City of Arts & Innovation

City Council Memorandum

TO:	**HONORABLE MAYOR AND CITY COUNCIL**	**DATE: APRIL 11, 2017**
FROM:	**FINANCE DEPARTMENT**	**WARDS: ALL**

SUBJECT: APPROVAL OF RESOLUTIONS AUTHORIZING LETTERS OF CREDIT RENEWAL OF 2008A ELECTRIC REVENUE BONDS OF $70,540,000 AND 2008C ELECTRIC REVENUE BONDS OF $41,975,000, REMARKETING OF 2011A ELECTRIC REVENUE BONDS FOR $41,925,000, AND APPROVAL OF FINANCING COSTS USING PFM, AS THE FINANCIAL ADVISOR FOR $22,500 , STRADLING YOCCA CARLSON & RAUTH AS BOND AND DISCLOSURE COUNSEL FOR $40,000 FOR THE CITY, MCDERMOTT WILL & EMERY, LLP REPRESENTING BARCLAYS FOR THE LETTER OF CREDIT FACILITIES AND CHAPMAN AND CUTLER, LLP REPRESENTING WELLS FOR THE DIRECT PLACEMENT TRANSACTION FOR A TOTAL OF $37,000 FOR BOTH FIRMS.

ISSUES:

The existing letters of credit agreements and direct placement facility supporting the variable rate 2008A, 2008C and 2011A Electric Revenue Bonds are expiring and need to be renewed. In addition, the 2008A and 2008C remarketing agreements are also expiring and need to be renewed. City staff is asking for authority to extend the letter of credit supporting the 2008A Electric Revenue Bonds, provided by Barclays Bank, PLC, for an additional four years, and substitute the current letter of credit supporting the 2008C Electric Revenue Bonds, which is provided by Bank of America, with a new letter of credit offered by Barclays Bank, PLC, at a lower cost. In conjunction with the letter of credit extension/substitution, staff seeks authority to appoint Barclays as remarketing agent on the 2008A Electric Revenue Bonds, replacing Bank of America. In addition, staff seeks authority to remarket the outstanding 2011A Electric Revenue Bonds in the existing structure (variable rate direct placement) for another three-year term. In the best interests of the City, staff seeks approval of the financing team and costs associated with the transactions.

RECOMMENDATIONS:

That the City Council:

1. Adopt a resolution authorizing the replacement of the 2008C letter of credit and the extension of the 2008A letter of credit under substantially similar terms for a period of four years, authorizing the execution of a remarketing agreement with Barclays for the 2008A Electric Revenue Bonds; and

2. Adopt a resolution authorizing a remarketing of the 2011A Electric Revenue Bonds (including amending Resolution No. 22193 and the related Continuing Covenant Agreement); and

3. Authorize the City Manager, or designee, to execute all documents related to these actions and to make non-substantive revisions to those documents as needed; and

4. Approve and authorize expenditures for the use of Public Financial Management, Inc., as the City's Financial Advisor, Stradling Yocca Carlson & Rauth as the City's bond and disclosure counsel, and reimburse Barclays Bank, PLC and Wells Fargo Bank for legal costs associated with their transactions.

BOARD RECOMMENDATION:

This report is published on March 30, 2017, for the April 11, 2017 City Council meeting. On April 10, 2017, the Riverside Public Utilities Board will hear this item for consideration to recommend to the City Council approval of the recommendations outlined above.

If the Board approves to forward to the City Council, we respectfully request the City Council consider the item at the April 11, 2017 City Council meeting.

BACKGROUND:

The Electric Department has three series of variable rate revenue bonds outstanding totaling approximately $154 million. The 2008A and 2008C Electric Revenue Bonds are variable rate demand obligations (VRDOs), which are required to maintain a letter of credit (LOC) provided by a bank as part of the financing structure and in order for investors to purchase the bonds. The 2011A Electric Revenue Bonds are direct placement bonds, which do not require a LOC but instead are placed directly with a bank.

DISCUSSION:

The existing credit agreements terminate on April 28, 2017 (2011A), May 22, 2017 (2008A) and May 24, 2017 (2008C) and must be renewed or replaced prior to their respective termination dates.

The Electric Department's outstanding variable rate debt is summarized in the table below:

Electric Department Variable-Rate Debt Summary							
Series	**Par Outstanding**	**Structure**	**Credit Facility / Provider**	**Credit Facility Cost**	**Credit Facility Term**	**Credit Facility Expiry**	**Remarketing Agent**
2008A (Refunding Bonds)	$70,540,000	Variable Subject to Remarketing	Direct Pay LOC Barclays	0.275%	3-years	5/22/2017	Bank of America
2008C (Refunding Bonds)	$41,975,000	Variable Subject to Remarketing	Direct Pay LOC Bank of America	0.390%	3-years	5/24/2017	Bank of America
2011A (Refunding Bonds)	$41,925,000	Variable Rate SIFMA Index plus fixed spread	Direct Placement Wells Fargo	0.350%	3-years	4/28/2017	N/A

Proposed Plan for Financing

In January 2017, City staff and Public Financial Management (PFM), reviewed current financial market conditions and determined that maintaining the 2008A, 2008C and 2011A Electric debt instruments in variable rate mode would continue to provide RPU with a low cost of borrowing.

Staff decided that approaching the existing banks would provide the best pricing and terms for renewing these credit facilities. To ensure the best pricing and terms were provided, PFM reviewed and evaluated against other recent similar transactions in the market. It was determined that extending the existing 2008A LOC with Barclays Bank, PLC (Barclays) and replacing the 2008C LOC from Bank of America (BofAML), with a new LOC from Barclays would provide the lowest cost in the market at the time.

