fund the construction of electric distribution, electric transmission, general property, technology, and communications projects. Further details on the proposed issuance will be provided in a detailed memorandum prior to the City Council meeting on Thursday, March 3, 2005.



Ben Gorzell Jr.
Director of Public Utilities Office



Melissa Byrne Vossmer
Assistant City Manager



J. Rolando Bono
Interim City Manager

Agenda item #4
1:30 PM

**CITY OF SAN ANTONIO
PUBLIC UTILITIES OFFICE
CITY COUNCIL AGENDA MEMORANDUM**

TO: Mayor and City Council
FROM: Ben Gorzell Jr., Director, Public Utilities Office
SUBJECT: An Ordinance Authorizing the Issuance of Tax-Exempt Obligations for CPS, Authorizing Other Related Matters, and Approving a Reimbursement Resolution for Prior Construction Costs
DATE: March 3, 2005

SUMMARY AND RECOMMENDATIONS

This Ordinance authorizes the (1) a) issuance of approximately \$701,465,000 of tax-exempt bonds ("Bonds") consisting of \$240,235,000 City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2005 and \$461,230,000 City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2005; b) the distribution of an Official Statement pertaining thereto; and c) execution of a Paying Agent/Registrar Agreement, an Escrow and Trust Agreement, and a Bond Purchase Agreement; (2) the delegation of authority by the San Antonio City Council to issue and set pricing of the bonds to either the Chief Executive Officer ("CEO") or the Chief Financial Officer ("CFO") of CPS through a "Q" Authorization; and (3) approval of a Reimbursement Resolution for prior construction costs not to exceed \$ 400 million.

City Staff recommends approval of this Ordinance.

BACKGROUND INFORMATION

CPS issues bonds periodically to finance new capital construction and capital improvement projects and/or to refinance outstanding debt. Presently, CPS has \$2.25 billion of senior lien electric and gas revenue and refunding bonds outstanding, \$410 million of junior lien revenue bonds outstanding, and \$350 million of commercial paper notes outstanding. CPS has a Debt Management Policy providing guidelines under which financing and debt transactions are managed. This policy focuses on providing financial tools to lower debt service cost on outstanding debt, utilizing alternative financing methods to capitalize on the present market conditions, outlining an optimal capital structure, maintaining favorable financial ratios, and demonstrating CPS' prudent approach in managing its debt. CPS' capital structure is currently comprised of 52% debt and 48% equity. CPS' total debt is comprised of 75% fixed rate debt and 25% variable rate, which is in line with CPS' financing program which includes the corporate objective of maintaining a 20-25% gross variable rate and 75-80% fixed rate debt structure.

With bond interest rates at or near historic lows, CPS has an opportunity to realize millions of dollars in present value debt service savings by refunding bonds that carry a higher rate of interest and replacing them with bonds that carry a lower rate of interest.

This Ordinance would authorize CPS to issue bonds (i) to advance refund certain outstanding tax-exempt revenue bonds, (ii) to current refund certain taxable revenue bonds, (iii) to acquire, purchase, construct, improve, renovate, enlarge or equip the Systems, and (iv) to pay costs and expenses relating to the issuance of the Bonds. After issuance of the Bonds, excluding the Refunded Bonds, the City will have \$2.50 billion of Senior Lien Obligations outstanding.

Of the \$701 million of tax-exempt bonds, approximately \$461 million will be utilized to refund certain selected outstanding CPS' New Series Bonds. Approximately \$337 million would be used to advance refund approximately \$344 million of the New Series 1997, New Series 1998A and New Series 2002 tax-exempt bonds. In addition, approximately \$124 million would be used to current refund \$112 million of CPS' New Series 1998B and New Series 2000B transmission related taxable bonds. Total refunding net present value savings for this bond transaction are currently estimated between \$23 and \$30 million.

