



RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: APRIL 9, 2018

ITEM NO: 8

SUBJECT: ESCROW AGREEMENT WITH U.S. BANK NATIONAL ASSOCIATION AS FISCAL AGENT FOR THE ELECTRIC REVENUE BONDS, ISSUE OF 2008D, FOR THE PURPOSE OF THE PREVIOUSLY APPROVED DEFEASANCE OF UP TO \$11,244,000 OF OUTSTANDING ELECTRIC REVENUE BONDS, ISSUE OF 2008D, RELATED TO BOND PROCEEDS THAT FUNDED PART OF SAN ONOFRE NUCLEAR GENERATING STATION CAPITAL COSTS

ISSUE:

Recommend that the City Council approve the Escrow Agreement with U.S. Bank National Association, as 2008D Fiscal Agent, to serve as Escrow Agent for the purpose of the previously approved defeasance up to \$11,244,000 of outstanding Electric Revenue Bonds, Issue of 2008D which was previously approved on June 27, 2017.

RECOMMENDATIONS:

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

1. Approve the Escrow Agreement with U.S. Bank National Association as Escrow Agent and as 2008D Fiscal Agent in order to defease a portion of outstanding Electric Revenue Bonds, Issue of 2008D, and authorize the City Manager, or his designee, to execute that agreement and make any minor, non-substantive changes;
2. Authorize the City Manager, or his delegate, to transfer up to \$11,244,000 to the Escrow Agent, U.S. Bank National Association, for deposit into the Escrow Fund to defease a portion of outstanding Electric Revenue Bonds, Issue of 2008D; and
3. Authorize Escrow Agent to purchase those certain securities specified in the Escrow Agreement, of which the interest on and principal will be sufficient to provide for the payment or prepayment of a portion of the outstanding Electric Revenue Bonds, Issue of 2008D.

BACKGROUND:

On June 12, 2017, the Board of Public Utilities received an update on the San Onofre Nuclear Generating Station (SONGS) decommissioning and recommended that the City Council authorize the use of settlement proceeds of \$11,244,000 to partially defease existing debt. The settlement proceeds were related to the early closure of the San Onofre Nuclear Generation Station, Units 2 and 3 (SONGS) and are being used to partially defease existing debt related to bond proceeds that funded part of the Steam Generator Replacement project and other SONGS capital costs. The partial bond defeasance will reduce debt and realize interest savings of approximately \$7 million over the remaining 20-year life of the bonds. On June 27, 2017, the City Council approved the Board's recommendation.

A financing team was assembled to assist staff in evaluating and implementing this highly complex transaction. The financing team consists of the City's Chief Financial Officer/Treasurer, Public Utilities Department Assistant General Manager-Finance & Administration, the City Attorney's Office, and outside consultants with whom the City and Riverside Public Utilities (RPU) have current service agreements and who are also experienced and knowledgeable in this area of financing. The City Council approved the retention of the outside consultants on June 27, 2017, and they are PFM Financial Advisors, LLC, serving as the Financial Advisor and Stradling Yocca Carlson & Rauth (who is retained by the City Attorney and on the City Attorney's Bond Counsel Panel) serving as bond and tax counsel for the City. These consultants were selected in the best interest of the City due to their familiarity with these debt instruments and previous work with the City and RPU. All costs for services related to this partial bond defeasance, totaling approximately \$65,000, will be paid from SONGS settlement proceeds.

DISCUSSION:

RPU staff and PFM performed an analysis of outstanding bonds which have proceeds that were originally used for SONGS in order to identify the most efficient outstanding bonds to defease. The 2008D Bonds maturing in 2033 and 2038 were selected as the most efficient candidates for defeasance given the combination of closest upcoming call date (10/1/2018), long maturities and higher coupons (5 percent), which taken together will generate the largest debt service savings for RPU.

A defeasance is similar to a traditional economic refunding, whereby existing indebtedness is reduced. However, unlike a refunding, RPU is not issuing any new bonds and is instead using existing funds on hand to extinguish debt rather than incurring new indebtedness.

In order to effectuate the defeasance, RPU will transfer cash from the bond defeasance reserve into the Escrow Fund held by the Escrow Agent, U.S. Bank National Association. The Escrow Agreement establishes the Escrow Fund which is an irrevocable fund in which monies are used to pay off the selected maturities of the 2008D Bonds on the first call date (October 1, 2018).

Based on current market conditions, RPU expects to use approximately \$11,244,000 of settlement proceeds to pay interest on the defeased bonds due October 1, 2018, and defease approximately \$11,060,000 million in principal of outstanding Series 2008D Bonds. The escrow deposit of \$11,244,000 will be invested in the federal securities listed on Schedule A of the Escrow Agreement (2008D Bonds) and is expected to be sufficient to retire approximately \$11,060,000 million of outstanding Series 2008D Bonds on October 1, 2018. It is expected the investment securities will be federally issued State and Local Government Securities (SLGS), which are a permitted investment for purposes of defeasing the outstanding 2008D Bonds.

The defeasance will carry a legal opinion from Bond Counsel (Stradling) stating that RPU has paid the debt and that the City's obligations with respect to the selected 2008D maturities are ceased, terminated, and discharged. Additionally, the debt will come off RPU's audited financial statements. Rating agencies will then remove it from all the metrics they track (debt/equity, debt/customer etc.). RPU's debt service coverage and equity will improve, providing the utility with greater financial flexibility.

The Chief Financial Officer/Treasurer concurs with the report recommendations.

FISCAL IMPACT:

The partial defeasance of bonds is estimated to be an amount not to exceed \$11,244,000. Sufficient funds are available in the bond defeasance designated reserve in the Public Utilities Electric Account No. 0000510-101092. Any minimal remaining bond defeasance designated reserves after payment to the Escrow Agent will be transferred to the undesignated reserve account and adhere to RPU's Fiscal Policy as it relates to undesignated reserve balance requirements.

Prepared by: Laura M. Nomura, Utilities Assistant General Manager/Finance & Administration
Approved by: Todd L. Jorgensen, Interim Utilities General Manager
Approved by: John A. Russo, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Certifies availability
of funds: Laura M. Nomura, Utilities Assistant General Manager/Finance & Administration

Attachments:

1. Draft Escrow Agreement
2. June 12, 2017 SONGS Update to Board
3. Presentation