



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: JANUARY 9, 2023

GENERAL MANAGER'S REPORT

SUBJECT: UPDATE ON THE 2022A WATER REVENUE BONDS AND REMARKETING OF THE 2011A VARIABLE RATE REFUNDING WATER REVENUE BONDS

On October 24, 2022, the Board of Public Utilities forwarded a recommendation to the City Council to approve the City's Financing Team to issue new 2022A Water Revenue Bonds in an amount not to exceed \$70 million, and remarket the 2011A Water Bonds. On November 8, 2022, City Council approved the actions.

On December 1st, 2022, Riverside Public Utilities closed on its Water Revenue Bonds, Issue of 2022A and converted its existing Variable Rate Refunding Water Revenue Bonds, Issue of 2011A to daily variable rate bonds.

The 2022A bonds were issued to provide \$63 million in bond proceeds for construction and projects connected to Riverside's water system. The underwriting team began marketing the bonds City Council approved the financing in November and credit ratings from S&P and Fitch, which both affirmed RPU Water's "AA+" ratings, were received. In the months leading up to the sale, markets had seen a large increase in rates, but rates began moving in the opposite direction in early November, after October Consumer Price Index (CPI) came out lower than the prior month and below market expectations. With rates decreasing, the financing team watched the market closely in the hopes that Riverside could take advantage of market momentum. While CPI collects pricing data for the month, Producer Price Index (PPI) attempts a daily pricing. PPI results, released on November 15th, reinforced the prior week's CPI data, giving the financing team confidence that the downward trend in rates would continue to the following day. As a result, the financing team decided to move the bond sale up a day and price the bonds on November 16th to take advantage of strong market conditions.

On pricing day, the bonds received significant demand. In aggregate, the number of orders was over 10x more than the amount of bonds available for sale. Notably, demand for longer maturities (specifically the 2047 and 2052 term bonds) was significant with over 10x oversubscription – which had not been seen on bond sales for much of the year. The bonds also received orders from a diverse and large group of investors; 40 separate accounts placed orders for the 2022A bonds. As a result, RPU was able to lower interest rates by 10 to 15 basis points across the curve. These final adjustments lowered RPU's overall cost of borrowing by over 8 basis points to 4.30%. The 2022A bonds closed on December 1st.

At the same time, the 2011A bonds were remarketed as daily variable rate demand bonds (VRDBs). RPU also closed on the letter of credit, provided by PNC Bank, N.A., that now backs the 2011A VRDBs. The letter of credit has a low 3-year rate of 23 basis points per annum.