



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: OCTOBER 25, 2022
FROM: FINANCE DEPARTMENT WARDS: ALL
SUBJECT: REIMBURSEMENT RESOLUTION FOR WATER UTILITY CAPITAL PROJECTS

ISSUES:

Adopt a Reimbursement Resolution to provide the use of future bond proceeds for capital financing requirements for the Water Utility’s Five-Year Capital Improvement Program (“CIP”).

RECOMMENDATIONS:

That the City Council adopt the Water Utility Reimbursement Resolution to provide the future option of using bond funds for capital financing requirements, with the understanding that reserve funds will be used for capital needs in the interim period.

BOARD RECOMMENDATION:

This report is published on October 13, for the October 25, City Council meeting. On October 24, the Board of Public Utilities will hear this item for consideration to recommend to City Council to take actions on the subject.

If the Board approves to forward this to City Council, we respectfully request the City Council consider the item at the October 25, City Council meeting.

BACKGROUND:

US Treasury Regulation Section 1.150-2 requires the City of Riverside adopt a formal declaration of intent to reimburse expenditures with future bond proceeds. The Water Utility Reimbursement Resolution serves as a formal declaration, allowing the Water Utility to reimburse capital expenditures made up to 60 days prior to the adoption of the resolution to the time of bond issuance. Without the resolution, only expenditures made on or after the issuance of bonds would be eligible for reimbursement.

DISCUSSION:

The Water Utility requires capital improvement projects to maintain system reliability, increase capacity to serve new residential and commercial developments and refurbish the existing system. Because these capital improvements are long-term in nature, they are primarily funded

through bonds. The basic philosophy of using bonded indebtedness for capital projects is that repayment of the bond is made over the life of the project (usually 20 to 30 years). Historically, 60% to 70% of the Water CIP has been funded by bonds and typically, the Water Utility has issued bonds every two to four years to fund its Board and City Council approved Five-Year CIP.

Adopting the Reimbursement Resolution allows the Water Utility to continue to fund critical capital expenditures with the intent to reimburse these projects with bond proceeds. This provides the flexibility to enter the securities market and issue bonds at the most optimal time for the utility. The last new money bond issuance was in February 2019. The City issued \$114,215,000 in bonds to refund existing debt, unwind swap agreements, and to fund future capital projects; \$52,194,000 of those bond proceeds were set aside for new capital expenditures.

The proceeds of the 2019 issuance are programmed and estimated to be depleted by September 2022. The utility is in the process of issuing new money bond financing, with a tentative issuance date of November 2022, depending on favorable market conditions and Board and City Council approval. Based on projected cash flow and capital needs, staff is recommending a \$63 Million future financing to fund a portion of the capital improvements included in the CIP. To provide the maximum flexibility for the period prior to issuing bonds, staff recommends the Board and City Council adopt a Reimbursement Resolution in an amount not to exceed \$63 million. This will provide the Water Utility the option to reimburse capital improvement expenditures funded by reserves with future bond proceeds.

This Reimbursement Resolution does not commit the Water Utility to issue bonds in the future, it only provides the legal basis to reimburse reserves, in the event the Board and Council approve the issuance of bonds.

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:

There is no fiscal impact to approving the Reimbursement Resolution. The financial impact of not approving the Reimbursement Resolution is that the Water Utility removes the option of reimbursing itself for capital expenditures made prior to the issuance of new money bonds.

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: Kris Martinez, Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Attachments: Water Fund Reimbursement Resolution