

# City Council Memorandum

City of Arts & Innovation

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**TO: HONORABLE MAYOR AND CITY COUNCIL                      DATE: JUNE 18, 2019**

**FROM: FINANCE DEPARTMENT    WARDS: ALL**

**SUBJECT: FISCAL YEAR 2018/19 THIRD QUARTER CASH AND INVESTMENTS AND DEBT REPORT**

**ISSUE:**

That the City Council receive and provide input on the attached Fiscal Year 2018/19 Third Quarter Cash and Investments and Debt Report.

**RECOMMENDATIONS:**

That the City Council receive and provide input on the attached Fiscal Year 2018/19 Third Quarter Cash and Investments and Debt Report.

**BACKGROUND:**

On April 23, 2019, the City Council received and provided input on the Fiscal Year 2018/19 Second Quarter Cash and Investments and Debt report. In previous quarters, this information was included in a comprehensive Quarterly Financial Report. The Finance Department separated the reports in an effort to increase financial accountability and transparency as it relates to the City's Debt and Investment activities.

**DISCUSSION:**

It is staff's intention to provide the Cash and Investments and Debt Quarterly report at the same City Council meeting as the Quarterly Financial Report for the General Fund and Measure Z in order to provide a comprehensive review of all City Finance activities and to obtain City Council input related to those activities.

**QUARTERLY CASH AND INVESTMENT REPORT**

Sound investment practices are an essential component of the City's strong fiscal management. The Finance Department is responsible for managing the City's investment portfolio, focusing first on the safety of investments, and then on liquidity and an appropriate rate of return. The investment results and portfolio composition are summarized and reported to the City Council each quarter. As of March 31, 2019, the City's pooled investment portfolio's market value was \$608 million, with the market value of investments held by fiscal agents (bond proceeds and reserve funds primarily) amounting to an additional \$162 million. The weighted average yield of

the pooled investment portfolio is 2.123%.

The authority to manage the City's investment program is provided by the California Government Code Sections 53600-53610 which allows the City Council to delegate to the Treasurer/CFO for a one year period the authority to invest or to reinvest all funds of the City. In accordance with the City Charter and under authority granted by the City Council, the Chief Financial Officer is designated the responsibilities of the Treasurer and is responsible for investing the unexpended cash in the City Treasury consistent with the City's adopted investment policy.

The Cash and Investment Report, including a listing of cash balances by fund, is included in Attachment 1. These cash balances reflect each fund's share of the City's pooled investment portfolio. Also shown are interfund loan receivables, which are treated as available cash due to the Chief Financial Officer/Treasurer's authorization to move loan receivables to other funds as needed.

All listed funds have a positive cash balance with the exception of the following funds:

1. Civic Entertainment Fund - Convention Center, Visitors Bureau, and Sports Commission (\$1,112,226), and Special Districts (\$339,027), have negative cash balances that are fully offset by outstanding receivables.
2. Urban Areas Security Initiative (\$598,682), Housing Opportunities for Persons with AIDS (\$361,806), NPDES Storm Drain (\$267,063), Capital Outlay - Grants (\$1,120,620), and Transportation Uniform Mitigation Fees (\$2,003,598) have negative cash balances due to the timing of expenditures; however, the negative balances are fully offset by grant receivables.
3. Debt Service Fund – General (\$25,372,262) which is fully offset by outstanding cash transfers from all funds related to their share of the Pension Obligation Bond (POBs) payments made by the Debt Service Fund (\$17 million). In addition, the Debt Service Fund is pending receipt of lease proceeds currently held with fiscal agent for the reimbursement of fire vehicle purchases (\$11.6 million).
4. Central Stores (\$590,257) which is fully offset by inventory assets that will be recouped when charged out for usage to various departments.

### QUARTERLY DEBT REPORT

The Finance Department is responsible for managing the City's debt portfolio, which includes issuing new debt and monitoring opportunities to refinance existing debt as opportunities to reduce financing costs arise. The Quarterly Debt Report (Attachment 2) summarizes the composition of the City's debt portfolio, details the revenue sources utilized to pay the debt service associated with each outstanding debt, and provides detailed information regarding the total principal and interest payments made in the second quarter by debt classification and fund.

