

Agenda Report

December 16, 2002

TO: City Council
THROUGH: Finance Committee

FROM: City Manager

SUBJECT: APPROVAL OF A RESOLUTION APPROVING THE EXECUTION AND DELIVERY OF 2003 VARIABLE RATE DEMAND CERTIFICATES OF PARTICIPATION (CAPITAL IMPROVEMENT PROJECT), APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN ASSIGNMENT, ASSUMPTION AND CONSENT AGREEMENT, AN AMENDED AND RESTATED TRUST AGREEMENT, AN AMENDED AND RESTATED LEASE, AN AMENDED AND RESTATED SUBLEASE, A PURCHASE AGREEMENT, A STANDBY PURCHASE AGREEMENT, A REMARKETING AGREEMENT, A LIQUIDITY ASSURANCE AGREEMENT A SWAP AGREEMENT AND OTHER RELATED DOCUMENTS, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT AND APPROVING OTHER RELATED ACTIONS IN CONNECTION THEREWITH

RECOMMENDATION

It is recommended that the City Council approve:

1. a Resolution approving the execution and delivery of 2003 Variable Rate Demand Certificates of Participation (Capital Improvement Project), approving the form of and authorizing the execution and delivery of an assignment, assumption and consent agreement, an amended and restated trust agreement, an amended and restated lease, an amended and restated sublease, a purchase agreement, a standby purchase agreement, a remarketing agreement, a liquidity assurance agreement, a SWAP agreement, and other related documents, authorizing the distribution of an official statement and approving other related actions in connection therewith;
2. the appropriation of an additional \$53 million to Capital Improvement Project 71904 – City Hall Seismic Upgrade and Exterior Restoration;
3. the appropriation of an additional \$3 million to Capital Improvement Project 78034 – Robinson Park – Implement Master Plan;
4. the appropriation of an additional \$1.2 million to Capital Improvement Project 78289 – Eaton Wash Park – Improvements; and
5. the transfer of \$4 million from the General Fund Reserve for City Hall to the Charter Capital Fund.

RECREATION AND PARKS COMMISSION

At their December 3, 2002 regular meeting, the Recreation and Parks Commission voted 5-3 to recommend their support for Certificates of Participation that include \$4.2 million for Robinson Park and Eaton-Wash Park.

BACKGROUND

In the Spring of 2002, the City Hall Restoration Finance Committee presented its recommendations to the City Council regarding the financing of City Hall. This proposal was ultimately approved by the City Council as part of the adoption of the Fiscal Year 2003 operating budget.

The financial components included the use of approximately \$7.3 million of FEMA funds, \$6.4 million of Public Benefit Charge revenues, \$10.3 million from the Light and Power Fund that would be generated after the increase in the General Fund Transfer from 5.0% to 7.5%, \$12 million from anticipated General Fund revenues, and \$53 million from net Certificates of Participation (COP) proceeds. The plan was to use the \$36 million in cash to cover the initial costs and then return to the City Council sometime during fiscal year 2004 or 2005 to ask for authorization to issue the COPs. While the sources described above to finance City Hall has not changed, because of unusually low interest rates, staff is recommending that the City issue the COPs today, spend the FEMA money and proceeds first, set aside the other funds over the next two to three fiscal years, and then use this local cash, plus interest to complete the project.

DISCUSSION

As with many of financings approved by the City Council, the financing of the City Hall project will be through the issuance of Certificates of Participation. The City's obligation to pay principal and interest on the COPs will be insured by Ambac, a municipal bond insurer. With Ambac's insurance, the bonds will carry a AAA rating, the highest rating available.

The payments the City makes that are used to pay principal and interest to investors are structured as lease payments from the City for the use and occupancy of certain municipal facilities. In general, the value of the leased assets must equal or exceed the amount of outstanding COPs. As COPs are paid down over time or as the value of the City's assets increases, the assets become more valuable than necessary to support the amount of COPs outstanding. The City finds itself in that situation today. The City Hall financing is structured to take advantage of this excess value. In that way, the City can minimize the number of new assets it will have to lease to support this transaction.

The actual mechanism to be utilized is to add the City Hall financing into the existing lease that supports two previous COPs issued in 1993 and 1996. This allows the City to take advantage of the excess value in those two financings. Furthermore, the City will add its interest in the Paseo Colorado garage into the lease, thus enabling it to utilize the value in that asset that is in excess of the COPs issued in 2000 to finance improvements to that garage.

