



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: NOVEMBER 9, 2021**
FROM: FINANCE DEPARTMENT **WARDS: ALL**
SUBJECT: REIMBURSEMENT RESOLUTION FOR ELECTRIC UTILITY CAPITAL PROJECTS

ISSUE:

Approve a Reimbursement Resolution to provide the use of future bond proceeds for capital financing requirements for the Electric Utility's Five-Year Capital Improvement Program ("CIP").

RECOMMENDATIONS:

That the City Council adopt the Electric Utility Reimbursement Resolution to provide the future option of using bond funds for capital financing requirements, with the understanding that reserve funds will be used for capital needs in the interim period.

BOARD RECOMMENDATION:

On October 25, 2021, the Riverside Board of Public Utilities unanimously approved the reimbursement resolution for Electric Utility Capital Projects.

BACKGROUND:

US Treasury Regulation Section 1.150-2 requires the City of Riverside adopt a formal declaration of intent to reimburse expenditures with future bond proceeds. The Electric Utility Reimbursement Resolution serves as a formal declaration, allowing the Electric Utility to reimburse capital expenditures made up to 60 days prior to the adoption of the resolution to the time of bond issuance. Without the resolution, only expenditures made on or after the issuance of bonds would be eligible for reimbursement.

DISCUSSION:

The Electric Utility requires capital improvement projects to maintain system reliability, serve new residential and commercial developments, and refurbish the electric system. Because these capital improvements are long-term in nature, they are primarily funded through bonds. The basic philosophy of using bonded indebtedness for capital projects is to ensure generational equity. The

repayment of the bonds is made over the life of the project (20 to 30 years) and is repaid by a future generation of ratepayers that receive the benefits of the project. Historically, 65% to 70% of the Electric CIP has been funded by bonds, and typically the Electric Utility has issued bonds every two to four years to fund its Board and City Council approved Five-Year CIP.

Adopting the Reimbursement Resolution allows the Electric Utility to continue to fund critical capital expenditures with the intent to reimburse these projects with bond proceeds. This provides the flexibility to enter the securities market and issue bonds at the most optimal time. The last new money bond issuance was in February 2019. The City issued \$283,325,000 in bonds to refund existing debt, unwind swap agreements, and fund future capital projects; \$103,072,000 of those bond proceeds were set aside for new capital expenditures.

The proceeds of the 2019 issuance are programmed and estimated to be depleted by December 2021. The Utility is in the process of setting up a financing team for a new money bond issuance, with a tentative issuance date of early 2022, depending on favorable market conditions and Board and City Council approval. Based on projected cash flow and capital needs, staff recommends a \$191 million future financing to fund a portion of the capital improvements included in the CIP. To provide the maximum flexibility for the period prior to issuing bonds, staff recommends the City Council adopt a Reimbursement Resolution in an amount not to exceed \$191 million. This will provide the Electric Utility the option to reimburse capital improvement expenditures funded by reserves with future bond proceeds.

This Reimbursement Resolution does not commit the Electric Utility to issue bonds in the future. It only provides the legal basis to reimburse reserves in the event the Board and Council approve the issuance of bonds later.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority No. 5 High Performing Government** and **Goal No. 5.4** – Achieve and maintain financial health by addressing gaps between revenues and expenditures and aligning resources with strategic priorities to yield the greatest impact.

This item aligns with EACH of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The use of bond proceeds to finance capital expenditures supports the City of Riverside’s Multi-year Capital Planning Fiscal Policy. Fiscal policies are designed to ensure the interests of the ratepayers are met and help build community trust.
2. **Equity** – Using bonded indebtedness to fund long-term capital projects ensures generational equity. The repayment of the cost of the facility (20 to 30 years) is made by the generation of ratepayers that receive the actual benefits of the project.
3. **Fiscal Responsibility** – Proactive planning and flexibility allows the Utility to enter the bond market at the most advantageous time in terms of cost of capital and availability of resources.
4. **Innovation** – Ensuring access to the tax-exempt capital securities market allows Riverside to expand and upgrade to meet the future needs of its ratepayers.
5. **Sustainability & Resiliency** – Sound analysis and consideration of all funding options are

key to Riverside's resilient and sustainable debt portfolio.

FISCAL IMPACT:

There is no fiscal impact to approving the Reimbursement Resolution. The financial impact of not approving the Reimbursement Resolution is that the Electric Utility removes the option of reimbursing itself for capital expenditures made prior to the issuance of new money bonds.

Prepared by: Heidi Schrader, Debt and Treasury Manager
Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer/Treasurer
Approved by: Kris Martinez, Interim Assistant City Manager
Approved as to form: Phaedra A. Norton, City Attorney

Attachments: Electric Fund Reimbursement Resolution