



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: NOVEMBER 8, 2022

FROM: FINANCE DEPARTMENT WARDS: ALL

**SUBJECT: PUBLIC HEARING – ISSUANCE OF 2022A WATER REVENUE BONDS AND
INTEREST RATE MODE CONVERSION AND REMARKETING OF THE 2011A
VARIABLE RATE REFUNDING WATER REVENUE BONDS**

ISSUES:

Approve the issuance of up to \$70 million of Water Revenue Bonds to finance identified Water Utility capital projects and to pay bond issuance, along with the interest rate mode conversion and remarketing of \$24.05 million 2011A Variable Rate Refunding Water Revenue Bonds to be supported by a Letter of Credit issued by PNC Bank, National Association.

RECOMMENDATIONS:

That the City Council:

1. Approve the City's Financing Team, as described herein, for these transactions and authorize the Chief Financial Officer/City Treasurer or any duly authorized designee to pay the costs of such firms in connection with the interest rate reset and tender, purchase and remarketing of the 2011A Bonds from the City's Water Fund and the costs of the firms in connection with the new money issuance of the 2022A Water Revenue Bonds from bond proceeds;
2. Conduct a public hearing to consider the issuance of new money 2022A Water Revenue Bonds in an amount not-to-exceed \$70 million;
3. Adopt a resolution authorizing the issuance of the 2022A Water Revenue Bonds in an aggregate principal amount not to exceed \$70 million;
4. Adopt a resolution authorizing certain actions related to an unscheduled mandatory tender, interest rate mode conversion and remarketing of the previously authorized and currently outstanding 2011A Bonds, including approval of a Reimbursement Agreement and Fee Letter with PNC Bank, National Association, and Remarketing Statement for the 2011A Bonds; and
5. Upon closing of the 2022A Water Revenue Bonds, authorize the Chief Financial Officer/City Treasurer, or designee to make the necessary budget adjustments and/or appropriations to properly record the refunding and financing expenses in accordance with governmental accounting standards.

BOARD RECOMMENDATION:

On October 24, 2022, the Riverside Board of Public Utilities unanimously recommended the issuance of 2022A Water Revenue Bonds and Interest Rate Mode Conversion and Remarketing of the 2011A Variable Rate Refunding Water Revenue Bonds.

BACKGROUND:

2011A Water Revenue Bonds

In May 2011, the City of Riverside issued \$59,000,000 of the Variable Rate Refunding Water Revenue Bonds, Issue of 2011A (“2011A Bonds”) to fund the Water Utility’s Capital Improvement Program. The 2011A Bonds are Securities and Industry Financial Markets Association (“SIFMA”) Indexed variable rate bonds with a three-year index interest rate period that was last set in January 2020 with an Index Rate Scheduled Purchase Date of January 18, 2023. The interest rate on these bonds is set periodically based on the current rate of SIFMA plus a spread of 0.13%. The bonds represent a long-term obligation, ultimately maturing in October 2035. In February of 2019, \$26,900,000 of these bonds were refunded as part of the issuance of the 2019A Water Revenue Refunding Bonds, leaving an outstanding principal balance of \$24,050,000.

In addition to the low rates realized using variable rate debt, the bonds are hedged by an interest rate swap agreement where the Water Utility receives 62.68% of the globally accepted benchmark London Interbank Offered Rate (“LIBOR”) plus 12 basis points in exchange for a “synthetic-fixed” interest rate of 3.2%. In the current interest rate environment, the swap is effective, hedging the variable rate the Water Utility pays to its bondholders. The financing team does not recommend terminating the swap currently as the expected net cost to terminate would be greater than any estimated savings realized.

Water Utility Capital Projects

The City Council approved a five-year Capital Improvement Program for the Water Utility totaling approximately \$117 million, of which \$87 million is projected to be funded with bond proceeds with the remaining \$30 million funded with a combination of rates, reserves, and developer contributions. The Water Utility Five-Year Rate Plan, approved by City Council on May 22, 2018, supports the bond financing of the capital improvement program, including the issuance of the 2022A Water Revenue Bonds.

