



## 2019 REFUNDING ELECTRIC AND WATER REVENUE BONDS AND LINE OF CREDIT AGREEMENT

Finance Department

City Council  
January 22, 2019

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### BACKGROUND

RPU has developed a comprehensive plan of finance for Electric and Water designed to achieve the following objectives:

1. Refinance outstanding fixed-rate bonds to provide debt service savings
2. Finance a portion of the Capital Improvement Plan with proceeds of new debt
3. Refinance variable-rate debt with fixed-rate debt and terminate the associated interest rate swaps to reduce risk
4. Enter into a Line of Credit for the primary purpose of maintaining unrestricted reserves in compliance with RPU's Cash Reserve Policy

RPU's 2019 Plan of Finance is consistent with the goals and objectives of the Five-Year Rate Plan approved by City Council on May 22, 2018.



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## DISCUSSION

### Core components of the 2019 Plan of Finance include:

Electric Plan of Finance	Water Plan of Finance
<ol style="list-style-type: none"> <li>1. Refund Series 2008D Bonds for debt service savings</li> <li>2. Finance \$103 million of new money projects with proceeds of new fixed-rate debt</li> <li>3. Refund all or a portion of 2008A and/or 2008C variable rate bonds and terminate associated swaps on a cost-neutral basis</li> </ol>	<ol style="list-style-type: none"> <li>1. Refund Series 2008B Bonds for debt service savings</li> <li>2. Finance \$52 million of new money projects with proceeds of new fixed-rate debt</li> <li>3. Refund all or a portion of 2011A Variable Rate SIFMA Index Bonds and terminate associated swap on a cost-neutral basis</li> </ol>
<p>Enter into a Subordinate Line of Credit in an amount not-to-exceed \$60 million to be allocated to Electric (\$35 million) and Water (\$25 million) to maintain reserves and provide emergency liquidity</p>	



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## ELECTRIC PLAN OF FINANCE



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## ELECTRIC PLAN OF FINANCE

### **1. Refund \$191.7 million of Series 2008D Bonds for debt service savings**

- a) 2008D Bonds are eligible to be refinanced on April 1, 2019.
- b) RPU is proposing a fixed-rate refunding, maintaining the current final maturity (2038).
- c) Refunding is expected to generate annual cash flow savings of approximately \$2 million per year through 2038.



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## ELECTRIC PLAN OF FINANCE

### **2. Finance \$103 million of new money projects**

- a) \$83 million of projects identified in the Five-Year Capital Improvement Program plus \$20 million to reimburse Electric for prior capital expenditures.
- b) Fixed-rate bonds, structured to provide level debt service over a term of 30 years.
- c) Level debt service provides budget and rate certainty.



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## **ELECTRIC PLAN OF FINANCE**

### **3. Fixed-rate refinancing of variable rate bonds and swap termination**

- a) Electric has \$107 million of outstanding 2008A and 2008C variable rate bonds (VRDOs) supported by letters of credit and hedged with interest rate swaps.
- b) VRDOs have provided lower cost of borrowing vs. fixed rate bonds.
- c) Current opportunity to refinance VRDOs with fixed-rate debt and terminate the interest rate swaps at cost neutral.
- d) Reduces risk in Electric's debt portfolio.
- e) Opportunity is very sensitive to market conditions.



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## **FINANCING TEAM**

### **2019 Refunding Electric Revenue Bonds**

- 1. Staff from Public Utilities Department, Finance Department, and City Attorney's Office
- 2. Bond Counsel: Stradling Yocca Carlson & Rauth
- 3. Disclosure Counsel: Jones Hall
- 4. Municipal Advisor: PFM Financial Advisors
- 5. Underwriters: Goldman Sachs, Barclays Capital and Bank of America Merrill Lynch



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## **RECOMMENDATIONS**

### **2019 Refunding Electric Revenue Bonds**

That the City Council:

1. Approve the City's Financing Team as described herein;
2. Conduct a public hearing to consider the issuance of Refunding Electric Revenue Bonds in an amount not-to-exceed \$400 million;
3. Adopt a Resolution authorizing the issuance of Refunding Electric Revenue Bonds and providing the terms and conditions of such bonds (Eighteenth Supplemental Resolution);



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## **RECOMMENDATIONS (Con't)**

### **2019 Refunding Electric Revenue Bonds**

4. Delegate to the City's Financing Team, at the time of Bond issuance, the determination of specific maturities to be refunded, the amount of interest rate swaps to be terminated and the formation of new bonds as outlined in Recommendation No. 3 above;
5. Authorize the City Manager, or his designee, to execute all documents related to this transaction; and



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## **RECOMMENDATIONS (Con't)**

### **2019 Refunding Electric Revenue Bonds**

6. Upon closing of the 2019 Refunding Electric Revenue Bonds, authorize the Chief Financial Officer to make the necessary budget adjustments and/or appropriations to properly record the refunding and financing expenses in accordance with governmental accounting requirements.



