CITY OF RIVERSIDE

City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE:** NOVEMBER 7, 2023

FROM: FINANCE DEPARTMENT **WARDS:** ALL

SUBJECT: PUBLIC HEARING – ISSUANCE OF ELECTRIC REVENUE BONDS, ISSUE OF 2024

ISSUES:

Conduct a public hearing to receive comments relative to the proposed financing transaction, consider approval of the issuance of up to $290 million of fixed rate Electric Revenue Bonds to finance identified Electric Utility capital projects, refunding all or a portion of the outstanding 2008A Variable Rate Refunding Electric Revenue Bonds, 2008C Variable Rate Refunding Electric Revenue Bonds and 2011A Variable Rate Refunding Electric Revenue Bonds, and to pay all or a portion of the swap termination costs associated with any of the refunded Variable Rate Bonds.

RECOMMENDATIONS:

That the City Council:

1. Conduct a public hearing to consider the issuance of the 2024 Electric Revenue Bonds in an amount not-to-exceed $290 million;

2. Approve the City's Financing Team, as described herein, for this transaction and authorize the Chief Financial Officer or any duly authorized designee to pay the costs of such firms in connection with the issuance of the 2024 Electric Revenue Bonds from bond proceeds;

3. Adopt a Resolution authorizing the issuance of the 2024 Electric Revenue Bonds in an aggregate principal amount not-to-exceed $290 million;

4. Delegate to the City's Financing Team, at the time of Bond sale, the determination of specific maturities to be refunded, the amount of interest rate swaps to be terminated and the form of new bonds as outlined in Recommendation No. 3 above; and

5. With at least five affirmative votes, upon closing of the 2024 Electric Revenue Bonds, authorize the Chief Financial Officer, or designee, to record the necessary budget adjustments and/or appropriations to properly record the refunding and financing expenses in accordance with governmental accounting standards.

BOARD RECOMMENDATION:

On October 23, 2023, the Riverside Board of Public Utilities will hear this item and provide a recommendation regarding the issuance of up to $290 million of fixed rate Electric Revenue Bonds to finance identified Electric Utility capital projects, and to refund all or a portion of the outstanding 2008A, 2008C and 2011A Variable Rate Bonds and pay all or a portion of the swap termination costs associated with any of the refunded Variable Rate Bonds.

BACKGROUND:

Electric Utility Capital Projects
The City Council approved a five-year Capital Improvement Program for the Electric Utility totaling approximately $287 million, of which $248 million is projected to be funded with bond proceeds with the remaining $39 million funded with a combination of rates, reserves, and developer contributions. Additionally, approximately $23 million of capital expenditures from Fiscal Years 2022 through 2024 are eligible to be reimbursed with proceeds of the 2024 Bonds. The Electric Utility Five-Year Capital Improvement Program, approved by City Council on June 21, 2022, supports the bond financing of the capital improvement program.

2008A & 2008C Variable Rate Refunding Electric Revenue Bonds
In May 2008, the City of Riverside issued $84,515,000 of 2008A VRDBs and $57,325,000 of the 2008C VRDBs. This was taken to the Board on April 18, 2008 and approved by City Council on April 22, 2008. The 2008A and 2008C VRDBs, together with the 2008B VRDBs, refunded the Electric Revenue Bonds, Issue of 2004B and the Electric Refunding/Revenue Bonds, Issue of 2005A and Issue of 2005B. The 2008A&C VRDB documents allow the bonds to bear interest at different interest rate periods (daily, weekly, long-term, short-term or index). Both the 2008A VRDBs and 2008C VRDBs were initially issued in and continue to be in Weekly Interest Rate Period. While in Weekly Interest Rate Period, the 2008A&C VRDBs bear interest at the Weekly Interest Rate determined by the remarketing agent. The 2008A VRDBs have a final maturity of 10/1/2029 and $34,465,000 of the bonds are currently outstanding. The 2008C VRDBs have a final maturity of 10/1/2035 and $32,150,000 of the bonds are currently outstanding. Both series of VRDBs can be called on any interest payment date, which is the first business day of the month.

The City currently has five variable rate bond series within the debt portfolio; three of which are in the Electric Fund. Like the Utility's other Variable Rate Bonds, the 2008A&C VRDBs are remarketed by a remarketing agent and are secured by a Letter of Credit ("LOC"). For the 2008A VRDBs, the remarketing agent and LOC provider is Barclays. For the 2008C VRDBs, the remarketing agent is Bank of America, and the LOC provider is Barclays.

Both the 2008A and 2008C VRDBs are hedged by interest rate swap agreements ("2008A Swap" and "2008C Swap"). The purpose of having a swap agreement in place is to create a synthetic fixed rate for these bonds. By doing this, the City was able to reduce some of the risk in having variable rate debt. The 2008A Swap transferred to the 2008A VRDBs when the 2004B Bonds were refunded, and the 2008C Swap transferred to the 2008C VRDBs when the 2005B Bonds were refunded. Under the current agreements, the City receives a variable rate of 62.68% of LIBOR (using the SOFR-based fallback rate) plus 0.12%, and the City pays 3.111% for the 2008A bonds and pays 3.204% for the 2008C bonds.

