

AGENDA ITEM NO. **5**

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

TO: Mayor and City Council
FROM: Ben Gorzell Jr., Director of Public Utilities
SUBJECT: An Ordinance Authorizing CPS Energy to Renew the Standby Bond Purchase Agreement for Junior Lien Revenue Bonds, Series 2003
DATE: December 1, 2005

SUMMARY AND RECOMMENDATIONS

This Ordinance approves and authorizes actions related to the extension of the term of the existing Standby Bond Purchase Agreement for the City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2003, issued as Variable Rate Demand Obligations (VRDOs).

Staff recommends approval of the proposed Ordinance.

BACKGROUND INFORMATION

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

The issuance of variable rate debt as compared to a traditional fixed rate debt issuance requires the involvement of additional parties. A remarketing agent is required to reset the interest rates on the bonds and to "remarket" the bonds to bondholders or buyers. A liquidity bank is also required to purchase the bonds in the event there are no buyers available which helps insulate CPS Energy from any unforeseen cash demands related to the issuance and remarketing of the variable rate debt. The liquidity facility is approved through a Standby Bond Purchase Agreement ("SBPA"), which is entered into through the Original Ordinance authorizing the issuance of the Bonds.

The SBPA for this transaction among 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. The SBPA has been extended twice since May 2003 and the current SBPA is scheduled to expire on January 31, 2006. Under the terms of the Original Ordinance, an extension of the SBPA requires approval through passage of an ordinance by the City Council. Timely extension of the SBPA is necessary, as the Original Ordinance also requires that the Paying Agent/Registrar initiate a mandatory call of the Bonds if an extension to the SBPA is not in place by January 30, 2006.

On October 18, 2005, CPS Energy distributed a Request for Proposal ("RFP") for liquidity facility provider services to a comprehensive list of banks providing these services. CPS Energy subsequently received eight proposals on October 28, 2005. CPS Energy staff and Co-Financial Advisors, Estrada Hinojosa & Company, Inc. and First Southwest Company, reviewed the proposals and selected Bank of America, N.A. based on the proposal they submitted. Bank of America, N.A. agreed to extend the existing SBPA for a two-year period and to reduce its annual commitment fee from 12.0 basis points to 7.5 basis points per annum, resulting in annual savings of \$112,500.

FISCAL IMPACT

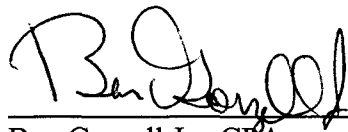
This transaction will have no impact on existing rates or on the budget of the City of San Antonio. The cost of the liquidity facility/SBPA is 7.5 basis points per annum and is funded from the CPS Energy' operating budget.

COORDINATION

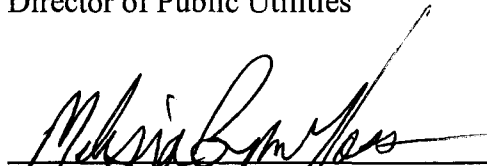
This action has been coordinated with the CPS Energy Staff, the City Attorney's Office, and CPS Energy' co-financial advisors and CPS Energy' bond counsel. This action was approved by the CPS Energy' Board of Trustees on Monday, November 21, 2005.

SUPPLEMENTARY COMMENTS

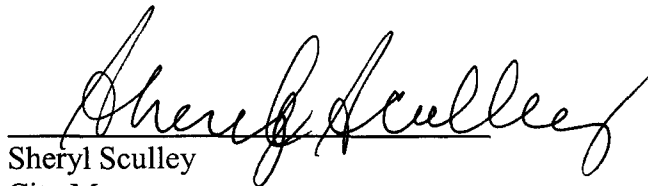
The disclosure requirements of the City's Ethics Ordinance are not applicable.



Ben Gorzell Jr., CPA
Director of Public Utilities



Melissa Byrne Vossmer
Assistant City Manager



Sheryl Sculley
City Manager