RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES **DATE: MARCH 13, 2023**

SUBJECT: RESOLUTION AUTHORIZING AN EXTENSION OF THE TERM OF A LETTER OF CREDIT SUPPORTING THE VARIABLE RATE REFUNDING ELECTRIC REVENUE BONDS, ISSUE OF 2011A, USING PFM FINANCIAL ADVISORS, LLC AS MUNICIPAL ADVISOR, STRADLING YOCCA CARLSON & RAUTH AS BOND AND DISCLOSURE COUNSEL, AND NIXON PEABODY LLP, REPRESENTING BANK OF AMERICA, N.A. FOR THE LETTER OF CREDIT FACILITY

ISSUE:

Consider adopting a resolution authorizing the extension of the term of a Letter of Credit Supporting the Variable Rate Refunding Electric Revenue Bonds, Issue of 2011A, for an additional three years and approve the financing team and costs associated with the transaction.

RECOMMENDATIONS:

That the Board of Public Utilities recommend that the City Council:

1. Adopt a Resolution authorizing the extension of the term of a Letter of Credit supporting the Variable Rate Refunding Electric Revenue Bonds Issue of 2011A, and approving the form of a First Amendment to the Reimbursement Agreement and the Fee Letter relating to such Letter of Credit and approving the supplement to the Official Statement for the 2011A Electric Revenue Bonds to reflect a three-year extension of the term of the Letter of Credit on behalf of the City of Riverside;

2. Approve and authorize expenditures for the use of PFM Financial Advisors, LLC as the City's Municipal Advisor, Stradling Yocca Carlson & Rauth as the City's Bond and Disclosure Counsel, and reimburse Bank of America, NA for legal costs associated with their transactions; and

3. Authorize the City Manager, or designee, to execute all documents related to these actions and to make non-substantive revisions to those documents as needed.

BACKGROUND:

On April 5, 2011, the City Council approved the issuance of $56,450,000 in aggregate principal to refund City of Riverside Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B and to establish a construction fund in the amount of $4,102,729. The 2011 bonds were issued as variable rate bonds with a final maturity in 2035. The bonds were sold via direct purchase to Wells Fargo Bank, National Association for a term of three years, ending April 28, 2014. At that time, they were remarketed directly to Wells Fargo, and again in 2017 with April 27, 2020 as the new expiration date.

In 2017, the Federal Government passed the Tax Cuts and Jobs Act, lowering the maximum corporate tax rate from 35% to a flat rate of 21%. This had the effect of reducing Wells Fargo' s after-tax return on the bonds. Per the purchase agreement, the bank increased the interest rate on the 2011A Variable rate bonds to recoup their lost return, increasing the interest cost charged to the City. In 2020, as the bond purchase agreement was set to expire, City Council authorized the bonds to be remarketed as a public financing, resulting in greater savings and flexibility for the City and the Riverside Public Utilities Department (RPU).

A variable rate bond public financing takes advantage of very low short-term interest rates but requires a bank Letter of Credit (LOC) be inserted between the issuer of the bonds (City of Riverside) and the purchasers of the 2011A Refunding Electric Revenue Bonds. This form of security provides greater assurance to investors that the COPs will be repaid by adding another party to help guarantee payment. As part of the remarketing of the Bonds in the public market, the City entered into a three-year LOC with Bank of America, N.A., who competed successfully for the work by offering the best pricing.

DISCUSSION:

With the current LOC term expiring in May 2023, the Financing team reached out to Bank of America, NA to determine whether extending the term of the existing LOC would provide the best pricing for the City. The cost of switching to a new LOC provider includes much higher one-time administrative and legal fees of approximately $150,000-$180,000. Additionally, Bank of America, NA offered a low bid – a three-year renewal for 35 basis points or .35% of current debt outstanding. This worked out to $19,000 a year or an increase of $57,000, significantly lower than the cost to enter a new LOC with a new provider.

Financing Team
The financing team for these transactions consists of City staff from the Finance Department and the Public Utilities Department. PFM Financial Advisors, LLC is serving as the Municipal Advisor. The firm of Stradling, Yocca, Carlson & Rauth, is acting as bond and disclosure counsel. In addition, the City will be responsible for costs incurred by Nixon Peabody, LLC, legal counsel to Bank of America.

The estimated Financing Team expenses include:

RPU 2011A LOC Extension		
Bond/Disclosure Counsel	Stradling	$7,500
Financial Advisor	PFM	7,500
Bank Counsel for LOC	Nixon Peabody	7,500
Total		$22,500

Proposed Plan of Financing
The expiring LOC fee with Bank of America is for 29.5 basis points, or .295% of the current debt outstanding (approximately $105,000 per year). The bank offered a renewal rate for a three-year term at 35 basis points or .35% of current debt outstanding (approximately $124,000 per year), which is well in line with market rates.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 5 - High Performing Government** and **Goal 5.4** – Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The use of bond proceeds to finance capital expenditures supports the City of Riverside's Multi-year Capital Planning Fiscal Policy. Fiscal policies are designed to ensure the interests of the ratepayers are met and helps build community trust.

2. **Equity** – Using bonded indebtedness to fund long-term capital projects ensures generational equity. The repayment of the cost of the facility (30 years) is made by the generation of ratepayers that receive the actual benefits of the project.

3. **Fiscal Responsibility** – Ensuring the lowest possible fees related to the cost of borrowing ensures long term debt service fiscal responsibility.

4. **Innovation** – Ensuring accessibility to the tax-exempt capital securities market allows Riverside to expand and upgrade to meet the future needs of its ratepayers.

5. **Sustainability & Resiliency** – Sound analysis and consideration of all funding options are the key to Riverside's resilient and sustainable debt portfolio.

FISCAL IMPACT:

The total LOC cost for the 2011A Refunding Electric Revenue Bonds will increase an average of approximately $19,000 per annum through 2026. Sufficient funds are budgeted in the current year in the Electric Fund account 6125000-482000 Interest.

Costs associated with the 2011A transaction are estimated at $22,500. Sufficient funds are budgeted in the Electric Fund account 6125000-487000 Debt Related Fiscal Charges.

Prepared by: Heidi Schrader, Debt and Treasury Manager
Approved by: Todd M. Corbin, Utilities General Manager
Approved by: Kris Martinez, Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Certifies availability of funds: Edward Enriquez, Interim Assistant City Manager/Chief Financial Officer/City Treasurer

Attachments:
1. Resolution of the City of Riverside authorizing the extension of the term of an LOC
2. First Amendment to the Reimbursement Agreement
3. Fee Letter
4. Supplement to the Official Statement
5. Presentation