



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE: AUGUST 25, 2025**

**SUBJECT: RESOLUTION AUTHORIZING AN EXTENSION OF THE TERM OF A LETTER OF CREDIT SUPPORTING THE VARIABLE RATE REFUNDING WATER REVENUE BONDS, ISSUE OF 2011A FOR AN ESTIMATED COST OF \$259,000 FOR THE THREE-YEAR TERM**

**ISSUE:**

Consider recommending the adoption of a resolution authorizing the extension of the term of Fee Letter "Letter of Credit" supporting the Variable Rate Refunding Water Revenue Bonds, Issue of 2011A, for an additional three years for an estimated cost of \$259,000, the approval of the financing team, and costs associated with the transaction.

**RECOMMENDATION(S):**

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

1. Conduct a public hearing in consideration to amend and extend an existing Fee Letter supporting the Variable Rate Refunding Water Revenue Bonds, Issue of 2011A, for an additional three years for an estimated cost of \$259,000;
2. Adopt a resolution related to the extension of the reimbursement agreement related to the previously authorized and issued Variable Rate Refunding Water Revenue Bonds, Issue of 2011A authorizing the extension of the existing Fee Letter provided by PNC Bank, National Association;
3. Approve the City's Financing Team, as described herein; and
4. Authorize to the City Manager, the Chief Financial Officer/Treasurer, the Finance Director/Assistant Chief Financial Officer, and the Public Utilities General Manager of the City (or any duly authorized designee of any of such officers) the authority to execute all documents related to this transaction including making minor and non-substantive changes to the final documents necessary to complete the transaction and to pay costs associated with this transaction from the Water Debt Related Fiscal Charges Account.

## **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. Currently the 2011A Bonds are remarketed as daily variable rate demand bonds with a Letter of Credit (“LOC”) provided by PNC Bank, National Association and as of June 30, 2025, were outstanding in the principal amount of \$24,050,000.

## **DISCUSSION:**

Variable rate demand obligation (VRDO) bonds have interest rates that change frequently and investors have the right to tender them back at anytime on 7 days notice. A **Letter of Credit** from a bank guarantees that these bonds can always get their money back on the date they are tendered even if no new buyers are ready. Without this guarantee, the bonds could not be remarketed, making the Letter of Credit essential for the financing to function.

### **If the Letter of Credit is not renewed, the financial ramifications include:**

- **Mandatory repayment:** Upon expiration of the Letter of Credit, the bonds would immediately become subject to a mandatory tender, requiring full repayment of the outstanding balance.
- **Forced refinancing:** The City may need to refinance quickly under unfavorable market conditions.
- **Higher interest costs:** Replacement financing could come with significantly higher rates, increasing rate payer costs as rates are based on current market conditions at time of financing (current fixed rate costs for similar municipal credits are 3.10%).
- **Potential credit rating impact which can lead to higher future borrowing costs:** Loss of liquidity support could be viewed negatively by rating agencies, potentially raising future borrowing costs.

### **Current Status**

RPU Water has one outstanding VRDO—the 2011A Refunding Water Revenue Bonds—with \$24.05 million outstanding as of June 30, 2025. The existing Letter of Credit with PNC Bank, National Association is set to expire on November 28, 2025. This credit facility is required to remarket the bonds. Pursuant to Section 2.20 of the Resolution, and to remain compliant with bond covenants, the amendment to extend the Letter of Credit must be received by the Trustee no later than October 29, 2025.

If the Letter of Credit is not renewed, the bonds would be subject to a mandatory tender, requiring either immediate repayment or conversion to fixed-rate debt. Restructuring would entail an estimated \$300,000 in issuance costs, with current fixed-rate market interest rates at 3.10% compared to the VRDO’s 3-year historical average all-in rate of 2.54%.

Staff recommends extending the agreement for an additional three years, through November 28, 2028. PNC Bank has proposed a three-year extension with an increase in fees of 10 basis points, resulting in an annual cost of 0.33% or approximately \$81,000 per year. This fee is in-line with other bids received for peer water utilities with similar ratings.

If approved by the Board, the amended agreement will be presented to City Council on September 16, 2025, for final approval.

### Financing Team

The Financing team consists of the following City Representatives:

- RPU Management and Finance Staff
- City Attorney
- City Finance Department

The Financing team also consists of the following external parties:

- Bond Counsel: Stradling, Yocca, Carlson & Rauth
- Municipal Advisor: PFM Financial Advisors, LLC
- Letter Of Credit Bank: PNC Bank, National Association

Fees for professional services associated with amending and restating this Letter of Credit are estimated at \$16,000 and will be paid for by the Water Utility.

### **FISCAL IMPACT:**

The total fiscal impact is estimated to be \$259,000 through the life of the agreement with sufficient funds available for year one in the Public Utilities' Water Debt Related Fiscal Charges Account Number 6225000-487000. The fees for the following years will be budgeted as part of the next budget process.

Prepared by:	Meline Carranza, Debt & Treasury Manager
Approved by:	David A. Garcia, Utilities General Manager
Certified as to availability of funds:	Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by: Treasurer	Edward Enriquez, Assistant City Manager/Chief Financial Officer/City
Approved as to form:	Rebecca McKee-Reimbold, Interim City Attorney

### Attachments:

1. Resolution
2. First Amendment to Reimbursement Agreement
3. Amended and Restated Fee Letter
4. Public Hearing Notice
5. Presentation