### *Debt Summary Analysis*

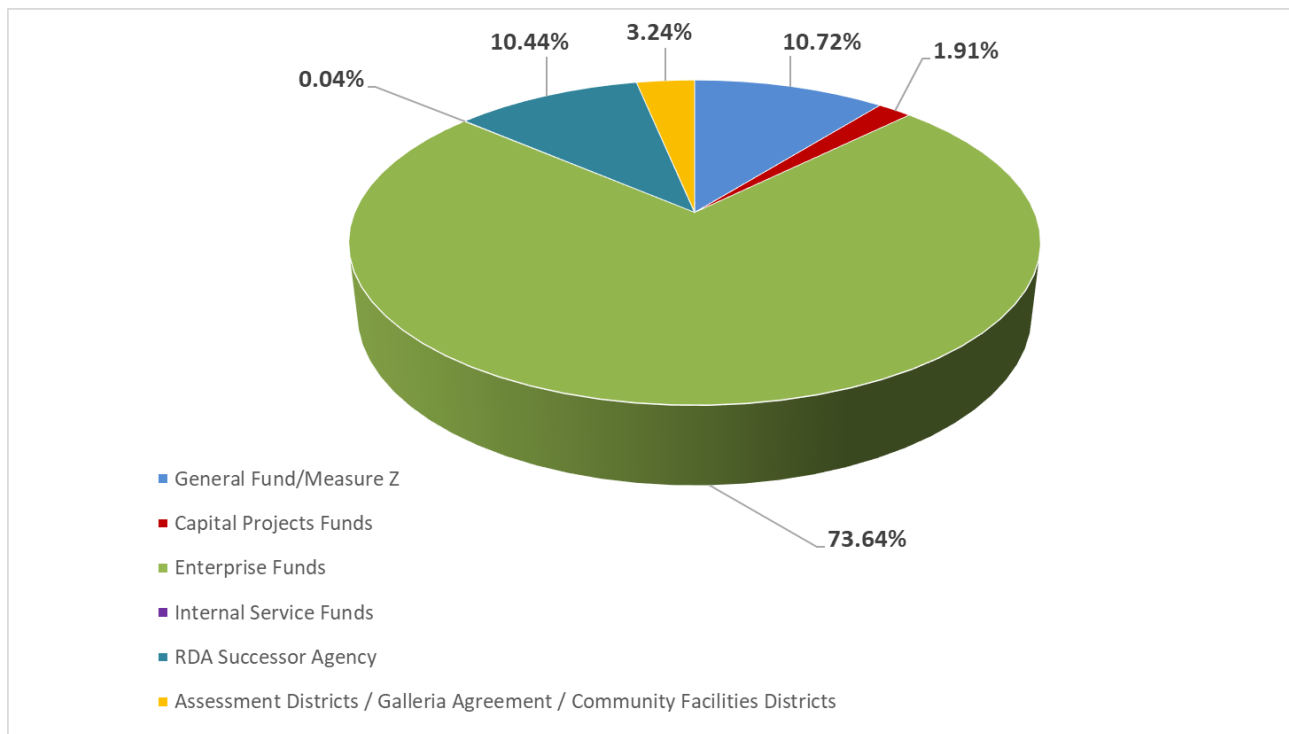
The City's outstanding principal will change as a result of debt service payments, bond calls, new debt issuances, and refunding and defeasance activity. At the end of the third quarter, the City's outstanding principal balance increased \$117,144,791 from the end of the second quarter. This principal increase includes \$52,194,000 in new money financing for water capital projects and \$103,072,000 in new money financing for electric capital projects, executed as part of the 2019A Electric and 2019A Water Revenue Refunding Bonds. The City realized a total \$47,565,000 in present value savings related to these issuances. On February 26, 2019, the following issuances were legally defeased:

- Electric Revenue Bonds 2008 Series D – full refunding \$191,715,000
- Water Revenue Bonds 2008 Series B – full refunding \$53,880,000
- Water Revenue Bonds 2011 Series A – partial refunding/swap unwind \$26,900,000

The City also economically defeased the Electric Revenue Refunding Bonds 2008 Series A and Electric Revenue Refunding Bonds 2008 Series C at that time. Because these were economical defeasances, per the Governmental Accounting Standards Board (GASB), Finance will report the principal reduction from the partial refundings of these issuances (\$40,425,000) in the fourth quarter based on a transaction closing date of April 1, 2019.

The remaining \$7.9 million principal reduction is due to debt service principal payments on the City’s 2008A Certificates of Participation, ten capital leases, the last payment of a HUD Section 108 Refunding Loan, the Convention Center Private Placement loan, and a State Revolving Fund Loan for the Sewer Cogeneration project.

