

ATTACHMENT C

RESOLUTION NO. 21-016

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VICTORVILLE DECLARING THE OFFICIAL INTENT OF THE CITY OF VICTORVILLE TO REIMBURSE ITSELF FOR CERTAIN CAPITAL EXPENDITURES FROM THE PROCEEDS OF INDEBTEDNESS

WHEREAS, the City of Victorville (the “City”) intends to finance the design, acquisition, construction, and equipping of improvements to its municipal electric system, including but not limited to, upgrades to its substation and related facilities and equipment, and necessary upgrades to portions of Southern California Edison’s interconnection and electric distribution system to which the municipal electric system is interconnected and receives service (collectively, the “Project”); and

WHEREAS, the City expects to pay certain capital expenditures (the “**Reimbursement Expenditures**”) in connection with the Project prior to the issuance of indebtedness for the purpose of financing the costs associated with the Project on a long term basis; and

WHEREAS, the City reasonably expects that debt obligations, in one or more series, in a total amount not expected to exceed \$6,000,000 will be issued from time to time for the purpose of financing costs of the Project on a long-term basis and that certain of the proceeds of such debt obligations will be used to reimburse the City for the Reimbursement Expenditures; and

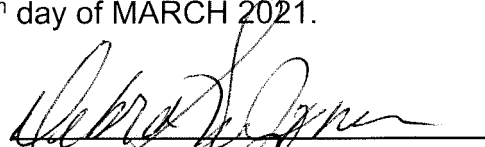
WHEREAS, Section 1.150-2 of the Treasury Regulations requires the City to declare its reasonable official intent to reimburse prior expenditures for the Project with proceeds of a subsequent borrowing.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF VICTORVILLE DOES RESOLVE, DECLARE, DETERMINE AND ORDER AS FOLLOWS:

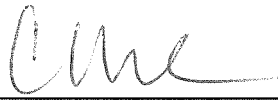
- Section 1.** That the City Council of the City finds and determines that the foregoing Recitals are true and correct.
- Section 2.** That this resolution is adopted by the City Council of the City solely for purposes of establishing compliance with the requirements of Section 1.150-2 of the Treasury Regulations, and does not bind the City to make any expenditure, incur any indebtedness, or proceed with the Project.
- Section 3.** That the City Council of the City hereby declares the City’s official intent to use proceeds of indebtedness to reimburse the City for the Reimbursement Expenditures.
- Section 4.** That this resolution shall take effect immediately upon its adoption.
- Section 5.** That the City Clerk shall certify to the passage and adoption of this Resolution.

Resolution No. 21-016

PASSED, APPROVED AND ADOPTED this 9th day of MARCH 2021.

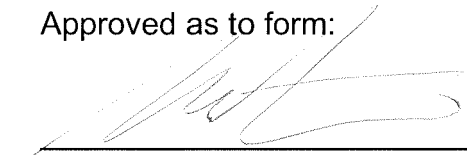

Debra Jones, Mayor

Attest:



City Clerk

Approved as to form:



City Attorney

I, Charlene Robinson, City Clerk of the City of Victorville and ex-officio Clerk to the City Council of said City, do hereby certify that the foregoing is a true and correct copy of Resolution No. 21-016 which was adopted at a special meeting held on the 9th day of March 2021, by the following roll call vote, to wit:

AYES: Mayor Jones, Councilmembers Becerra and Irving

NOES: Councilmember Gomez

ABSENT: None

ABSTAIN: None



Item Number: 1

City Council / Board of Directors

Public Hearing(s)

Meeting of: March 9, 2021

Submitted By:

Brenda Hampton, Director of Electric Utility Services
Bobby Magee, Director of Finance/City Treasurer

Subject:

VMUS Electric Infrastructure Capacity Expansion and Debt Refinancing

Recommendation:

That the Honorable City Council:

1. Accept the presentation by Staff of the VMUS Electric Infrastructure Capacity Expansion and Debt Refinancing Report; and
2. Conduct a public hearing and receive testimony, introduce Ordinance No. 2416 for adoption and first reading by title only to amend title 3 of the City of Victorville Municipal Code, waive a further reading in full of proposed ordinance, and close the public hearing; and
3. Adopt Resolution No. 21-016 to reimburse the City of Victorville for certain capital expenditures from the proceeds of indebtedness.

