



CITY OF

Richmond CALIFORNIA

Updates on the the FY 2020-21 budget, overtime reports,
and City bonds.

Richmond City Council Meeting
Finance Department
March 2, 2021

Recommended Action:

RECEIVE updates on the FY 2020-21 budget, overtime reports, and City bonds; and **DIRECT** staff on which option to choose for the Pension Obligations Swap.

Agenda

- FY 2020-21 Budget Update - January 2021
- Overtime Reports - January 2021
- Update on City Bonds and Swaps

Budget Goals

- Structurally balanced budget
- Preserve services to the extent possible
- Consider impacts of COVID-19 on services
- Minimize staff reductions
- Increase cash reserves to policy level
 - Maintain bond ratings

FY 2020-21 Budget Update

General Fund Revenues - January 2021

	ADOPTED BUDGET	ADJUSTMENTS	REVISED BUDGET	YTD ACTUAL	AVAILABLE BUDGET	% REC'D
PROPERTY TAXES	(43,928,806)	-	(43,928,806)	(23,630,374)	(20,298,432)	53.8%
SALES & USE TAX	(40,995,626)	-	(40,995,626)	(17,300,340)	(23,695,286)	42.2%
UTILITY USERS TAX	(44,506,312)	-	(44,506,312)	(26,279,900)	(18,226,412)	59.0%
OTHER TAXES	(13,704,709)	-	(13,704,709)	(12,774,566)	(930,143)	93.2%
LICENSES,PRMITS&FEES	(6,479,388)	-	(6,479,388)	(3,377,452)	(3,101,936)	52.1%
FINES & FORFEITURES	(831,966)	-	(831,966)	(294,960)	(537,006)	35.5%
USE OF MONEY&PROPRTY	(236,079)	-	(236,079)	(58,610)	(177,469)	24.8%
CHARGES FOR SERVICES	(3,381,868)	-	(3,381,868)	(2,057,286)	(1,324,582)	60.8%
OTHER REVENUE	(196,496)	-	(196,496)	(190,461)	(6,035)	96.9%
RENTAL INCOME	(952,123)	-	(952,123)	(388,379)	(563,745)	40.8%
INTERGOV STATE TAXES	(87,405)	-	(87,405)	-	(87,405)	0.0%
INTERGOV STATE GRANT	(378,328)	-	(378,328)	(172,192)	(206,136)	45.5%
INTERGOV OTHER GRANT	(167,856)	-	(167,856)	(172,964)	5,108	103.0%
PROC FR SLE PROP	(55,000)	-	(55,000)	(70,215)	15,215	127.7%
OPER XFERS IN	(9,258,229)	-	(9,258,229)	(9,418,625)	160,396	101.7%
TOTAL REVENUES	(165,160,191)	-	(165,160,191)	(96,186,322)	(68,973,869)	58.2%

FY 2020-21 Budget Update cont'd.

General Fund Expenditures - January 2021

	ADOPTED BUDGET	TRANSFERS	REVISED BUDGET	ENCUMBRANCES	YTD ACTUAL	AVAILABLE BUDGET	% REC'D
SALARIES AND WAGES	67,343,552	(28,504)	67,315,048	-	41,556,160	28,706,662	61.7%
PYRLL/FRINGE BENEFIT	58,554,789	3,504	60,558,294	-	34,995,125	23,563,169	57.8%
PROF & ADMIN	9,998,917	247,513	10,246,430	2,079,600.03	3,780,831	4,385,999	36.9%
OTHER OPERATING	5,327,563	(46,294)	5,281,269	1,797,965.71	2,645,651	837,652	50.1%
UTILITIES	4,548,320	(101,757)	4,446,563	518,826.12	2,505,735	1,422,002	56.4%
EQPT & CONTRACT SVCS	2,113,661	19,257	2,132,918	411,897.57	1,076,052	644,969	50.4%
PROVISN FOR INS LOSS	3,143	10,200	13,343	2,954.00	10,389	-	77.9%
COST POOL	13,274,926	-	13,274,926	-	7,743,709	5,531,217	58.3%
ASSET/CAPITAL OUTLAY	460,468	89,356	549,824	32,044.46	15,242	502,538	2.8%
DEBT SVC EXPENDITURE	2,049,749	-	2,049,749	-	639,273	1,410,476	31.2%
A87 COST PLAN REIMBS	(3,516,104)	-	(3,516,104)	-	(2,113,488)	(1,402,616)	60.1%
GRANT EXPENDITURES	40,000	6,725	46,725	-	42,081	4,644	90.1%
OPER XFERS OUT	4,961,206	-	4,961,206	-	3,024,236	1,936,970	61.0%
TOTAL EXPENDITURES	165,160,192	200,000	167,360,192	4,843,288	95,920,995	67,543,683	57.3%