The existing 2008A and 2008C LOCs have historically been renewed for 3-year terms, however it was determined based on current market conditions that a 4-year term would hedge against increased credit pricing in the future and reduce administrative and other transaction costs associated with credit facility renewals.

BofAML has served as the remarketing agent on the 2008A and 2008C bonds since 2008. This was evaluated and it was determined that having two remarketing agents creates competition which benefit the City by: 1) finding new investors; 2) remarketing RPU's variable rate bonds at the lowest yields; and, 3) provides the City with benchmarks for evaluating relative remarketing performance. The financing team reviewed the performance of Barclays as remarketing agent on similar variable rate programs and determined that it would be advantageous to appoint Barclays as remarketing agent on the 2008A bonds while retaining BofAML as remarketing agent on the 2008C bonds.

Unlike the 2008A and 2008C Electric Revenue Bonds, the 2011A Electric Revenue Bonds are direct placement bonds that have been held by Wells Fargo Bank (Wells) since 2011. The direct placement structure has performed very well, providing the City with a low cost of borrowing and limited administrative burden. It was determined that the City would be best served by maintaining the existing financing structure and converting the variable rate index of the 2011A bonds from the SIFMA index to a percentage of LIBOR index to mitigate risk.

Financing Team

To assist staff in evaluating and implementing these highly complex transactions, a financing team was assembled consisting of the City CFO/Treasurer, Utilities' Assistant General Manager-Finance, the City Attorney's Office and outside consultants who the City and RPU have current service agreements with and who are also experienced and knowledgeable in this area of financing. These included PFM, serving as the Financial Advisor and Stradling Yocca Carlson & Rauth serving as bond and disclosure counsel for the City (who are appointed by the City Attorney and on the City Attorney's Bond Counsel Panel). In addition, the City will be responsible for legal costs incurred by the counterparty banks who are also part of the financing team. McDermott Will & Emery, LLP represent Barclays for the Letter of Credit facilities and Chapman and Cutler, LLP represent Wells for the Direct Placement transaction. 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.

Required Documents:

In order to finalize the letters credit and direct placement transactions, the following documents need to be executed and delivered as part of the Resolution:

1) Amendment Agreement with Barclays to extend the expiration date of the letter of credit securing the 2008A Electric Revenue Bonds to for an additional four years (adjusting the fee from 0.275% to 0.325%);

2) Remarketing Agreement with Barclays with respect to the 2008A Bonds:

3) Supplement to the 2008A Remarketing Memorandum indicating the change in remarketing agent from BofAML to Barclays and the expiration date of the new letter of credit (May 21, 2021);

4) Reimbursement Agreement and Fee Letter with Barclays in connection with the 2008C Electric Revenue Bonds in order for Barclays to issue an irrevocable letter of credit to secure the 2008C Electric Revenue Bonds for a four-year term at the same fee (0.325%) as the 2008A Electric Revenue Bonds;

5) Amendment to the Remarketing Agreement with BofAML with respect to the 2008C Electric Revenue Bonds updating references to “Remarketing Agent” to BofAML Securities Inc. to reflect a change in corporate organizational structure at BofAML and to remove references to it remarketing the 2008A Electric Revenue Bonds;

6) Limited Reoffering Supplement to the 2008C Official Statement to reflect the change in credit provider from BofAML to Barclays and the terms and expiration date (May 21, 2021) of the new letter of credit; and

   Second Amendment to Continuing Covenant Agreement, to effect the remarketing of the 2011A Electric Revenue Bonds to another Index Interest Rate Period. The index rate on the 2011A Electric Revenue Bonds will be changed from Securities Industry and Financial Markets Association (SIFMA) + 0.35% to 70% of 1-Month London Interbank Offer Rate (LIBOR) + 0.70%.

FISCAL IMPACT:

The Electric Fund’s LOC costs for the 2008A and 2008C bonds will increase approximately $8,000 per annum through 2021 as a result of higher credit support costs, but will be offset by reduced administrative and transaction costs associated with procuring renewal credit facilities in 2020 instead of 2021 as well as the change of index from SIFMA to a percentage of LIBOR on the 2011A bonds. Additionally, by substituting Barclays for BofAML on 2008C, the Electric Fund will save approximately $94,000 per year as compared to extending the existing letter of credit with BofAML for a four-year term.

Estimates for the financing team fees are noted in the following table:

	Electric Fund 2008A and 2008C LOCs	**Electric Fund 2011A Direct Placement**
City Bond/Disclosure Counsel	$30,000	$10,000
Financial Advisor	$20,000	$2,500
Bank Counsel	$26,000	$11,000

Debt service and costs for remarketing are included in the current and future year’s budgets in the Electric Fund Debt Service Cost Center.

Prepared by: Scott G. Miller PhD, Chief Financial Officer/City Treasurer
Certified as to
availability of funds: Scott G. Miller PhD, Chief Financial Officer/City Treasurer
Approved by: John A. Russo, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:
1. Resolution 2008A and 2008C
2. Resolution 2011A
3. Presentation

Documents Specific to 2008A Bonds – Extension of Letter of Credit and Substitution of Remarketing Agent:

4. Amendment to 2008A Barclays Letter of Credit extending 2008A Barclays Letter of Credit
5. 2008A Remarketing Agreement with Barclays
6. Supplement to 2008A Official Statement

Documents Specific to 2008C Bonds – Substitution of Letter of Credit Provider and Extension of Remarketing Agreement:

7. 2008C Reimbursement Agreement with Barclays
8. 2008C Fee Letter with Barclays
9. Amendment to 2008C Remarketing Agreement with BofAML
10. Limited Reoffering Memorandum for 2008C Bonds

Documents Specific to 2011A Bonds – Remarketing Existing Variable Rate Direct Placement:

11. Second Amendment to Continuing Covenant Agreement with Wells