



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE:** MARCH 23, 2020

**ITEM NO:** 7

**SUBJECT:** RESOLUTION AUTHORIZING CERTAIN ACTIONS RELATED TO AN UNSCHEDULED MANDATORY TENDER, INTEREST RATE PERIOD CONVERSION, AND REMARKETING OF PREVIOUSLY AUTHORIZED AND ISSUED VARIABLE RATE REFUNDING ELECTRIC REVENUE BONDS, ISSUE OF 2011A; REMARKETING AGREEMENT WITH BANK OF AMERICA SECURITIES, INC., AND REIMBURSEMENT AGREEMENT, FEE LETTER AND REMARKETING STATEMENT WITH BANK OF AMERICA, N.A.

**ISSUES:**

Adopt a resolution authorizing certain actions related to an unscheduled mandatory tender, interest rate period conversion, and remarketing of the previously authorized and issued variable rate refunding electric revenue bonds, issue of 2011A; approve the Remarketing Agreement with Bank of America Securities, INC.; and approve the Reimbursement Agreement, Fee Letter and Remarketing Statement with Bank of America, N.A.;

**RECOMMENDATIONS:**

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

1. Adopt a resolution authorizing certain actions related to an unscheduled mandatory tender, interest rate period conversion, and remarketing of the previously authorized and issued variable rate refunding electric revenue bonds, issue of 2011A;
2. Approve the Remarketing Agreement with Bank of America Securities, Inc.;
3. Approve the Reimbursement Agreement, Fee Letter, and Remarketing Statement with credit provider, Bank of America, N.A.;
4. Authorize the City Treasurer and the Public Utilities Department General Manager, or designee, to execute all documents, notices or instructions related to the unscheduled mandatory tender, interest rate period conversion, and remarketing of the previously authorized and issued variable rate refunding electric revenue bonds, issue of 2011A; and
5. Affirm the financing team, as identified herein, for this transaction and authorize the City Treasurer or any duly authorized designee, to pay the costs of such firms in connection with the interest rate reset and tender, purchase and remarketing of the 2011A Bonds from the City's Electric Revenue Fund.

## **BACKGROUND:**

On April 5, 2011, the City Council approved the issuance of \$56,450,000 in aggregate principal to refund City of Riverside Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B and to establish a construction fund in the amount of \$4,102,729. The 2011 bonds were issued as variable rate term bonds with a Maturity date of October 1, 2035. The bonds were sold via direct purchase to Wells Fargo Bank, National Association for a term of three (3) years, ending April 28, 2014. At that time, they were remarketed directly to Wells Fargo, and subsequently in 2017 with April 27, 2020 as the new expiration date.

The bonds represent a long-term obligation, with short term interest periods which reset periodically. The interest rate is determined weekly over the designated interest rate period. During this last term, the Federal Government passed the 2017 Tax Cuts and Jobs Act. The Act lowered the maximum corporate tax rate from 35% to a flat rate of 21%. This had the effect of reducing Wells Fargo's after-tax return on the bonds. Per the purchase agreement, the bank increased the interest rate on the 2011A Variable rate bonds to recoup their lost return.

As the bond purchase agreement is set to expire with Wells Fargo, City staff recommend remarketing the 2011A variable rate bonds in the public market. While the 2011A bonds are hedged by a swap agreement that helps to offset variable interest rate increases, the financing team has determined that a public financing would result in greater savings and flexibility for the City and the Riverside Public Utilities Department (RPU).

## **DISCUSSION:**

The attached Resolution authorizes the remarketing of the 2011A Bonds on any date prior to the Index Rate Scheduled Purchase Date of April 27, 2020. It converts the 2011A Bonds to a Weekly Interest Rate Period and authorizes Bank of America Securities, Inc. as the City's Remarketing Agent to distribute the Remarketing Statement and thereafter to remarket the 2011A Bonds in a weekly interest period. Adoption of the Resolution approves the Letter of Credit Reimbursement Agreement with Bank of America, N.A., and authorizes staff to deem the Remarketing Statement final for purposes of Rule 15c2-12 of the Securities and Exchange Commission, with such changes as staff concludes appropriate to effect the remarketing.

### **Remarketing Statement**

The City's financing team compiled the attached Remarketing Statement to be used in connection with the current remarketing of the 2011A Electric Refunding Revenue Bonds. The distribution of the Remarketing Statement is subject to federal securities laws including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Remarketing Statement to include all facts that would be material to an investor of the 2011A Electric Refunding Revenue Bonds. Material information is that where there is a substantial likelihood the information would have actual significance in the deliberations of a reasonable investor when deciding whether to buy or sell the 2011A Electric Refunding Revenue Bonds.

### **Financing Team**

The Financing Team for this transaction consists of City staff from the Finance Department and the Public Utilities Department. Public Financial Advisors, LLC (PFM) is serving as the Financial Advisor. The firm of Stradling, Yocca, Carlson & Rauth (Stradling), is acting as bond and disclosure counsel. Bank of America Securities, Inc. (BoFA Securities), is serving as Remarketing Agent as per the Remarketing Agreement (Attachment 2) for the 2011A Bonds. Bank of America, NA will be the liquidity provider, through a Letter of Credit Reimbursement Agreement.

The estimated Financing Team expenses include:

| RPU 2011A Electric System Bonds Remarketing |           |          |
|---|-----------|----------|
| Bond/Disclosure Counsel                     | Stradling | \$50,000 |
| Financial Advisor                           | PFM       | \$45,000 |

|                           |                 |                  |
|---------------------------|-----------------|------------------|
| Trustee                   | US Bank         | \$750            |
| Remarketing Agent         | BofA Securities | \$25,960         |
| Rating Agency             | S&P             | \$41,250         |
| Rating Agency             | Fitch           | \$30,000         |
| Remarketing Agent Counsel | Nixon Peabody   | \$40,000         |
| Printer                   | Imagemaster     | \$ 3,000         |
| Contingency               | Miscellaneous   | \$5,000          |
| <b>Total</b>              |                 | <b>\$240,960</b> |

**Interest Rate Hedge Adjustment**

The City holds an interest rate hedge agreement with Counterparty JP Morgan in which the City receives 62.68% of London Interbank Offering Rate (LIBOR) plus 12 basis points which offsets (or hedges) the variable rate RPU pays to its bondholders in exchange for a favorable fixed interest rate of 3.201%. This swap is performing as intended, as the financing team recommends maintaining the existing hedge agreement.

**FISCAL IMPACT:**

Costs associated with the proposed transaction are estimated at \$240,960. Sufficient funds are budgeted in the electric fund to pay the costs of issuance.

Prepared by: Heidi Schrader, City Debt/Treasury Manager  
 Approved by: Todd M. Corbin, Utilities General Manager  
 Approved by: Al Zelinka, FAICP, City Manager  
 Approved as to form: Gary G. Geuss, City Attorney

Concurs with: Edward Enriquez, Chief Financial Officer/Treasurer

Certifies availability of funds: Brian Seinturier, Utilities Fiscal Manager

**Attachments:**

1. City Council Resolution
2. Remarketing Agreement
3. Reimbursement Agreement
4. Fee Letter
5. Remarketing Statement
6. Continuing Disclosure Certificate