



## Agenda Report

18-1102

Agenda Date: 8/28/2018

### REPORT TO COUNCIL

#### SUBJECT

Action Related to the City's Variable Rate Demand Electric Revenue Bonds, Series 2008 B

#### BACKGROUND

The City and MUFG Bank, Ltd (formerly known as The Bank of Tokyo-Mitsubishi UFJ, Ltd., the "Bank") entered into a Reimbursement Agreement dated November 1, 2012, as amended by the First Amendment to Reimbursement Agreement dated September 30, 2015 (collectively, the "Agreement") in connection with the City's issuance of \$86,600,000 of Variable Rate Demand Electric Revenue Bonds, Series 2008 B (the "Bonds"). Pursuant to the Agreement, the Bank issued an Irrevocable Transferable Letter of Credit ("LOC") dated November 1, 2012, as amended by the Amended and Restated Fee Letter dated September 30, 2015 (collectively, the "Letter of Credit"), to provide credit support (i.e. collateral) for the Bonds. Funds from the original bond issue in 1991 were used to fund the Grizzly Hydroelectric Project.

The LOC provides credit enhancement to the Bonds in the event of default by the City. In addition, the LOC provides liquidity support in the event that any Bonds are tendered by the bondholders and are not able to be remarketed. Thus the LOC enhances the value of the Bonds for benefit of both the City and bondholders.

The LOC is scheduled to expire on October 30, 2018 and staff is requesting authorization to extend the LOC by three months to January 29, 2019 in order to continue to provide credit support on the Bonds while City staff pursues opportunities to refinance the Bonds by the end of 2018. The Bonds indenture requires the City to provide written notice to the Trustee, and give the Trustee instructions to send notice to the Remarketing Agent, the Tender Agent, and the Credit & Liquidity Provider of either the extension or the termination of the LOC at least 35 days prior to the current expiration date of October 30, 2018.

#### DISCUSSION

Staff is currently reviewing potential refinancing alternatives with respect to the Bonds, including opportunities to refund the Bonds through the issuance of fixed rate electric revenue refunding bonds and terminating a related interest rate swap transaction. Although current market conditions would produce some cost savings, the reduced risk associated with terminating the swap and reduced variable interest rate risk associated with refunding the Bonds provide significant benefit to the City. Staff expects to present for Council consideration a recommended refinancing transaction at a future meeting, prior to the expiration of the proposed extension of the LOC.

While staff is soliciting proposals from investment banks and reviewing refinancing alternatives, adoption of the attached Resolution will authorize the execution of:

- The Second Amendment to Reimbursement Agreement between the City and Bank (including Exhibit A notifying the Trustee of the Extension);
- The Second Amended and Restated Fee Letter between the City and Bank; and
- Other agreements, documents, and certificates necessary to comply with the terms of the Resolution.

### **ENVIRONMENTAL REVIEW**

The action being considered does not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378(a) as it has no potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment.

### **FISCAL IMPACT**

The Bank has agreed to extend the current LOC for three months at the current interest rate and the City is obligated to pay interest on the entire three month extension. Staff anticipates that the City will utilize the LOC for one or two of the three months depending of the timing to refinance the debt. The estimated cost for fees and interest for the three months is approximately \$55,000.

### **COORDINATION**

This report has been coordinated with the Finance Department and City Attorney’s Office.

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City’s official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City’s website and in the City Clerk’s Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk’s Office at (408) 615-2220, email [clerk@santaclaraca.gov](mailto:clerk@santaclaraca.gov) <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

### **RECOMMENDATION**

Adopt a Resolution Authorizing the Execution of a Second Amendment to Reimbursement Agreement and Second Amended and Restated Fee Letter Relating to the City’s Variable Rate Demand Electric Revenue Bonds, Series 2008 B; and Authorizing Certain Other Actions Relating Thereto

Reviewed by: John C. Roukema, Chief Electric Utility Officer

Approved by: Deanna J. Santana, City Manager

### **ATTACHMENTS**

1. Resolution
2. Second Amendment to Reimbursement Agreement
3. Second Amendment and Restated Fee Letter