DISCUSSION:

Remarketing and Interest Rate Period Conversion of 2011A Bonds

The 2011A Bonds were issued as a variable Index Rate Note (“IRN”) that is due for mandatory tender on January 18, 2023. On or prior to this date, the Water Utility needs to either: i) remarket these bonds as IRNs again, or ii) convert (or refund) the 2011A Bonds into a different interest rate mode. As a part of the remarketing, the financing team evaluated the cost of both options. Given the overall market and reduced appetite of investors for IRNs at this time, the financing team recommends converting the bonds from SIFMA indexed IRNs to daily rate variable rate demand obligations (VRDOs). Like the Utility’s other VRDOs, investors require that a Letter of Credit

secure the VRDOs upon conversion. After an RFP for letters of credit, PNC Bank, N.A. was selected as the most advantageous provider of the letter of credit for the VRDOs.

The attached Resolution (Attachment 5) authorizes the remarketing of the 2011A Bonds on any date prior to the Index Rate Scheduled Purchase Date of January 18, 2023. It authorizes the conversion of the 2011A Bonds to a Daily Interest Rate Period and authorizes RBC Capital Markets, LLC as the City's Remarketing Agent to distribute the Remarketing Statement and thereafter to remarket the 2011A Bonds in a daily interest period. Adoption of the Resolution approves the Letter of Credit Reimbursement Agreement with PNC Bank, N.A., with such changes as staff concludes appropriate to effect the remarketing.

2022A Water Revenue Bonds

The Water Utility plans to finance approximately \$63 million of capital projects identified in the five-year Capital Improvement Program from the proceeds of the 2022A Water Revenue Bonds. The new money component is expected to be amortized with a final maturity not-to-exceed 30 years, consistent with traditional new money borrowing in the tax-exempt market and prior City practice, on a substantially level annual debt service basis. Level fixed-rate debt service ensures budget certainty and promotes equitable financing of projects among current and future ratepayers. Adoption of the Resolution approves the Preliminary Official Statement for the 2022A Water Revenue Bonds and authorizes staff to deem the Preliminary Official Statement final for purposes of Rule 15c2-12 of the Securities and Exchange Commission, as well as the Bond Purchase Agreement with the underwriters and a Continuing Disclosure Certificate, under which the City will provide annual updates of financial information to investors.

Financing Team

The financing team for these transactions consist of City staff from the Finance Department and the Public Utilities team. PFM Financial Advisors, LLC is serving as the Municipal Advisor for both transactions. The firm of Stradling, Yocca, Carlson & Rauth, is acting as bond and disclosure counsel. PNC Bank, N.A. is the Letter of Credit provider for the 2011A Bonds, RBC Capital Markets, LLC is the Remarketing Agent on the 2011A Bonds, Morgan Stanley is the Senior Managing Underwriter on the 2022A new money issuance, with Samuel A. Ramirez & Co., Inc. as Co-Managing Underwriter.

The estimated Financing Team expenses include:

RPU 2011A Remarketing and Interest Rate Period Conversion		
Bond/Disclosure Counsel	Stradling	\$65,000
Financial Advisor	PFM	35,000
Trustee	US Bank	10,000
Remarketing Agent	RBC Capital Markets	12,681
Rating Agencies	S&P	32,500
	Fitch	40,000
Remarketing Agent Counsel	Nixon Peabody	25,000
Bank Counsel for LOC	Orrick	45,000
Printer	ImageMaster	3,000
Bank Bond CUSIP for LOC	CUSIP Global Services	200
Total		\$268,381