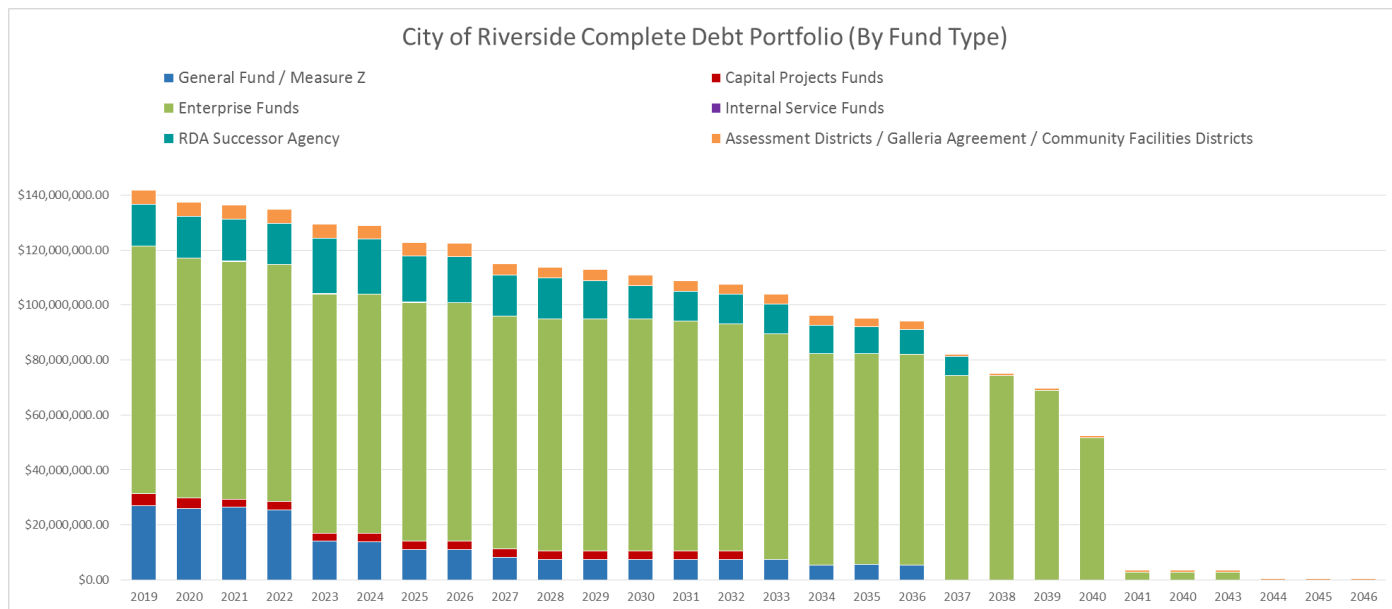
The chart below depicts the composition of the City’s debt portfolio at the end of the third quarter. The Enterprise funds are responsible for the majority of the City’s debt, with capital project financing offset by the revenues generated by the newly financed facilities. The General Fund and Measure Z have the next largest percentage of debt, providing financing for projects and equipment related to public safety, downtown revitalization, and public facility and infrastructure improvements. The City’s Pension Obligation Bonds are allocated within a majority of the funds, distributing debt service in alignment with departmental staffing.



For purposes of this report, the Sewer, Water, Electric, Refuse, Special Transit, Civic Entertainment, Convention Center, and Parking funds are consolidated under the classification of Enterprise Funds. Measure Z and General Fund are grouped together. Measure A and the City’s Parks Special Capital fund are classified under Capital Projects Funds. While the Assessment Districts, Galleria Agreement, and Community Facilities Districts are part of the City debt portfolio, they aren’t City obligations. They are paid by individual Districts that are separate legal entities from the City, formed to issue debt and levy assessments and special tax to pay debt service

within those districts.

The following bar chart provides the City’s debt service portfolio using the same classification methodology, outlining the principal and interest payments on all City debt instruments by fund. As illustrated below, the City has a stable debt service curve that results in steadily diminishing annual debt service payments and that minimizes any spikes in payments that could negatively impact the City’s ability to pay debt service.



### Debt Related Activities in Third Quarter

Finance staff regularly monitor the market in order to identify opportunities to maximize debt service savings through refunding. Within the third quarter, the City priced and closed the \$283,325,000 2019A Electric Revenue Refunding Bonds and the \$114,215,000 Water Revenue Refunding Revenue Bonds Series 2019A issuances. Proceeds from the bonds were used to fully refund the 2008D Electric Revenue Bonds and the 2008B Water Revenue Bonds. The proceeds were also used to partially refund and partially unwind the swaps associated with:

- 2008A Electric Revenue Refunding Bonds
- 2008C Electric Revenue Refunding Bonds, and
- 2011A Water Revenue Bonds

Staff presented Riverside Public Utility enterprise financial and operational highlights to both S&P Global Ratings and Moody’s Investors Service, affirming a AAA and AA+ rating respectively for the Water enterprise and AA- and AA- for the Electric enterprise.

Other debt related activities conducted within the second quarter include:

- Refunding the 2006 Lease Revenue Certificates of Participation (Galleria at Tyler Public Improvements)
- Bond Financing for 2019B Lease Revenue Bonds to Finance a Main Branch Library facility.
- Preparation of FY 2020 budgets and Council action on Street Lighting Assessment District 1 and Riverwalk and Sycamore Highlands Landscape Maintenance Districts.
- Preparation of FY 2020 budgets for Community Facility Districts and Assessment Districts.
- Preparation of 2020 Levy tax rate for 2004 Election of 2003 General Obligation Bonds (Fire Facility Projects).

**FISCAL IMPACT:**

There is no direct fiscal impact associated with this report.

Prepared by: Heidi Schrader, Debt Manager  
Certified as to  
availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer  
Approved by: Carlie Myers, Deputy City Manager  
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Cash and Investment Report
2. Debt Report
3. Presentation