2011A Variable Rate Refunding Electric Revenue Bonds
In April 2011, the City of Riverside issued $56,450,000 of 2011A VRDBs to refund the outstanding Variable Rate Refunding Electric Revenue Bonds, Issue of 2008B. This was taken to the Board

on March 4, 2011 and approved by City Council on April 5, 2011. The 2011A VRDB documents allow the bonds to bear interest at different interest rate periods (daily, weekly, long-term, short-term or index). Currently, the 2011A VRDBs are in Weekly Interest Rate Period, after conversion from Index Interest Rate Period in April 2020. While in Weekly Interest Rate Period, the 2011A VRDBs bear interest at the Weekly Interest Rate determined by the remarketing agent. The 2011A VRDBs have a final maturity of 10/1/2035 and $33,600,000 of the bonds are currently outstanding. The bonds can be called on any interest payment date, which is the first business day of the month.

The City currently has five variable rate bond series within the Debt portfolio; three of which are in the Electric Fund. Like the Utility's other Variable Rate Bonds, the 2011A VRDBs are remarketed by a remarketing agent and are secured by a letter of credit. The remarketing agent and LOC provider for the 2011A VRDBs is Bank of America.

The 2011A VRDBs are also hedged by an interest rate swap agreement ("2011A Swap"), which transferred to the bonds upon refunding the 2008B VRDBs. As noted above, a swap agreement is used to reduce some of the uncertainties associated with having the variable rate debt. Under the current agreement, the City receives a variable rate of 62.68% of LIBOR (now calculated using the SOFR-based fallback rate) plus 0.12%, and the City pays 3.201% for the 2011A bonds.

DISCUSSION:

The 2024 Electric Revenue Bonds ("2024 Bonds") plan of finance has two components: a new money component to finance a portion of the Electric Utility Capital Improvement Program and a potential fixed rate refinancing component of outstanding maturities of the 2008A, 2008C, and 2011A variable rate bonds and full or partial termination of the associated interest rate swaps. The refinancing of the variable rate bonds will only be pursued if the structure remains cost neutral.

New Money Component

The Electric Utility plans to finance approximately $156 million of capital projects as part of the issuance of the 2024 Bonds. This amount consists of $133 million of new projects (of the total $248 million of projects identified in the five-year Capital Improvement Program for bond financing) and approximately $23 million to reimburse the Electric Utility for capital expenditures incurred in Fiscal Years 2022 through 2024. The new money component is expected to be amortized over a period of 30 years, consistent with traditional new money borrowing in the tax-exempt market and prior City practice, on a substantially level annual debt service basis. Level fixed-rate debt service provides for budget certainty and promotes equitable financing of projects among current and future ratepayers.

Fixed Rate Refinancing of the 2008A, 2008C and 2011A VRDBs and Swaps

On September 11, 2023, the Twentieth Supplemental Resolution was presented to the Board authorizing the Utility to issue the 2023 Refunding Electric Revenue Bonds ("2023 Bonds") to, among other things, complete a fixed rate refinancing of all or a portion of the 2008A, 2008C and 2011A VRDBs and associated swaps if cost neutral. The 2023 Bonds will price in mid-November 2023. At this time, if it is not economic to refund all or certain maturities of the variable rate bonds and terminate the associated swaps, the Utility will not pursue a fixed rate refinancing of those maturities. The 2024 Bonds give the Utility a second opportunity to complete a fixed rate refinancing of any or all of the variable rate bonds and associated swaps left outstanding after the 2023 Bonds are issued. Similarly, the Utility will only pursue a fixed rate refinancing with the 2024 Bonds if market dynamics at pricing result in a cost neutral structure.

Financing Team

The City works with a team of financial advisors to consistently monitor the market for potential saving opportunities. PFM Financial Advisors, LLC is the firm which is contracted with the City to work on the Enterprise Fund for Electric and Water financings and Omnicap Group, LLC is the financial advisor for all swap-related transactions. The financial advisors, along with our bond counsel at Stradling Yocca Carlson & Rauth assemble the rest of the financing team. The underwriters were selected via the competitive RFP process through PFM, and the top four underwriters were selected. The financing team for this transaction consists of City staff from the Public Utilities Department, Finance Department and City Attorney's Office. PFM Financial Advisors, LLC is serving as the Municipal Advisor. Omnicap Group LLC is acting as Swap Advisor. The firm of Stradling, Yocca, Carlson & Rauth is serving as bond and disclosure counsel. J.P. Morgan Securities LLC is the Senior Managing Underwriter, Barclays Capital Inc. is Co-Senior Managing Underwriter, and Siebert Williams Shank & Co., L.L.C. and Samuel A. Ramirez & Co., Inc. are Co-Managing Underwriters.