Overtime Report

General Fund	Adopted Budget	Actual Expenditures	Available Budget	% Expended
City Clerk	10,184	13,867	(3,683)	136%
Finance	4,365	4,784	(419)	110%
Human Resources		228	(228)	100%
Police - Non-Sworn	588,137	579,479	8,658	99%
Police - Sworn	2,497,290	1,992,027	505,263	80%
Fire - Sworn	1,993,165	2,546,015	(552,850)	128%
Public Works	291,839	139,535	152,304	48%
Library	727	360	367	49%
Community Services	2,579	122	2,457	5%
Information Technology	2,910	0	2,910	0%
Total General Fund	\$5,391,196	\$5,276,417	\$114,779	98%

Overtime report through January 2021 (Should be at 58% expended)

The City of Richmond

Review of Outstanding Debt and Interest Rate Swaps

What is a Bond and Why do Municipalities Issue them?

- What is a bond?
 - A promise of a borrower (Issuer) to repay a lender (bondholder)
 - Issuer receives upfront cash and owes annual payments of principal and interest to the bondholder
 - Similar to a mortgage for a home
 - Can include publicly offered bonds, privately placed obligations, and state or federal loans (like the State's SRF program)
- Why do municipalities issue bonds?
 - To fund infrastructure and capital improvement projects
 - Examples: water/sewer, streets, bridges, utilities, libraries, civic centers, community centers, fire stations, etc.
 - To ensure intergenerational equity

Overview of Richmond's Outstanding Debt

Series	Purpose	Security	Coupon Type	Original Par (\$000)	Outstanding Par (\$000)	% Paid by General Fund	% Paid by Other Sources
Lease Revenue Bonds				\$112,940	\$105,240		
Series 2016	Swap Termination	General Fund	Fixed	28,390	27,140	83%	17%
Series 2019A (Civic Center)	Economic Refunding	General Fund	Fixed	63,970	61,725	83%	17%
Series 2019B (Point Potrero)	Economic Refunding	General Fund	Fixed	20,580	16,375	0%	100%
Pension Bonds				\$124,745	\$162,747		
Series 1999A	Pension Funding	PTORS	Fixed	\$36,280	\$3,435	0%	100%
Series 2005B* (Swap)	Pension Funding	PTORS/General Fund	Variable	88,465	159,312	14%	86%
Loans and Capital Leases**				\$17,331	\$10,252	100%	0%
TOTAL GENERAL FUND DEBT				\$255,016	\$278,240		

Wastewater Revenue Bonds as of March 1, 2021

Series	Purpose	Security	Coupon Type	Original Par (\$000)	Outstanding Par (\$000)	% Paid by General Fund	% Paid by Other Sources
Series 2017A	New Money/Refunding	Wastewater Revs	Fixed	33,530	29,750	83%	17%
Series 2019A	Capital Improvements	Wastewater Revs	Fixed	22,510	22,510	83%	17%
Series 2019B	Refunding/Swap Term	General Fund	Fixed	66,075	66,075	0%	100%
TOTAL WASTEWATER DEBT				\$122,115	\$118,335		

