

# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE:** JANUARY 14, 2019

**ITEM NO:** 17

**SUBJECT: SUBORDINATE LINE OF CREDIT AGREEMENT TO SUPPORT THE ELECTRIC AND WATER UTILITIES**

**ISSUE:**

Adopt resolutions to enter into a Subordinate Line of Credit for the Electric and Water Utilities in an aggregate amount not-to-exceed \$60 million. The Subordinate Line of Credit was identified as part of the approved Electric and Water Utility Five-Year Rate Plan as a tool to manage the rate increases by enabling the Electric and Water Utilities to reduce cash levels while maintaining compliance with the Riverside Public Utilities Cash Reserve Policy and supporting strong bond ratings.

**RECOMMENDATIONS:**

That the Board of Public Utilities recommend that the City Council:

1. Conduct a public hearing to consider the issuance of one or more promissory notes on the subordinate line of credit in an aggregate principal amount not-to-exceed \$60 million;
2. Adopt a resolution to enter into a Subordinate Line of Credit with U.S. Bank National Association for the Electric Utility;
3. Adopt a resolution to enter into a Subordinate Line of Credit with U.S. Bank National Association for the Water Utility;
4. Approve the City's Financing Team, as described herein; and
5. Authorize the City Manager, or his designee, to execute all documents related to this transaction.

**BACKGROUND:**

On May 22, 2018, the City Council approved the Electric and Water Utility Five-Year Rate Plan for Riverside Public Utilities (RPU). One component of the rate plan designed to keep the rate increases as low as possible was the use of a Subordinate Line of Credit. A Subordinate Line of Credit is a low-cost financial tool available to entities with strong credit ratings that provides flexibility and operating liquidity similar to cash reserves if there is an emergency need. RPU does not intend to draw upon the Subordinate Line of Credit, however, the Subordinate Line of Credit allows RPU to reduce the rate impact to customers by enabling RPU to spend cash reserves on capital projects while the Subordinate Line of Credit is used, in lieu of cash, to meet the overall liquidity and reserve levels necessary to maintain RPU's strong bond ratings. Based on a review of the Electric Utility and Water Utility financial plans, it was determined that the Electric Utility need is approximately \$35 million and the Water Utility need is approximately \$25 million to ensure compliance with the RPU's City Council approved Cash Reserve Policy.

## **DISCUSSION:**

### *Subordinate Line of Credit*

On October 5, 2018, RPU's Municipal Advisor, on behalf of RPU, distributed a request for proposals to qualified banking institutions capable of providing a line of credit in the amount of \$60 million to be allocated between the Electric and Water Utilities. RPU received responses from six qualified institutions. Proposals were evaluated based on the following criteria: 1) cost of the line of credit; 2) experience providing lines of credit for similar government entities; 3) required financial covenants; and 4) other terms and conditions requested by the lender.

After a thorough review of the proposals received, RPU and the City's Chief Financial Officer/Treasurer determined that U.S. Bank offered the lowest cost proposal and most favorable terms. U.S. Bank proposed a three-year line of credit with an annual commitment fee of 20 basis points (0.20%), or \$120,000 per year assuming the line of credit remains unutilized as planned. The next lowest cost proposer offered an annual commitment fee of 25 basis points (0.25%) or \$150,000. Additionally, U.S. Bank's terms and conditions were consistent with the other proposers' covenants and the Bank has agreed to take a subordinate position to the City's outstanding Electric and Water Revenue Bonds.

It is advantageous for RPU to obtain a single line of credit in the amount of \$60 million, which can be allocated between the Electric and Water Utilities, rather than obtaining two separate lines of credit. The initial allocation of the Subordinate Line of Credit will be a maximum of \$35 million to the Electric Utility and a maximum of \$25 million to the Water Utility. This allocation may be adjusted in the future based on future Council-approved Budgets and Capital Improvement Programs.