RPU 2022A Water Revenue Bonds		
Bond/Disclosure Counsel	Stradling	\$80,000
Financial Advisor	PFM	70,000
Trustee	US Bank	10,000
Underwriters	Morgan Stanley, Samuel A. Ramirez	120,539
Rating Agencies	S&P	55,750
	Fitch	65,000
Underwriter's Counsel	Nixon Peabody	25,000
Printer	ImageMaster	3,000
Total		\$429,289

Good Faith Estimates – Water Revenue Bonds Issue of 2022A

California Senate Bill 450 (SB 450) requires, prior to a new issuance of bonds, a public agency to disclose in a public meeting good faith financing estimates provided by an Underwriter, Municipal Advisor or private lender. These estimates include: (1) the True Interest Cost of the bonds; (2) the total finance charge of the bonds, equal to the sum of all fees and charges paid to third parties; (3) the amount of estimated bond proceeds minus the total finance charge of the bonds, and any reserves funded from proceeds of the bonds; and (4) the total payment amount, which includes the projected sum of all payments the Water Utility will make to pay debt service on the bonds plus any portion of the finance charge of the bonds that will not be paid with the proceeds of the bonds. This does not apply to the 2011A Remarketing, as that is not a new issuance, but rather a conversion of the interest rate period.

The following information was obtained from PFM Financial Advisors, as Municipal Advisor, and is provided in compliance with SB 450:

- 1. True Interest Cost.** Assuming a par amount of \$58,780,000 of 2022 Water Revenue Bonds is sold and based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the true interest cost of the bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to equal the purchase price received for the bonds, is 4.37%.
- 2. Finance Charge.** A good faith estimate of the finance charge of the bonds, which means the sum of all fees and charges paid to third parties, is \$429,289.
- 3. Amount of Proceeds to be Received.** A good faith estimate of the amount of proceeds expected to be received for sale of the bonds less the finance charge of the bonds described in section 2, above, and any reserves or capitalized interest paid or funded with proceeds of the bonds, is \$63,000,000.
- 4. Total Payment Amount.** Assuming a par amount of \$58,780,000 is sold and based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the total payment amount, which means the sum total of all payments the Water Utility will make to pay debt service on the bonds plus the finance charge of the bonds described in section 2, above, not paid with the proceeds of the bonds, calculated to the final maturity of the bonds, is \$114,349,167.

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 (20 to 30 years) is made by the generation of ratepayers that receive the actual benefits of the project.
3. **Fiscal Responsibility** – Proactive planning and flexibility allows the Utility to enter the bond market at the most advantageous time in terms of cost of capital and availability of resources.
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 fiscal impact related to the annual debt service payments for the new money (capital projects) component are expected to be \$3.9 million and have been included in the approved biennial budget for Fiscal Years 2022/23 and 2023/24. Costs related to the 2022A Financing will be paid from Bond Proceeds.

Costs associated with the 2011A transaction are estimated at \$270,000. Sufficient funds are budgeted in the Water Fund, Water Debt Service, Interest expenditure account 6225000-482000, and Debt Related Fiscal Charges expenditure account 6225000-487000, to pay the cost to effect the 2011A Remarketing and Interest Rate Period Conversion.

Prepared by: Heidi Schrader, Debt and Treasury Manager
Certified as to availability of funds: Edward Enriquez, Interim Assistant City Manager / Chief Financial Officer / City Treasurer
Approved by: Edward Enriquez, Interim Assistant City Manager / Chief Financial Officer / City Treasurer
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:

1. 11th Supplemental Resolution Authorizing Issuance – 2022A
2. Bond Purchase Agreement – 2022A

3. Preliminary Official Statement – 2022A
4. Continuing Disclosure Certificate – 2022A
5. Resolution Authorizing 2011A Remarketing
6. Remarketing Agreement – 2011A
7. Amended and Restated Continuing Disclosure – 2011A
8. Reimbursement Agreement – 2011A
9. Fee Letter – 2011A
10. Remarketing Statement – 2011A
11. Presentation