



City of Arts & Innovation

City Council and Public Financing Authority Memorandum

TO: HONORABLE MAYOR, CITY COUNCIL, AND PUBLIC FINANCING AUTHORITY DATE: MARCH 6, 2018

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: RENEWAL OF A LETTER OF CREDIT FOR THE 2008 \$128,300,000 REFUNDING CERTIFICATES OF PARTICIPATION ISSUED TO FINANCE VARIOUS CAPITAL PROJECTS

ISSUE:

Approve the renewal of the expiring Letter of Credit with Bank of America for the outstanding Refunding Certificates of Participation issued as Variable Rate Demand Notes in 2008, which refunded Certificates of Participation issued in 2007 to provide funding for the Riverside Renaissance Initiative.

RECOMMENDATIONS:

1. That the City Council authorize the City Manager, or his designee, to execute documents required to renew the Letter of Credit with Bank of America supporting the outstanding Variable Rate Demand Notes originally issued in 2008, including but not limited to, a Fourth Amendment to the Reimbursement Agreement, and any other documents required to execute the renewal; and
2. That the Board of Directors of the Public Financing Authority authorize its Chairperson, or other duly authorized signatory of the Board, to execute documents required to renew the Letter of Credit with Bank of America supporting the outstanding Variable Rate Demand Notes originally issued in 2008, including but not limited to, a Fourth Amendment to the Reimbursement Agreement, and any other documents required to execute the renewal.

BACKGROUND:

In April 2008, the City Council approved the issuance of \$ 128,300,000 of Refunding Certificates of Participation (COPs) as Variable Rate Demand Notes (VRDNs). This variable rate debt structure takes advantage of very low short-term interest rates, but requires a bank Letter of Credit (LOC) be inserted between the issuer of the VRDNs (City of Riverside) and the purchasers of the debt. This form of security provides greater assurance to the purchaser that they will be repaid by adding another party to help guarantee repayment.

In 2008, the City entered into a two-year LOC with Bank of America who competed successfully for the work by offering the best pricing. The LOC was renewed in 2010, again for two-years, and

in 2012 and 2015 for three years, respectively. Pricing has been highly volatile over the life of the LOC, but Bank of America has consistently provided the best pricing to the City.

DISCUSSION:

The current LOC with Bank of America is due to expire on March 31, 2018. The City has evaluated other debt structures for this obligation, but as of today, the current VRDN structure with an LOC credit enhancement, remains the lowest cost option for the City. Pricing for this renewal remains constant at 40 basis points annually applied to the average debt outstanding. Each basis point represents .01%. As such, 40 basis points equates to .40% of the current debt outstanding or approximately \$420,000 per year in additional interest costs. In reviewing current market conditions and trends, better credit quality instruments were garnering pricing anywhere from 35 to 60 basis points for agencies that had higher ratings than the City. Given that Bank of America has agreed to extend the same pricing terms for three additional years, it made fiscal sense to extend the agreement without additional significant cost to the City.

There are no other material changes to the agreements between Bank of America and the City at this point of renewal.

FISCAL IMPACT:

The fiscal impact of approving the LOC is approximately \$3,000 in legal expenses. Sufficient funding is available in debt service fund expense account 2370100-447010 to pay for these costs.

Prepared by:	Edward Enriquez, Controller/Deputy Treasurer
Certified as to	
availability of funds:	Adam Raymond, Chief Financial Officer/Treasurer
Approved by:	Marianna Marysheva, Assistant City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Attachment: Fourth Amendment to the Reimbursement Agreement