



Sewer Revenue Bonds Refunding Opportunity

Finance Department

City Council
October 23, 2018

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Background

1. In July 2009, City Council approved the issuance of the 2009 Sewer Revenue Bonds (Series A and B) in the not to exceed amount of \$280,000,000.
 - A. Proceeds from the issuance were used to fund capital projects contained in the Integrated Master Plan for the Wastewater Collection and Treatment Facilities (Master Plan).
 - B. 2009 Series A
 - i. Tax exempt
 - ii. In the amount of \$36.8 million
 - iii. Fully paid off in fiscal year 2017

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Background

A. 2009 Series B

- i. Taxable Build America Bonds (BABs)
- ii. In the amount of \$204 million
- iii. Outstanding in the amount of \$187 million including a debt reserve fund of approximately \$16 million.
- iv. City receives credit historically between 32% - 35% of total interest due from the US Treasury.
- v. Risk due to Sequestration by Federal Government. Treasury Credit is not guaranteed.



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Background

- 1. BABs were part of an economic stimulus plan which provided a more cost effective financing approach than issuing all tax-exempt bonds.
 - 2. BABs structure opened the market to purchasers other than traditional buyers of Municipal Bonds.
 - 3. Increased interest rate associated with taxable debt is reduced by direct payments from the US Treasury equal to 32% - 35% of the cost of interest.
 - 4. The Treasury credit effectively reduced the interest rate to the Sewer Enterprise.
- A. Given the volatility at the Federal Government level the Treasury credit is periodically reduced. In FY 2019, the credit is cut by 6.6%.



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Discussion

1. Refinance 2009 Series B Build America Bonds on a tax exempt basis.
 - A. Eliminates the uncertainty of the Treasury Credit
 - B. Reduces interest rate by over 1.0% (4.81% → 3.74%)
2. Issuance size of approximately \$156,000,000 and a resolution amount not to exceed \$200,000,000.
3. Projected net present value savings of approximately 7.6% and \$14,000,000.
4. Refinance is a hybrid approach that produces upfront savings to the Sewer Enterprise Fund of approximately \$19.9 million in first five years and \$1.4 million annually for remaining life of the bonds (8/1/2039)



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RECOMMENDATIONS

That the City Council:

1. Conduct a Public Hearing relative to the refunding of the City's 2009B Sewer Revenue Bonds;
2. Adopt a Resolution authorizing the issuance of the 2018 Refunding Bonds to refinance the City's 2009B Bonds and providing the terms and conditions of such bonds (Fifth Supplemental Resolution);
3. Authorize the City Manager, or his designee, to execute all documents necessary to close the bond refinancing and make certain non-substantive changes to the final documents necessary to complete the transaction;
4. Approve the financing team as indicated in the report.



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