

# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE:** JANUARY 25, 2021

**SUBJECT: RESOLUTIONS AUTHORIZING LETTERS OF CREDIT RENEWAL OF 2008A ELECTRIC REVENUE BONDS AND 2008C ELECTRIC REVENUE BONDS AND APPROVAL OF FINANCING COSTS USING PUBLIC FINANCIAL MANAGEMENT AS THE FINANCIAL ADVISOR, STRADLING YOCCA CARLSON & RAUTH AS BOND AND DISCLOSURE COUNSEL, AND MCDERMOTT WILL & EMERY, LLP REPRESENTING BARCLAYS FOR THE LETTER OF CREDIT FACILITIES**

### **ISSUES:**

Consider approval to extend the letters of credit supporting the 2008A and 2008C Electric Revenue Bonds, provided by Barclays Bank, PLC for an additional three years, and approve the financing team and costs associated with the transactions.

### **RECOMMENDATIONS:**

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

1. Adopt a resolution authorizing the extension of the 2008A letter of credit under substantially similar terms for a period of three years with Barclays for the 2008A Electric Revenue Bonds and approving the supplement to the Official Statement for the 2008A Electric Bonds to reflect the extension of the term of the Letter of Credit;
2. Adopt a resolution authorizing the extension of the 2008C letter of credit under substantially similar terms for a period of three years with Barclays for the 2008C Electric Revenue Bonds and approving the supplement to the Official Statement for the 2008C Electric Bonds to reflect the extension of the term of the Letter of Credit;
3. Authorize the City Manager, or designee, to execute all documents related to these actions and to make non-substantive revisions to those documents as needed; and
4. Approve and authorize expenditures for the use of Public Financial Management, Inc., as the City's Financial Advisor, Stradling Yocca Carlson & Rauth as the City's bond and disclosure counsel, and reimburse Barclays Bank, PLC for legal costs associated with their transactions.

### **BACKGROUND:**

The Electric Department has three series of variable rate revenue bonds outstanding totaling approximately \$105 million. The 2008A, 2008C, and 2011A Electric Revenue Bonds are variable

rate demand obligations (VRDOs), which are required to maintain a letter of credit (LOC) provided by a bank as part of the financing structure. The City Council approved the Letter of Credit for the 2011A Bonds with Bank of America, NA for a term of three years in April 2020.

## **DISCUSSION:**

The existing letters of credit on the 2008A and 2008C bonds terminate on May 21, 2021 and must be renewed or replaced prior to their termination date.

The Electric Department's outstanding variable rate debt is summarized in the table below:

Electric Department Variable-Rate Debt Summary						
Series	Par Outstanding	Structure	Credit Facility / Provider	Credit Facility Cost	Credit Facility Term	Credit Facility Expiry
2008A (Refunding Bonds)	\$34,465,000	Variable Subject to Remarketing	Direct Pay LOC Barclays	0.325%	3-years	5/21/2021
2008C (Refunding Bonds)	\$32,150,000	Variable Subject to Remarketing	Direct Pay LOC Barclays	0.325%	3-years	5/21/2021
2011A (Refunding Bonds)	\$39,275,000	Variable Subject to Remarketing	Direct Pay LOC Bank of America, NA	0.295%	3-years	5/31/2023

## **Proposed Plan for Financing**

City staff and Public Financial Management (PFM), meet regularly to review current financial market conditions. It has been determined that maintaining the 2008A, 2008C and 2011A Electric debt instruments in variable rate mode continues to provide RPU with a low cost of borrowing.

The Financing team reached out to Barclays to determine whether extending the terms of the existing LOCs would provide the best pricing for the City. To ensure the best pricing and terms were provided, PFM reviewed and evaluated Barclay's proposed fee against other recent similar transactions in the market. LOC fees fluctuate with market conditions and have climbed higher in the past few months due to an increase in perceived risk to the banks. It was determined that extending the existing LOCs with Barclays Bank, PLC (Barclays) for an additional three years, rather than going out to market for a new LOC provider, would provide the lowest cost to the City at this time.

## **Financing Team**

To assist staff in evaluating and implementing these transactions, a financing team was assembled consisting of City and RPU Finance staff, the City Attorney's Office and outside consultants with whom the City and RPU have current service agreements with, and who are also experienced and knowledgeable in this area of financing. These include PFM, serving as the Financial Advisor and Stradling Yocca Carlson & Rauth serving as bond and disclosure counsel

for the City. In addition, the City will be responsible for legal costs incurred by McDermott Will & Emery, LLP, who represent Barclays.

**Required Documents**

In order to finalize the letters credit, the following documents need to be executed and delivered as part of the Resolutions:

- 1) Fee Letter Amendment with Barclays Bank with respect to the 2008A Bonds, and Notice of Extension;
- 2) Fee Letter Amendment with Barclays Bank with respect to the 2008C Bonds, and Notice of Extension;
- 3) Supplement to the 2008A Official Statement, extending the LOC expiration date to May 20, 2024; and
- 4) Supplement to the 2008C Official Statement, extending the LOC expiration date to May 20, 2024.

**FISCAL IMPACT:**

The Electric Fund's total LOC costs for the 2008A and 2008C bonds will increase approximately \$50,000 per annum through 2023. This is significantly lower than the administrative and transaction costs associated with procuring renewal credit facilities. In addition, based on market conditions, the chance of finding a lower fee with a new credit provider is extremely low.

Estimates for the financing team fees are noted in the following table:

	<b>Electric Fund 2008A and 2008C LOCs</b>
City Bond/Disclosure Counsel	\$20,000
Financial Advisor	\$20,000
Bank Counsel	\$10,000

Debt service and costs for remarketing are included in the current and future year's budgets in the Electric Fund Debt Service Cost Center.

Prepared by: Heidi Schrader, Debt and Treasury Manager  
Approved by: Todd M. Corbin, Utilities General Manager  
Approved by: Al Zelinka, FAICP, City Manager  
Approved as to form: Kristi J. Smith, Interim City Attorney

Certifies availability  
of funds: Edward Enriquez, Chief Financial Officer/City Treasurer

Attachments:  
1. Resolution 2008A

2. Resolution 2008C
3. Supplement Number 3 to Remarketing Memorandum Dated May 15, 2014 for 2008A Bonds
4. Supplement Number 2 to Official Statement Dated April 25, 2008 for 2008C Bonds