Successor Agency and Land Secured Bonds as of March 1, 2021

Series	Purpose	Repayment Source	Coupon Type	Original Par (\$000)	Outstanding Par (\$000)	% Paid by General Fund	% Paid by Other Sources
Successor Agency Bonds				\$84,930	\$31,173		
Series 1998A (CABs)*	Redevelopment	Tax Increment	Fixed	\$21,863	\$989	0%	100%
Series 2003B	Redevelopment	Tax Increment	Fixed	12,500	5,965	0%	100%
Series 2004A	Redevelopment	Tax Increment	Fixed	15,000	8,725	0%	100%
Series 2007B (CABs)*	Redevelopment	Tax Increment	Fixed	9,773	4,964	0%	100%
Series 2014A	Economic Refunding	Tax Increment	Fixed	25,795	10,530	0%	100%
Series 2021	Economic Refunding	Tax Increment	Fixed	17,740	17,740	0%	100%
Reassessment/Mello-Roos Bonds				\$12,395	\$8,115		
1998-1 CFD (Marina Westshore Dev't Project)	Infrastructure Imp	Special Taxes	Fixed	\$4,500	\$2,175	0%	100%
Series 2016 (Country Club Vista)	Economic Refunding	Assessments	Fixed	7,895	5,940	0%	100%
TOTAL RELATED ENTITIES				\$97,325	\$39,288		

*Par amounts outstanding reflect accreted value on capital appreciation bonds through June 30, 2020

** Values as of June 30, 2020

The City has Taken Advantage of Market Opportunities to Save Money and Reduce Risk

- Since 2017, the City has refunded six outstanding bonds for savings and terminated two interest rate swaps, generating over \$42 million of net present value (“NPV”) savings
 - ~\$26.8 million in NPV savings will accrue to the General Fund over time
 - ~\$4.2 million will accrue to the Port
 - ~\$5.3 million will accrue to the Sewer Enterprise

Why Did The City Enter Into Interest Rate Swaps?

- Beginning in 2006, the City entered into interest rate swaps in connection with bond financings for the Wastewater System, Civic Center, Successor Agency, and Pension Obligations
- The City expected that it would realize substantial interest cost savings compared to issuing traditional fixed rate bonds for Wastewater, Civic Center, and Successor Agency bonds
- With respect to the 2005 Pension Obligation Bonds, two swaps were entered into in 2006, which remain outstanding today, to protect against the risk of higher interest rates when the POBs converted to current interest bonds in 2013 and 2023

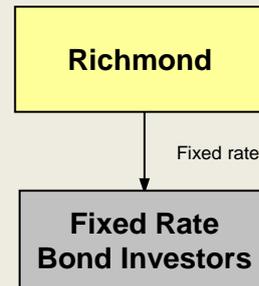
What Is An Interest Rate Swap?

- More accurately, an “Interest Rate ***Exchange*** Agreement”
- An agreement between two parties (“counterparties”) to exchange periodic interest payments
 - The value of the payments to be exchanged are generally equal at inception
- No principal is exchanged
 - A “notional” amount is used in place of principal for purposes of calculating interest payments due
- The most common swap agreement, particularly for municipalities, entails one party paying a fixed rate and the other party paying a floating rate
 - The actual floating rates due are known only over time and are based on a public ‘reference index’ such as LIBOR or SIFMA
 - Referred to as “synthetic fixed rate”
- Global swap markets are significantly larger than bond and equities markets
- Market pricing for swap transactions is transparent and accessible

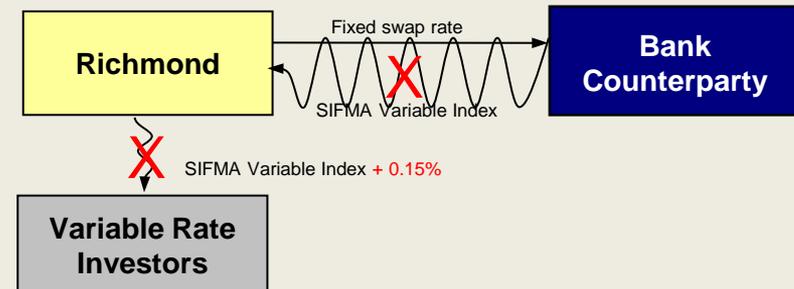
Synthetic Fixed Rate Debt - Civic Center, Successor Agency, and Wastewater Swaps