Fiscal Impact:

There is no fiscal impact associated with Ordinance No. 2416. The adoption of the recommended ordinance does not in and of itself issue any bonds or create any debt, but simply puts in place the procedures and mechanisms which allow the City to do so. Actual issuance of any bonds would be done once the ordinance has become effective, by means of passing a City Council resolution and authorization of a debt-issuing instrument, such as an indenture.

Additionally, there is no fiscal impact associated with adopting Resolution No. 21-016 (Attachment C). Adoption of the resolution does not authorize the expenditure of any City funds. In accordance with the staff recommendation, this action will allow for the City to be reimbursed for certain expenses incurred from future infrastructure capacity expansion and distribution upgrades contingent upon the issuance of the new bonds.

Staff will bring back appropriate reimbursable and receivable expenses related to the project, which is capped at six million dollars through this reimbursement resolution and request any needed future budget amendments.

Background:

In 2007, the City of Victorville, through the Victorville Joint Powers Financing Authority, issued its Variable Rate Lease Revenue Bonds (2007A Bonds) in the amount of \$83,770,000 for the purpose of financing and refinancing improvements to the VMUS electric system. These bonds were secured by the City's pledge of lease revenues through a leaseback transaction encumbering certain City facilities as collateral. These facilities include City Hall, multiple City Parks, Fire Stations, the City Library, Victorville Police Station, and various City yards. City Staff must seek bond holder approval for all items that are not considered routine maintenance. The encumbrance of these City facilities may impair the City's ability to receive grant funds that require deed restrictions. The 2007A bonds are currently outstanding in the amount of \$48,115,000 and have a final maturity of May 1, 2040.

Victorville Municipal Utility Services ("VMUS") currently provides electric service to customers located at the Southern California Logistics Airport ("SCLA") via a 34.5 kV Southern California Edison ("SCE") interconnection and distribution service. Beginning in 2017, VMUS began to realize this service was limited in its capacity, due to the increase in peak demand, which can hinder future growth of its customers and the ability to provide reliable power. The maximum contracted distribution capacity under the terms of SCE's Wholesale Distribution Access Tariff ("WDAT") is 17.34 MW and VMUS has been encroaching on this capacity consistently since 2017. Between 2017-2019, VMUS monitored the SCLA peak load and the maximum allowable capacity to verify the demand trends, which resulted in projections of the system's peak load to exceed the capacity limits as early as August 2021.

On March 19, 2019, the City Council adopted Resolution No. 19-010 approving the mid-year amendment to the 2018-2019 fiscal year budget. VMUS submitted two capital improvement projects for the buildout of a new 230KV substation and upgrades to the existing distribution system. These improvements were required in order to meet increased demand, supply future growth and provide reliable power.

On May 5, 2020, the City Council approved the execution of a combined system impact and facilities study with SCE to evaluate the requirements of the electrical system and three options were observed and provided. Of the three options, VMUS has selected the lowest cost option and the most expedient by expanding the current 34.5 kV system, which would increase the capacity from 17.34 MW to 40.37 MW and will be sufficient to serve the current and anticipated load over the next several years. If VMUS experiences substantial growth, due to a new larger industrial customer, VMUS may eventually proceed with the buildout of a new substation; however, expanding and constructing modifications to the existing 34.5kV system is adequate for current needs.

Discussion:

On July 24, 2018, the City, Southern California Logistics Airport Authority (SCLAA) and the Securities and Exchange Commission ("SEC") agreed to a settlement regarding prior allegations related to the issuance of SCLAA redevelopment tax increment bonds. As a result, on February 19, 2019 the City Council approved revisions to its Debt Management Policy. The purpose of the policy was to promote sound and uniform practices for issuing and managing bonds and to safeguard the City's funds, while maintaining its fiscal stability. In compliance with Section VIII of the policy, VMUS worked with the City Treasurer to obtain professional services for municipal advisor, bond and disclosure counsel, underwriter and trustee. These steps were taken in preparation of presenting the recommended funding mechanisms for the required capacity infrastructure upgrades and refinancing to Council.

