



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JANUARY 18, 2022

FROM: FINANCE DEPARTMENT WARDS: ALL

**SUBJECT: AMENDED AND RESTATED SUBORDINATE LINE OF CREDIT AGREEMENT
FOR AN AMOUNT NOT TO EXCEED \$60 MILLION TO SUPPORT THE WATER
AND ELECTIC UTILITY FOR A COST OF \$475,000 FOR THREE AND A HALF
YEARS**

ISSUE:

Adopt a resolution to amend and restate a Subordinate Revolving Credit Agreement for the Water and Electric Utility in an amount not to exceed \$60 million.

RECOMMENDATIONS:

That the City Council:

1. Amend and extend an existing subordinate line of credit with the Water and Electric Utility for \$60 million, for an additional three and a half years, for a total cost of \$475,000;
2. Adopt a resolution to amend and restate the existing Subordinate Revolving Credit Agreement with U.S. Bank National Association for the Water and Electric Utility;
3. Approve the City's Financing Team, as described herein; and
4. Authorize the City Manager, or designee, to execute all documents related to this transaction.

BOARD RECOMMENDATION:

On Monday, January 10, 2022, the Board of Public Utilities will hear this item for consideration to recommend that the City Council amend and extend an existing subordinate line of credit with the Water Utility for \$25 million and the Electric Utility for \$35 million, adopt a resolution to amend and restate the existing Subordinate Revolving Credit Agreement, approve the City's Financing Team; and authorize the City Manager, or designee, to execute all documents. If the Board of Public Utilities approves to forward this item to the City Council, we respectfully request the City Council consider the item at the Tuesday, January 18, 2022 meeting.

BACKGROUND:

On May 22, 2018, the City Council approved the Electric and Water Utility Five-Year Rate Plan for Riverside Public Utilities (RPU). Within the plan, one method for keeping rate increases as low as possible was to use a Subordinate Line of Credit to maintain operating liquidity, allowing the Electric and Water utilities to spend cash reserves to fund capital projects. RPU has not drawn upon the Subordinate Line of Credit, the Subordinate Line of Credit is used, in lieu of cash, to meet the overall liquidity and reserve levels necessary to meet RPU's reserve policy and maintain strong bond ratings. On January 22, 2019, City Council approved a \$60,000,000 Subordinate Line of Credit Agreement with US Bank, NA (US Bank) to support the Electric and Water utilities. The agreement was executed on February 1, 2019.

DISCUSSION:

The initial term for the existing Line of Credit was three years, with an expiration in February 2022. Based on a review of the Electric Utility and Water Utility financial plans, discussions with ratings agency personnel, and our current net position, staff recommends extending the existing Line of Credit for three and a half more years.

The Financing Team reached out to US Bank, the current line of credit provider to request an extension to the terms of the current agreement. U.S. Bank proposed an extension of 3.5 years, leaving the annual commitment fee of 20 basis points (0.20%), or \$120,000 per year assuming the line of credit remains unutilized as planned.

US Bank isn't able to utilize the same cost index should RPU need to draw on the line of credit. The previous index, LIBOR, is being discontinued as of June 2023 and the bank is no longer able to enter into new LIBOR agreements. Additionally, it is not advisable that the RPU extend nor enter into new LIBOR-based contracts extending past this date. Based upon the recommendations of the City's Financial advisor, the City selected the Bloomberg Professional Services (BSBY) index. This index appears to have a similar performance history to tax-exempt indices and data is readily available for analysis. RPU staff doesn't anticipate using this line of credit, but should this become necessary, the cost to RPU is estimated (based on historical data) to be relatively similar to that under the current agreement.

Financing Team

The Financing team consists of RPU, City Attorney, and Finance Department staff. Consultant team members consist of Financial Advisor, PFM Financial Advisors, LLC, existing Line of Credit Provider, US Bank, and Stradling, Yocca, Carlson, & Rauth to serve as Bond Counsel based on their extensive knowledge of the City and RPU's debt disclosure and covenants. Fees for professional services associated with amending and restating this subordinate Letter of Credit are estimated to be \$55,000 and will be paid by the Water and Electric Utility.

Good Faith Estimate

On October 9, 2017, the Governor approved Senate Bill 450 (SB 450), adding Section 5852.1 to the California Government Code. SB 450 requires, prior to an issuance of bonds or other debt including the Subordinate Line of Credit, a public agency disclose in a public meeting good faith financing estimates provided by an Underwriter, Municipal Advisor, or private lender. 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 Subordinate Line of Credit in the amount of \$60,000,000 and remains undrawn for the three-and-a-half-year term of the agreement, a good faith estimate of the true interest cost of the Subordinate Line of Credit, is 0.23%, which includes the annual issuance cost plus the .20% unutilized fee. This is unchanged from the prior term of the LOC.
2. Finance Charge. The sum of all fees and charges paid to third parties, is \$475,000, which includes the estimated issuance costs plus three and a half years of unutilized fees.
3. Amount of Proceeds to be Received. The amount of proceeds expected to be received from the Subordinate Line of Credit less the finance charge of the Subordinate Line of Credit described in 2, above is \$0, reflecting the assumption that the Subordinate Line of Credit will remain undrawn for the full term of the agreement.
4. Total Payment Amount. Assuming a \$60,000,000 Subordinate Line of Credit, a good faith estimate of the total payment amount, which means the sum total of all payments RPU will make to pay debt service on the Subordinate Line of Credit plus the finance charge of the Subordinate Line of Credit described in paragraph 2, above, not paid with the proceeds of the Subordinate Line of Credit, calculated to the final maturity of the Subordinate Line of Credit, is \$0. This is based on an assumption that the line of credit will remain undrawn for the full term of the agreement.

The foregoing information constitutes good faith estimates only. The actual interest cost, finance charges, amount of proceeds and total payment amount may vary from the estimates above due to variations from these estimates in the timing of execution of the Subordinate Line of Credit.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority No. 5 – High Performing Government** and **Goal No. 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 and cash reserves to finance capital expenditures supports the City of Riverside’s Multi-year Capital Planning Fiscal Policy.
2. **Equity** – The Subordinate Line of Credit allows RPU to keep rate increases as low as possible for all ratepayers.
3. **Fiscal Responsibility** – Maintaining the subordinate line of credit provides RPU the flexibility to maintain cash reserves at a financially advantageous level for the current lower interest environment.
4. **Innovation** – Adequate liquidity capacity ensures Riverside’s ability to sell low-cost tax-exempt capital securities 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 is estimated to be \$175,000 during the first year of the Subordinate Line of Credit, \$120,000 in the second and third years, and \$60,000 in the final year. Sufficient funds are available in Public Utilities' Water and Electric Funds' Debt Related Fiscal Charges Account No. 6225000-487000 and 6125000-487000 for year one. The fees for the following years will be budgeted as part of the next budget process.

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

Attachments:

1. Resolution
2. Amended and Restated Agreement