- ❑ Combines variable rate bonds with an interest rate swap to produce an *expected* substantially stable, fixed rate
- ❑ Often produces a lower *expected* borrowing cost than traditional fixed rate bonds
- ❑ Actual realized level of 'savings' is uncertain because *expected* savings assumes a certain relationship between swap receipts and variable bond payments
- ❑ **Synthetic fixed rate debt entails several incremental risks and/or operational requirements relative to fixed rate bonds, but those are thoroughly evaluated**

Traditional Fixed Rate Loan



Synthetic Fixed Rate Borrowing



All-In Cost

4.00%

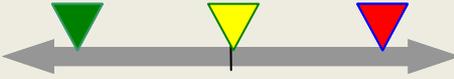
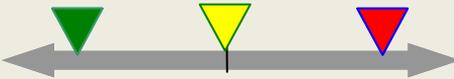
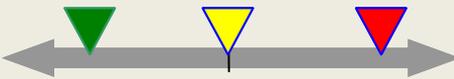
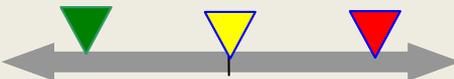
"Expected" All-In, Net Substantially Fixed Cost

2.45% Fixed Pay Swap Rate +
 0.15% SIFMA / Bond Rate Shortfall (est.) +
 0.50% Letter of Credit Fees (est.) +
 0.10% Remarketing Agent Fees +
 0.10% Other Incremental Admin Costs =

3.30% (est.)

Identifying and Assessing Incremental Swap Risks

- **The primary focus of the financing team is risk assessment and disclosure**

Level of Indicated Risk		Description	Examples
Low	High		
 <p>Basis Risk</p>		Mismatch between change in swap rate and change in Tax-Exempt rate on hedged Bond Issuance	Swap rates move higher by 10 bps while tax-exempt bond rates rise by 20 bps.
 <p>Counterparty Risk</p>		Failure of Swap Counterparty to fulfill contractual obligations	Swap counterparty defaults, depriving City of substantial payment, requiring City to replace swap in current marketplace, or to have un-hedged variable rate bonds
 <p>City Credit Deterioration</p>		Decline in City's Ratings causes early termination	In very low interest environment, a City downgrade to below BBB- could require termination payment at inopportune time
 <p>Termination Payment Funding Risk</p>		Decline in rates requires substantial termination payment – what is source of payment?	In very low interest environment, the City would benefit from low rate on bonds but only if it has market access

The 2005B-2 POB Swap Terminates Early on August 1, 2023

- As of February 19th, the termination value of the B-2 Swap was ~\$33.5 million; value may increase or decrease substantially over next 2.5 years but payment due in 2023 likely will be substantial
- The primary available options to addressing this 2023 financing requirement are:
 - OPTION A: Issue new bonds to finance the termination payment due
 - Would eliminate final City swap position and the remaining associated risks and complexities.
 - POBs would be taxable and with unpredictable demand
 - Likely to be materially more expensive than OPTION B
 - However, financing could be structured to minimize or eliminate near-term budgetary impacts
 - OPTION B: Negotiate with RBC the removal of mandatory early termination requirement in exchange for an increase in the City's fixed pay rate
 - Equivalent to borrowing the termination payment from RBC rather than issuing new POBs
 - No termination payment requirement and no new debt issued
 - Interest rate at which RBC effectively would be lending to the City is expected to be materially lower than the financing costs associated with new bonds
 - City would continue to hold the B-2 Swap through 2034 and be subject to a ratings-based ATE below BBB

Next Steps

- City Council to receive update in April:
 - Budget Update - February 2021
 - Overtime Report - February 2021
 - Measure U/Gross Receipts Update

Questions?