### *Financing Team*

A Financing Team has been assembled, consisting of staff from the Public Utilities Department, the Finance Department, and the City Attorney's Office, with PFM Financial Advisors LLC serving as Municipal Advisor. This Financing Team selected Stradling Yocca Carlson & Rauth to serve as Bond Counsel based on recent favorable experience and extensive knowledge of the City and RPU's debt resolutions and relevant legal covenants contained in the City's other bank agreements. The Financing Team has also selected U.S. Bank National Association to provide the Subordinate Line of Credit based on the qualifications previously described. Fees for professional services are estimated to be \$135,000 and will be paid by the Electric and Water Utilities. Staff recommends approval of the Financing Team, as described herein.

### *Good Faith Estimates*

On October 9, 2017, the Governor approved Senate Bill 450 (SB 450), adding Section 5852.1 to the California Government Code. SB 450 requires, prior to an issuance of bonds or other debt including the Subordinate Line of Credit, a public agency to disclose in a public meeting good faith financing estimates provided by an Underwriter, Municipal Advisor or private lender. These estimates include: 1) the True Interest Cost; 2) the total finance charge, equal to the sum of all fees and charges paid to third parties; 3) the amount of estimated financing proceeds minus the total finance charge of the Subordinate Line of Credit, and any reserves funded from proceeds of the financing; and 4) the total payment amount, which includes the projected sum of all payments RPU will make to pay debt service on the Subordinate Line of Credit plus any portion of the finance charge of the Subordinate Line of Credit that will not be paid with the proceeds of the Subordinate Line of Credit.

The following information was obtained from PFM Financial Advisors, as Municipal Advisor, and is provided in compliance with SB 450:

1. **True Interest Cost.** Assuming Subordinate Line of Credit in the amount of \$60,000,000 and remains undrawn for the three-year term of the agreement, a good faith estimate of the true interest cost of the Subordinate Line of Credit, is 0.20%.

2. **Finance Charge.** A good faith estimate of the finance charge of the Subordinate Line of Credit, which means the sum of all fees and charges paid to third parties, is \$135,000.

3. **Amount of Proceeds to be Received.** A good faith estimate of the amount of proceeds expected to be received from the Subordinate Line of Credit less the finance charge of the Subordinate Line of Credit described in 2, above is \$0, reflecting the assumption that the Subordinate Line of Credit will remain undrawn for the full term of the agreement.

4. **Total Payment Amount.** Assuming a \$60,000,000 Subordinate Line of Credit, a good faith estimate of the total payment amount, which means the sum total of all payments RPU will make to pay debt service on the Subordinate Line of Credit plus the finance charge of the Subordinate Line of Credit described in paragraph 2, above, not paid with the proceeds of the Subordinate Line of Credit, calculated to the final maturity of the Subordinate Line of Credit, is \$495,000.

The foregoing information constitutes good faith estimates only. The actual interest cost, finance charges, amount of proceeds and total payment amount may vary from the estimates above due to variations from these estimates in the timing of execution of the Subordinate Line of Credit.

The Chief Financial Officer/Treasurer concurs with the recommendations above.

The Subordinate Line of Credit is part of an overall 2019 RPU Plan of Finance to support the Electric and Water Utility Five-Year Rate Plan. The Board of Public Utilities (Board) will hear and consider this item and the Electric and Water bond components of the 2019 RPU Plan of Finance on the same Board meeting date. Due to the time sensitivity of the Electric and Water bond components, the City Council is scheduled to hear this item for consideration on January 22, 2019 along with the items for the Electric and Water bonds. If approved by the Board and City Council, this schedule will allow adequate time to execute the 2019 RPU Plan of Finance including securing the Subordinate Line of Credit.

### **FISCAL IMPACT:**

The total fiscal impact is estimated to be \$255,000 during the first year of the Subordinate Line of Credit and \$120,000 in the second and third years. Sufficient funds are available in Public Utilities' Electric Debt Related Fiscal Charges Account No. 6125000-487000 and Water Debt Related Fiscal Charges Account No. 6225000-487000 for Years one and two. The fees for year three will be budgeted as part of the next biennial budget process.

Prepared by: Aileen Ma, Interim Utilities Assistant General Manager/Finance & Administration  
Approved by: Todd M. Corbin, Utilities General Manager  
Approved by: Al Zelinka, FAICP, City Manager  
Approved as to form: Gary G. Geuss, City Attorney

Certifies availability of funds: Aileen Ma, Interim Utilities Assistant General Manager/Finance & Administration

Attachment: Presentation