



City of Arts & Innovation

City Council and Riverside Public Financing Authority Memorandum

TO: HONORABLE MAYOR, CITY COUNCIL, AND AUTHORITY MEMBERS **DATE: FEBRUARY 2, 2021**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: ADOPTION OF RESOLUTIONS AUTHORIZING THE EXTENSION OF THE TERM OF A LETTER OF CREDIT SUPPORTING THE VARIABLE RATE REFUNDING CERTIFICATES OF PARTICIPATION (RIVERSIDE RENAISSANCE PROJECTS) SERIES 2008 USING CSG ADVISORS, INCORPORATED AS FINANCIAL ADVISOR, STRADLING YOCCA CARLSON & RAUTH AS BOND AND DISCLOSURE COUNSEL, AND NIXON PEABODY LLP REPRESENTING BANK OF AMERICA, NA FOR THE LETTER OF CREDIT FACILITY.

ISSUES:

The issues for consideration are: 1) to adopt resolutions of the City and the Riverside Public Financing Authority authorizing the extension of the term of a Letter of Credit Supporting the Variable Rate Refunding Certificates of Participation (Riverside Renaissance Projects) Series 2008 for an additional two years; and, 2) approve the financing team and costs associated with the transactions.

RECOMMENDATIONS:

That the City Council:

1. Adopt a Resolution authorizing the extension of the term of a Letter of Credit supporting the Variable Rate Refunding Certificates of Participation (Riverside Renaissance Projects) Series 2008, approving the form of a Fifth Amendment to the Reimbursement Agreement and the Fee Letter relating to such Letter of Credit, and approving the supplement to the Official Statement for the 2008 Certificates to reflect the extension of the term of the Letter of Credit on behalf of the City of Riverside;
2. Approve and authorize expenditures for the use of CSG Advisors Incorporated (CSG), as the City's Municipal Advisor, Stradling Yocca Carlson & Rauth as the City's Bond and Disclosure Counsel, and reimburse Bank of America, NA for legal costs associated with their transactions; and
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.

That the Riverside Public Financing Authority:

1. Adopt a Resolution authorizing the extension of the term of a Letter of Credit supporting the Variable Rate Refunding Certificates of Participation (Riverside Renaissance Projects) Series 2008, and approving the form of a Fifth Amendment to the Reimbursement Agreement relating to such Letter of Credit, on behalf of the Riverside Public Financing Authority; and
2. 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.

BACKGROUND:

In April 2008, the City Council approved the issuance of \$128,300,000 of Refunding Certificates of Participation (COPs) as Variable Rate Demand Notes (VRDNs). This variable interest rate debt structure takes advantage of very low short-term interest rates but requires a bank Letter of Credit (LOC) be inserted between the issuer of the VRDNs (City of Riverside) and the purchasers of the 2008 COPs. This form of security provides greater assurance to investors that the COPs will be repaid by adding another party to help guarantee payment.

In 2008, the City entered into a two-year LOC with Bank of America, NA, who competed successfully for the work by offering the best pricing. The LOC was renewed in 2010 for two years, and in 2012, 2015, and 2018 for three years respectively. While market pricing has fluctuated over the life of the LOC agreement, Bank of America, NA has consistently provided the best pricing to the City.

DISCUSSION:

City staff and CSG meet regularly to review current financial market conditions. As part of that regular review, it was determined that maintaining the 2008 COPs in variable rate mode continues to provide the City with the lowest possible cost of borrowing. With the current LOC term expiring in March 2021, the Financing team reached out to Bank of America, NA to determine whether extending the term of the existing LOC would provide the best pricing for the City. The cost of switching to a new LOC provider includes much higher one time administrative and legal fees of approximately \$150,000-\$180,000. That initial cost was weighed against the possibility of switching providers yielding a lower fee.

Financing Team

To assist staff in evaluating and implementing these transactions, a financing team was assembled consisting of City Finance staff, the City Attorney's Office and outside consultants with whom the City has current service agreements with, and who are also experienced and knowledgeable in this area of financing. These include CSG, serving as the Municipal Advisor, and Stradling Yocca Carlson & Rauth, serving as Bond and Disclosure counsel for the City. In addition, the City will be responsible for costs incurred by Nixon Peabody, LLC, legal counsel to Bank of America.

Proposed Plan of Financing

Bank of America provided proposed fees to extend the term of the LOC for an additional one year, two years or three years. To ensure their fees were competitive, CSG reviewed Bank of America's proposed fee against other recent similar transactions in the market. The current LOC fee with Bank of America is for 40 basis points, or .40% of the current debt outstanding (approximately \$380,000 per year). The bank offered a renewal rate for a one-year term at the same 40 basis points. A one-year term, however, would require the City to go back into the market next January to replace the LOC. Given current market conditions impacting pricing for alternative LOCs, the financing team recommends a longer term to provide enough time for the economy to recover, the City budget to stabilize, and expected fees to decrease. LOC fees fluctuate with market conditions and have climbed higher in the past few months due to economic effects of the COVID pandemic and an increase in perceived risk by LOC-provider banks relative to city general fund-backed credits similar to the 2008 COPs.

Required Documents:

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

- 1) Fee Letter Amendment with Bank of America with respect to the 2008 Certificates of Participation;
- 2) Supplement to the Variable Rate Refunding Certificates of Participation (Riverside Renaissance Projects) Series 2008 Official Statement, extending the LOC expiration date to March 31, 2023; and
- 3) Fifth Amendment to Reimbursement Agreement between City of Riverside, Riverside Public Financing Authority, and Bank of America, NA.

FISCAL IMPACT:

The Financing team recommends extending the existing LOC with Bank of America, NA for an additional two years, rather than going out to market for a new LOC provider. The total LOC cost for the 2008 Certificates of Participation will increase an average of approximately \$62,000 per annum through 2023. This is significantly lower than the administrative and transaction costs associated with procuring renewal credit facilities. In addition, based on current 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:

	Fee
City Bond/Disclosure Counsel	\$10,000
Municipal Advisor	\$4,500
Bank Counsel	\$10,000

Sufficient funding is budgeted in the debt service fund to pay this additional cost.

Prepared by: Heidi Schrader, Debt and Treasury Manager
Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Moises Lopez, Deputy City Manager
Approved as to form: Kristi J. Smith, Interim City Attorney

Attachments:

1. Resolution of the City of Riverside authorizing the extension of the term of an LOC
2. Resolution of the Board of Directors of the Riverside Public Financing Authority authorizing the extension of the term of an LOC
3. Fifth Amendment to Reimbursement Agreement
4. Supplement to the Official Statement