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## **WATER PLAN OF FINANCE**



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## **WATER PLAN OF FINANCE**

### **1. Refund \$53.9 million of Series 2008B Bonds for debt service savings**

- a) 2008B Bonds are eligible to be refinanced on April 1, 2019.
- b) RPU is proposing a fixed-rate refunding, maintaining the current final maturity (2038).
- c) Refunding is expected to generate annual cash flow savings of approximately \$0.5 million per year through 2038.



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## **WATER PLAN OF FINANCE**

### **2. Finance \$52 million of new money projects**

- a) \$52 million of projects identified in the Five-Year Capital Improvement Program.
- b) Fixed-rate bonds, structured to provide level debt service over a term of 30 years.
- c) Level debt service provides budget and rate certainty.



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## WATER PLAN OF FINANCE

### 3. Fixed-rate refinancing of SIFMA Index variable rate bonds and swap termination

- a) Water has \$51 million of outstanding variable rate 2011A SIFMA Index Bonds, hedged with an interest rate swap.
- b) 2011A Bonds and swap have performed as expected.
- c) Current opportunity to refinance 2011A Bonds with fixed-rate debt and terminate the interest rate swap at cost neutral.
- d) Reduces risk in Water's debt portfolio.
- e) Opportunity is very sensitive to market conditions.



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## FINANCING TEAM

### 2019 Refunding Water Revenue Bonds

- 1. Staff from Public Utilities Department, Finance Department, and City Attorney's Office
- 2. Bond Counsel: Stradling Yocca Carlson & Rauth
- 3. Disclosure Counsel: Jones Hall
- 4. Municipal Advisor: PFM Financial Advisors
- 5. Underwriters: Citigroup and JPMorgan



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## **RECOMMENDATIONS**

### **2019 Refunding Water Revenue Bonds**

That the City Council:

1. Approve the City's Financing Team, as described herein;
2. Conduct a public hearing to consider the issuance of Refunding Water Revenue Bonds in an amount not-to-exceed \$160 million;
3. Adopt a Resolution authorizing the issuance of Refunding Water Revenue Bonds and providing the terms and conditions of such bonds (Ninth Supplemental Resolution);



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## **RECOMMENDATIONS (Con't)**

### **2019 Refunding Water Revenue Bonds**

4. Delegate to the City's Financing Team, at the time of Bond issuance, the determination of specific maturities to be refunded, the amount of interest rate swaps to be terminated and the formation of new bonds as outlined in Recommendation No. 3 above;
5. Authorize the City Manager, or his designee, to execute all documents related to this transaction; and



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## **RECOMMENDATIONS (Con't)**

### **2019 Refunding Water Revenue Bonds**

6. Upon closing of the 2019 Refunding Water Revenue Bonds, authorize the Chief Financial Officer to make the necessary budget adjustments and/or appropriations to properly record the refunding and financing expenses in accordance with governmental accounting requirements.



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## **SUBORDINATE LINE OF CREDIT**



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## SUBORDINATE LINE OF CREDIT

1. RPU is proposing to enter into a Subordinate Line of Credit (LOC) with U.S. Bank in an aggregate amount of \$60 million
  - a) \$35 million allocated to Electric
  - b) \$25 million allocated to Water
2. RPU does not plan to draw on the LOC, but available to do so in an emergency.
3. Maintain compliance with the Cash Reserve Policy.
4. Structured to be treated like cash by the credit rating agencies.



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## FINANCING TEAM Subordinate Line of Credit Agreement

1. Staff from Public Utilities Department, Finance Department, and City Attorney's Office
2. Bond Counsel: Stradling Yocca Carlson & Rauth
3. Municipal Advisor: PFM Financial Advisors
4. Subordinate Line of Credit Provider: U.S. Bank National Association



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## PRELIMINARY SCHEDULE

Date	Action
January 14	Board of Public Utilities
January 22	City Council Approval
January 23	Receive Bond Ratings
February 1	Line of Credit Closing
February 5	Bond Pricing – Water
February 7	Bond Pricing – Electric
February 26	Bond Closing – Water and Electric



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## RECOMMENDATIONS

### Subordinate Line of Credit Agreement

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 (Nineteenth Supplemental Resolution);



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## **RECOMMENDATIONS (Con't)**

### **Subordinate Line of Credit Agreement**

3. Adopt a resolution to enter into a Subordinate Line of Credit with U.S. Bank National Association for the Water Utility (Tenth Supplemental Resolution);
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.



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