



## Update on Bond Defeasance for Debt related to San Onofre Nuclear Generating Station (SONGS)

Riverside Public Utilities

City Council  
April 24, 2018



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## BACKGROUND

1. On June 27, 2017, the City Council received an update on the decommissioning status of the San Onofre Nuclear Generating Station (SONGS).
2. The City Council:
  - a) Approved the use of settlements and cost recoveries of \$11,244,000 to partially defease existing debt;
  - b) Retained the financing team and authorized the City Manager to execute all agreements not to exceed \$65,000; and
  - c) Approved the transfer of \$11,244,000 to a designated reserve for bond defeasance.

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## What is a Bond Defeasance?

1. A defeasance is similar to a bond refunding; however, instead of issuing new bonds RPU is using cash to pay off bonds.
2. Legally terminates RPU's obligation with respect to the defeased bonds (i.e. bonds are no longer listed a liability of RPU on financial statements).
3. Funds are set aside in an irrevocable escrow account to pay remaining interest until the call date (October 1, 2018) at which time the bonds are redeemed.
  - a) Funds in the escrow account are invested in State and Local Government Securities (SLGS) to generate interest earnings until October 1
4. An Escrow Agreement is required to establish the escrow fund, which is held by RPU's Bond Trustee, US Bank.

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## What are the benefits to RPU?

1. A defeasance has similar benefits to RPU as an economic refunding:
  - a) Reduces RPU's annual debt service (~\$400,000/year thru 2039)
  - b) Improves debt service coverage metrics
  - c) Lowers outstanding debt per customer
2. RPU will be retiring higher cost 5% coupon debt issued in 2008 (Issue of 2008D) using SONGS settlements and cost recoveries
  - a) Alternatively, RPU could invest the settlement proceeds – but available investment returns are below the 5% bond coupon (LAIF is 1.48% and 5yr US Treasuries are 2.63%)

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## BOND DEFEASANCE TIMELINE

Week of	Activity	Completed
2/5/18	• Preliminary analysis of most efficient (i.e. highest savings) outstanding bonds to defease	✓
2/26/18	• Bond and Tax Counsel prepares draft Escrow Agreement	✓
4/9/18	• PUB Approval of Escrow Agreement	✓
4/23/18	• City Council Approval of Escrow Agreement • Trustee subscribes for SLGS, final defeasance cash flows prepared and distributed	
5/7/18	• RPU transfers \$11.244 million of SONGS settlements and cost recoveries to Escrow Account • Trustee applies funds to legally defease selected 2008D Bonds	

## RECOMMENDATIONS

That the City Council:

1. Approve the Escrow Agreement with U.S. Bank National Association as Escrow Agent and as 2008D Fiscal Agent in order to defease a portion of outstanding Electric Revenue Bonds, Issue of 2008D, and authorize the City Manager, or his designee, to execute that agreement and make any minor, non-substantive changes;
2. Authorize the City Manager, or his delegate, to transfer up to \$11,244,000 to the Escrow Agent, U.S. Bank National Association, for deposit into the Escrow Fund to defease a portion of outstanding Electric Revenue Bonds, Issue of 2008D; and

## RECOMMENDATIONS Cont.

That the City Council:

3. Authorize Escrow Agent to purchase those certain securities specified in the Escrow Agreement, of which the interest on and principal will be sufficient to provide for the payment or prepayment of a portion of the outstanding Electric Revenue Bonds, Issue of 2008D.