Electric Expiring Variable Rate Bond Credit Facilities

Finance Department

City Council
April 11, 2017

BACKGROUND

1. **RPU Electric Fund maintains three variable rate debt financings**
   a) Electric 2008A: Variable Rate Demand Obligations (VRDOs)
   b) Electric 2008C: VRDOs
   c) Electric 2011A: Direct Placement
2. **RPU's variable rate debt was originally issued in 2004/2005**
   a) Electric 2008A refinanced Electric 2004B
   b) Electric 2008C refinanced Electric 2005B
   c) Electric 2011A refinanced Electric 2008B which refinanced Electric 2005A
3. **All of RPU's existing variable rate debt portfolio has performed very well**
   a) Average all-in cost of funds for RPU's variable rate debt over the past three years approximately 3.35% including interest rate hedges, credit related charges and remarketing – well below comparable 2004/2005 fixed-rate interest rates

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

KEY TERMS

1. **Variable Rate Demand Obligations ("VRDOs"):**
   a) Bonds that bear interest at a variable rate, which is adjusted periodically by a remarketing agent to the minimum rate required to place the bonds with investors at par
   b) Investors may "put" VRDOs back to the remarketing agent at each remarketing date
   c) Because of these features, VRDOs are liquid investments – similar to cash – and have lower yields versus fixed-rate debt, thereby providing RPU with a low-cost of borrowing
2. **Letter of Credit ("LOC"):**
   a) Issued by a creditworthy bank (e.g. Barclays) to provide liquidity in the event that investors tender their VRDOs and the remarketing agent cannot find new investors
   b) Investors require a LOC in order to purchase RPU's VRDOs
3. **Direct Purchase:**
   a) Similar to VRDOs in structure (i.e. variable rate, low cost) but placed directly with a bank instead of sold on the public market to investors
   b) No LOC required

PLAN OF FINANCE

1. **Board approval – April 10, 2017**
2. **City Council approval – April 11, 2017**
3. **Goal – evaluate and refine RPU existing variable rate debt financing structures**
   a) Address necessary extension and remarketing requirements
      i. Electric 2008A Letter-of-Credit ("LOC") expires May 22, 2017
      ii. Electric 2008C Letter-of-Credit expires May 24, 2017
      iii. Electric 2011A Direct Placement must be remarketed prior to April 28, 2017
   b) Obtain competitive pricing

PLAN OF FINANCE (CONT.)

Maintain the existing structures with slight modifications:

1. 2008A- extend Barclays LOC and appoint Barclays as Remarketing Agent:
   a) Extend term from 3-year to 4-year, minimal cost increase to hedge against increased credit pricing in the future and reduce transaction/admin. costs
   b) 0.325% for 4-year term
2. 2008C – substitute current Bank of America (BofAML) LOC with Barclays LOC:
   a) Extend term from 3 year to 4-year similar to 2008A
   b) 0.325% rate for 4-year term
3. 2011A – remarket Wells Fargo direct placement:
   a) Remarket for another 3-year term with fee remaining the same at 0.350% and change index from SIFMA to 70% of LIBOR index

PLAN OF FINANCE BENEFITS

1. **Hedges against higher credit costs in the future**
   a) Bank credit markets have tightened (i.e. higher costs) since RPU's last credit renewal process in 2014 and are expected to tighten further as banks implement more stringent capital requirements and pass on higher costs
   b) Staggered renewals in 4-years (2008A/C) and 3-years (2011A) help mitigate this risk
2. **Reduces transaction and administrative costs**
   a) By extending the term of the 2008A/C LOCs by one year to 4-years, RPU is able to amortize transaction costs over a longer period of time and will have an extra year before incurring renewal costs again
   b) 2011A Direct Purchase structure does not require updated public market disclosure
3. **Maintains RPU's low-cost debt structure**
   a) RPU's variable rate debt continues to provide a low and predictable cost of borrowing
   b) Interest rate hedges continue to function as planned and remain in place to mitigate the impact of higher short-term interest rates on RPU's borrowing cost

7

RiversidePublicUtilities.com

FINANCING TEAM

1. City:
   a) City Finance – Scott G. Miller, PhD, CFO/Treasurer
   b) RPU Finance – Laura Nomura, AGM-Finance
   c) City Attorney's Office – Susan Wilson, Asst. City Attorney
2. Financial Advisor – Public Financial Management
3. Bond and Disclosure Counsel – Stradling Yocca Carlson & Rauth
4. LOC Provider for Electric 2008A and 2008C – Barclays Bank, PLC
5. Direct Purchase Lender 2011A – Wells Fargo

8

RiversidePublicUtilities.com

RECOMMENDATIONS

That the Board of Public Utilities recommend 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

RECOMMENDATIONS (CONT.)

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.