The estimated Financing Team expenses include:

Role	Party	Estimated Fee
Bond / Disclosure Counsel	Stradling Yocca Carlson & Rauth	100,000
Financial Advisor	PFM Financial Advisors LLC	75,000
Swap Advisor	Omnicap Group LLC	60,000
Trustee	U.S. Bank	5,900
Underwriters	J.P. Morgan, Barclays, Siebert Williams Shank, Samuel A. Ramirez	628,470
Underwriters' Counsel	Norton Rose Fulbright	20,000
Rating Agencies	S&P Global	98,000
	Fitch	130,000
Printer	ImageMaster	3,000
Contingency	-	5,000
Total		**1,125,370**

Good Faith Estimates

California Senate Bill 450 (SB 450) requires, prior to a new issuance of bonds, a public agency disclose in a public meeting good faith financing estimates provided by an Underwriter, Municipal Advisor, or private lender. These estimates include: (1) the True Interest Cost of the bonds; (2) the total finance charge of the bonds, equal to the sum of all fees and charges paid to third parties; (3) the amount of estimated bond proceeds minus the total finance charge of the bonds, and any reserves funded from proceeds of the bonds; and (4) the total payment amount, which includes the projected sum of all payments the Electric Utility will make to pay debt service on the bonds plus any portion of the finance charge of the bonds that will not be paid with the proceeds of the bonds.

The following information was obtained from PFM Financial Advisors, as Municipal Advisor, and is provided in compliance with SB 450:

1. **True Interest Cost.** Assuming a par amount of $209,490,000 of 2024 Electric Revenue Bonds are sold and based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the true interest cost of the bonds, which means

the rate necessary to discount the amounts payable on the respective principal and interest payment dates to equal the purchase price received for the bonds, is 4.07%.

2. **Finance Charge.** A good faith estimate of the finance charge of the bonds, which means the sum of all fees and charges paid to third parties, is $1,125,370 (exclusive of any swap termination payment) or $3,008,840 (in the event the swap termination payment is to be construed as a component of the finance charge). If market conditions permit refinancing all or a portion of the VRDBs and associated swap termination, the swap termination payment(s) will be paid to the swap counterparties using proceeds of the 2024 Electric Revenue Bonds.

3. **Amount of Proceeds to be Received.** A good faith estimate of the amount of proceeds, which includes original issue premium, expected to be received for sale of the bonds less the finance charge of the bonds described in 2, above, and any reserves or capitalized interest paid or funded with proceeds of the bonds, is $227,171,012.

4. **Total Payment Amount.** Assuming a par amount of $209,490,000 is sold and based on market interest rates prevailing at the time of preparation of this information, a good faith estimate of the total payment amount, which means the sum total of all payments the Electric Utility will make to pay debt service on the bonds plus the finance charge of the bonds described in section 2, above, not paid with the proceeds of the bonds, calculated to the final maturity of the bonds, is $366,581,750.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 5 – High Performing Government** and **Goal 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** – As with other financing opportunities, having a public hearing will allow members of the community to comment on the proposed financing prior to the final approval of this issuance.

2. **Equity** – Using bonded indebtedness to fund long-term capital projects ensures generational equity. The repayment of bonds is spread across several years to align with the generation of ratepayers that receive the actual benefits of the project.

3. **Fiscal Responsibility** – The City and Public Utilities Department work with a team of financial advisors to finance the portion of the CIP identified for bond financing using a financially prudent structure at as low a cost as possible. In this current market, the City can also refund all or portions of the existing VRDBs to lower the overall risk exposure related to these issuances, at no expected net economic cost.

4. **Innovation** – Ensuring accessibility to the tax-exempt capital securities market allows Riverside to expand and upgrade to meet the future needs of its ratepayers. The proposed Refunding is also an innovative strategy which allows the City to take advantage of market conditions and simplify the debt portfolio with the outstanding variable rate debt.

5. **Sustainability & Resiliency** – Sound analysis and consideration of all funding options are the key to Riverside's resilient and sustainable debt portfolio.

FISCAL IMPACT:

The fiscal impact related to the costs associated with this refunding is expected to be approximately $1,125,370 (exclusive of any swap termination payment). In the current market, the swap termination payment is expected to be $1,883,470 which would only be paid if absorbed by the net economic benefit of the VRDB fixed rate refunding. All fees will be paid from the proceeds of the 2024 Bonds.

The plan for the fixed rate refinancing of the 2008A, 2008C and 2011A VRDBs and swaps is to remain cost neutral to the Utility, based on the expected net economics, but simplify the debt portfolio by refinancing the VRDBs with fixed rate debt.

Annual debt service payments for the new money (capital projects) component are expected to be $9.4 million and have been included in the adopted FY 2022-2024 Biennial Budget.

Prepared by: Karen Hessell, Principal Management Analyst
Certified as to availability of funds: Kristie Thomas, Finance Director / Assistant Chief Financial Officer
Approved by: Edward Enriquez, Assistant City Manager / Chief Financial Officer / City Treasurer
Approved as to form: Phaedra A. Norton, City Attorney

Attachments:
1. Twenty-First Supplemental Resolution of the 2024 Electric Revenue Bonds
2. Bond Purchase Agreement
3. Official Statement
4. Continuing Disclosure Certificate
5. Public Hearing Notice
6. Presentation