Urban Futures, Inc. ("UFI"), was selected by the City to serve as the Municipal Advisor through the competitive solicitation process. UFI worked with VMUS staff in reviewing VMUS' current system needs, analyzing VMUS' financial position and evaluating the current market conditions as it relates to financing. Following this review, it was recommended that the VMUS Capacity Expansion Project ("the project") be financed rather than expensed from VMUS' available funds. This would provide VMUS with recommended reserve levels and liquidity to cover any unforeseen circumstances and maintain an investment-grade credit rating. Since borrowing rates and costs for the long-term municipal markets are at historical lows, VMUS has a cost-savings opportunity, not only by financing the current project, but also refinancing the existing 2007A Bonds. By pursuing this option, the City will be able to lock in a low and long-term fixed rate, eliminate the risk of paying variable rates during volatile market conditions and unencumber all City facilities.

UFI assisted the City with solicitation of proposals for an Underwriter and Bond & Disclosure Counsel. If the City Council concurs with the proposed financial structure and plan, the required motions will be conducted with the assistance of the financing team. Orrick Herrington was selected for Bond Counsel and is providing legal advice and assisting in preparing legal documents in relation to the financial structure of the bonds. Stradling Yocca Carlson & Rauth ("Stradling") has been selected as Disclosure Counsel. Stradling is assisting with the preparation of the Official Statement and Continuing Disclosure agreements. Goldman Sachs has been selected to assist in structuring of the finance, setting prices and selling bonds to investors, as the City's Underwriters. Chapman and Cutler will be acting as Underwriter's Counsel and assisting in drafting the Bond Purchase Agreement. BNY Mellon, who currently serves as the City's current trustee/paying agent for the 2007A bonds, will act as the trustee for the 2021 bonds. The selected financing team is nationally recognized in their area of expertise. Staff is confident in the ability of the financing team to help guide and provide the appropriate material and documentation required for the capital project bond financing and refinancing process.

Attachment A has additional detailed information regarding VMUS' system background, the infrastructure upgrade project and the financing plan can be found in the *Electric Infrastructure Capacity Expansion and Debt Refinancing Report*.

Staff's verbal presentation will focus on this report and serve as a foundation to support staff's ultimate recommendation to issue new debt and refinance existing debt to help finance the capacity upgrades at SCLA. If the City Council concurs, then staff recommends at this meeting to adopt the following ordinance and resolution.

Ordinance No. 2416: Relating to the Issuance of Revenue Bonds to Finance City Enterprises

Sections 3, 5, and 7 of article XI of the California Constitution and section 100 of the City of Victorville's Charter (the "**Charter**") authorize the City of Victorville (the "**City**") to make, exercise, and enforce all legislation, laws, and regulations and to take all actions relating to municipal affairs and related matters.

Section 401 of the Charter further authorizes the City to establish standards, procedures, and rules or regulations related to any public financing. If adopted, Ordinance No. 2416 would add a new Chapter 3.66 to Title 3 (Revenue and Finance) of the Victorville Municipal Code, enabling the City to sell and issue revenue bonds for the purpose of financing or refinancing capital improvements and other certain costs for the City's various enterprises (e.g., electricity, natural gas, water, and wastewater). Any such bonds issued would solely be payable from the revenues generated by the specific City enterprise for which the debt was issued. The proposed ordinance also establishes the procedures the City must follow prior to issuing or selling such bonds.

Resolution No. 21-016: Relating to reimbursing the City for certain capital expenditures from the proceeds of indebtedness

To ensure that VMUS has all the required designs, equipment and materials for the construction of the project on a timely basis, VMUS may be required to purchase long-lead items prior to the issuance of the new bonds. Resolution No. 21-016 will allow VMUS to be reimbursed for certain capital expenditures, incurred from future infrastructure capacity expansion and distribution upgrades and contingent upon the issuance of the new bonds, in a total amount not expected to exceed \$6,000,000. This will help VMUS maintain a sufficient level of reserves and a strong level of liquidity to overcome unforeseen circumstances, such as revenue declines due to losing a major customer or increase in power supply costs.

Staff remains available for any questions you may have.

Attachments:

- A.** Electric Infrastructure Capacity Expansion and Debt Refinancing Report
- B.** Ordinance No. 2416
- C.** Resolution No. 21-016