The Bond transaction will also provide \$250 million of new money, of which \$200 million will be used to fund electric distribution, information technology and communication, and general property projects. The remaining \$50 million will be used to partially fund electric transmission construction, \$8.3 million of which will be applied towards reimbursement of CPS' fiscal year 2004-05 actual transmission construction expenditures pursuant to the existing Reimbursement Resolution approved by the City Council on May 1, 2003.

CPS is requesting approval of a new Reimbursement Resolution to reimburse future construction expenditures not to exceed \$400 million. The Reimbursement Resolution provides CPS with the flexibility to use revenues to initially fund construction costs and to delay the issuance of revenue bonds (and interest accrued thereon) to a later date. Generally, the issuer can reimburse itself for eligible expenditures made in the 18 months prior to the reimbursement issue. The Reimbursement Resolution complies with the requirements of the Internal Revenue Service and Texas law.

On February 9, 2005, CPS staff briefed the City's Public Utilities Office regarding potential bond transactions. On February 28, 2005, CPS Board of Trustees authorized CPS to proceed with the Bond transaction. Following CPS Board of Trustees authorization, I-Deal Prospectus, a web site provider, posted the Preliminary Official Statement on its web site. Pricing of this negotiated transaction is expected to occur on or about March 8, 2005, depending on market conditions. The delegation of "Q" Authority, as permitted by Chapters 1207 and 1371 of the Texas Government Code, allows CPS' Designated Financial Officers the flexibility to issue and set pricing terms on the Bonds. This authorization allows the adoption of the ordinance authorizing the issuance of the Bonds without stating the interest rate or sale price in the Ordinance. The interest rate and sale price will be formally set upon the execution of the Pricing Certificate. The amounts shown for each of the transactions discussed herein as well as the pricing date are preliminary and subject to change based on actual market conditions on the date of sale. Bond proceeds will be received on the day of closing, currently scheduled for April 5, 2005.

POLICY ANALYSIS

These transactions are consistent with the CPS' debt plan and on-going review of financings, refundings, and cash defeasances to decrease debt service costs.

FISCAL IMPACT

These transactions will have no impact on existing rates or on the budget of the City of San Antonio. Principal, premium, if any, and interest on the Bonds, surety bond requirements, and any bond insurance policy requirements will be paid from CPS revenues and will have no effect on the monthly City payment from CPS. Costs pertaining to the aforementioned transactions (such as bond issuance costs, underwriters expenses, etc.) will be paid from the proceeds derived from the sale of the Bonds. The issuance of the \$701 million in fixed rate, long-term bonds allows CPS to take advantage of the current market's lower cost of borrowing and provides significant present value debt service savings.

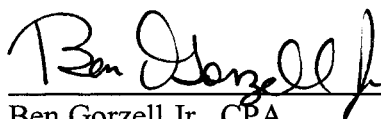
COORDINATION

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

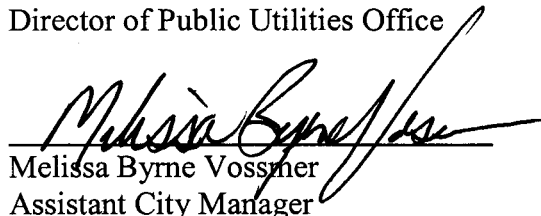
SUPPLEMENTARY COMMENTS

A working group comprised of City Public Service staff; Underwriter: UBS Financial Services Inc.; Escrow/Paying Agent: The Bank of New York Trust Company, National Association; Co-Financial Advisors: First Southwest Company and Estrada Hinojosa & Company, Inc.; Co-Bond Counsel: Fulbright & Jaworski L.L.P. and Escamilla & Poneck, Inc.; CPS' General Counsel: N. Beth Emery, Esq.; CPS' Outside Counsel: Cox Smith Matthews Incorporated; and UBS Underwriters' Counsel: McCall, Parkhurst & Horton LLP was assembled to work on this Bond transaction.

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



Ben Gorzell Jr., CPA
Director of Public Utilities Office



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Assistant City Manager



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Interim City Manager