RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES **DATE: SEPTEMBER 11, 2023**

SUBJECT: ISSUANCE OF REFUNDING ELECTRIC REVENUE BONDS, ISSUE OF 2023

ISSUE:

Consider approval of the issuance of up to $165 million of fixed rate Refunding Electric Revenue Bonds to refund all or a portion of the outstanding 2013A Refunding Electric Revenue Bonds, 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 Board of Public Utilities recommend that the City Council:

1. 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 2023 Refunding Electric Revenue Bonds from bond proceeds;

2. Conduct a public hearing to consider the issuance of the 2023 Refunding Electric Revenue Bonds in an amount not-to-exceed $165 million;

3. Adopt a resolution authorizing the issuance of the 2023 Refunding Electric Revenue Bonds in an aggregate principal amount not-to-exceed $165 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. Upon closing of the 2023 Refunding Electric Revenue Bonds, authorize the Chief Financial Officer, or designee, to make the necessary budget adjustments and/or appropriations to properly record the refunding and financing expenses in accordance with governmental accounting standards.

BACKGROUND:

2013A Refunding Electric Revenue Bonds

In July 2013, the City of Riverside issued $79,080,000 of the Refunding Electric Revenue Bonds, Issue of 2013A ("2013A Bonds"). This was taken to the Board on June 7, 2013 and approved by City Council on June 18, 2013. The 2013A Bonds prepaid the City's remaining purchase obligation related to its 2010 acquisition of the Clearwater Cogeneration Power Plant, refunded portions of the 2008A Variable Rate Bonds ("2008A VRDBs"), 2008C Variable Rate Bonds ("2008C VRDBs") and 2011A Variable Rate Bonds ("2011A VRDBs") and paid for a portion of the swap termination costs associated with the refunded portions of the VRDBs. The 2013A Bonds are tax-exempt, fixed rate obligations with outstanding coupons ranging from 3.5% to 5.25% and a final maturity of 10/1/2043. $35,385,000 of the 2013A Bonds are outstanding, all of which are due or callable on 10/1/2023.

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 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 (SOFR-based fallback rate) plus 0.12%, and the City pays 3.201% for the 2011A bonds.

DISCUSSION:

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. The proposed financing plan is intended to achieve savings in debt service with the refinancing of the 2013A bonds and reduce risk in the debt portfolio with the refinancing of the 2008A, 2008C, and 2011A variable rate bonds. The refinancing of the variable rate bonds will only be pursued if the structure remains cost neutral.

Refunding of the 2013A Bonds

The 2013A Bonds are redeemable as of 10/1/2023, after which point the bonds can be redeemed at any time. The bonds can be refunded with tax-exempt debt, and at current rates a refinancing results in lower debt service than the Utility is currently paying on the 2013A Bonds, allowing the Utility to save ratepayer funds. The attached resolution authorizes the issuance of Refunding Electric Revenue Bonds to refund the 2013A bonds, provided the refinancing achieves net present value savings equal to at least 3% of refunded par. The refinancing will not extend new debt past the existing final maturity of the 2013A Bonds (2043).

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

The outstanding 2008A, 2008C and 2011A VRDBs are variable rate bonds that currently reset weekly and are hedged with interest rate swaps to create synthetic fixed rate debt. The existing structure has more risks than fixed rate bonds. A primary risk of the synthetic fixed rate structure is exposure to market dislocations between the variable rate the Utility pays on the VRDBs and variable rate the Utility receives under the swap agreements. There are also a variety of LOC-related risks: the LOC provider could get downgraded or, when replacing an LOC, the Utility could have difficulty securing a replacement LOC or need to replace the LOC at a much higher cost.

The Utility will be able to have a more stable, predictable rate and reduce some of these risks by refunding all or a portion of the VRDBs with fixed rate debt and terminating the portion of the swap agreement associated with any refunded bonds. Termination of any or all of a swap agreement will require a termination payment from the Utility, reflecting the market value of the swap, that will be paid to the swap counterparties (JPMorgan Chase and Merrill Lynch Capital Services) from the refunding bond proceeds.

VRDBs synthetically fixed with a swap typically have a lower interest cost than fixed rate bonds.

Therefore, it is uncommon to be able to refinance the existing synthetic fixed rate structure without increasing costs. However, in the current market the Utility may have the opportunity to refinance all or a portion of VRDBs and swaps at no expected net economic cost. This analysis is based on assumed future costs of the existing synthetic fixed rate structure.

The attached resolution authorizes the issuance of Refunding Electric Revenue Bonds to refund all of the 2008A, 2008C and 2011A VRDBs and pay termination fees for the three related termination agreements. However, at the time of pricing the Utility may pursue a partial fix-out of any or all the VRDBs and swaps, depending on the calculated net economic benefit. The expected net economic benefit is very market dependent, and the amount of VRDBs that can be refinanced at no expected net economic cost fluctuates daily. Accordingly, the financing team will assess the refinancing of the VRDBs and swaps at pricing to determine the best course of action, selecting maturities to refund with the goal that the VRDB refinancing component of the transaction remaining cost neutral.

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 are 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	150,000
Financial Advisor	PFM Financial Advisors LLC	75,000
Swap Advisor	Omnicap Group LLC	60,000
Trustee	U.S. Bank	10,000
Underwriters	J.P. Morgan, Barclays, Siebert Williams Shank, Samuel A. Ramirez	292,675
Underwriters' Counsel	Norton Rose Fulbright	20,000
Rating Agencies	S&P Global	78,500
	Fitch	95,000
Printer	ImageMaster	3,000
Contingency	-	5,000
Total		**789,175**

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 $104,225,000 of 2023 Refunding 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 3.00%.

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 $789,175 (exclusive of any swap termination payment) or $4,290,193 (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 2023 Refunding 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 $115,795,160.

4. **Total Payment Amount.** Assuming a par amount of $104,225,000 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 $148,598,458.

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 refunding 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 identify potential savings opportunities, such as the Refunding 2013A Bonds. 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** – The proposed Refunding is an innovative strategy which allows the City to take advantage of market conditions and reduce the overall risk exposure to 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 $789,175 (exclusive of any swap termination payment). In the current market, the swap termination payment is expected to be $3,501,018 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 2023 Refunding.

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 reduce risk factors associated with VRDBs and interest rate swaps by refinancing with fixed rate debt.

The estimated present value savings from refunding of the 2013A Bonds is expected to be approximately $4.9 million ($6.4 million gross savings) based on market conditions in early August 2023, which will equate to an annual cash flow savings of approximately $320,000 per year through 2043. The two refunding together are expected to achieve approximately $320,000 in annual cash flow savings.

Prepared by:	Karen Hessell, Interim Debt & Treasury Manager
Approved by:	Todd M. Corbin, Utilities General Manager
Certified as to availability of funds:	Kristie Thomas, Finance Director/Assistant Chief Financial Officer
Approved by:	Rafael Guzman, Assistant City Manager
Approved as to form:	Phaedra A. Norton, City Attorney

Attachments:

1. Twentieth Supplemental Resolution of the 2023 Refunding Electric Revenue Bonds
2. Bond Purchase Agreement
3. 2013 Escrow Agreement
4. Public Hearing Notice
5. Presentation