The City's debt service payments will be fixed for the life of the COPs. Rather than issuing fixed rate COPs, however, the City will create a "synthetic" fixed interest rate obligation through a two-step process.

First, the City will issue variable rate COPs. These are securities on which the interest rate changes weekly depending on movements of short-term interest rates. The City has issued

such securities for the Plaza Las Fuentes garage, the Rose Bowl and the Paseo Colorado garage. Concurrently with this transaction, the City will enter into an interest rate swap, which will convert the City's obligation to a fixed interest rate obligation. The interest rate swap will be an agreement between the City and Ambac, the insurer of the COPs. Under the swap, the City will make a fixed interest rate payment to Ambac and Ambac will make a payment to the City equal to the City's variable rate payment on the COPs. The net effect will be to create a fixed rate payment obligation for the City.

The reason to do this rather than issue fixed rate COPs is that this "synthetic" fixed rate structure results in a much lower interest rate given today's interest rate market. The savings are expected to be about three-eighths of a percentage point. Over the life of the COPs, that will save the City in excess of \$6 million.

ADDITIONAL PROJECTS

Under the original financing plan, it was anticipated that the ongoing annual debt service once the COPs were issued would be approximately \$5 million. This amount has been incorporated into the City's five-year financial plan. Because interest rates are so low, the City has the ability to generate additional funds from this financing, while keeping the total debt service payment around the \$5 million annual figure. As such, staff is also recommending that the City Council include as part of this transaction \$8.2 million for the following:

Capital Park Projects:

In January 2002, the City Council approved a Competitive Park Grant Application Plan, authorizing staff to apply for various grants. Included in this plan were grant applications for both Robinson Park and Eaton Wash Park. Staff applied for a total of \$3.250 million for Robinson Park from the Urban Park and Recreation Recovery Program (UPARR) and the Proposition 12 funds. For Eaton Wash Park, a total of \$1.2 million was requested to be included in the \$642.5 million that the Legislature was to earmark from Proposition 40 funds. Although the grant applications were not selected to receive new monies, both parks still remain high in the funding priority.

Robinson Park

The proposed improvement is for the development of park facilities in Robinson Park. The project includes demolition of the existing gymnasium and recreation buildings and the construction of a new Recreation Center, as well as the north parking lot and picnic lawn area, including a playground and tot lot. The project will be focused in the northern portion of Robinson Park on approximately 3 acres. This is a first step in implementing and completing the full development project as envisioned by the Revised Robinson Park Master Plan. It is recommended that a total of \$3 million in net proceeds be included in this transaction.

Eaton Wash Park

The Master Plan for Eaton Wash Park was approved in concept by the City Council on August 9, 1999. The Master Plan includes amenities such as landscaping, walking paths, parking lots, a playground, a restroom and an off leash dog area. It is recommended that a total of \$1.2 million in net proceeds be included in this transaction. This amount, along with the approximate \$156,000 remaining in project 78289 – Eaton Wash Park Improvements from previously collected residential development fees (Rose Townhomes) and the \$60,000 raised by the community for the off leash dog park, will allow the Eaton Wash Park improvements to be completed, including the off leash dog park.

Charter Capital Fund

In the early 1980's the City Council adopted a policy to fund the Charter Capital Fund with proceeds received from the sale of City assets. The intent was to then preserve the principal balance in this Fund and use the interest to support a portion of the debt service on bonds issued by the City for various public improvements. Over the years, the City has drawn from the principal balance, most recently to pay for the construction of Fire Station 34. The current balance in this Fund is approximately \$9.4 million dollars. Staff is recommending that an additional \$4 million be added to this Fund through this transaction. To ensure strict compliance with state and federal tax laws, the specific transaction would be to add this \$4 million to the amount needed to finance city hall, bringing the total to approximately \$57 million. This would free up \$4 million in discretionary dollars that would be transferred to the Charter Capital Fund from the General Fund.

There is a corresponding agenda report on tonight's agenda under the Pasadena Public Financing Authority. In addition, the Pasadena Civic Improvement Corporation (PCIC) has taken a separate action assigning its rights to the previous leases to the Pasadena Public Financing Authority. PCIC is a financing authority whose board members include the Mayor, City Manager, City Clerk and the Director of Finance. It is the long-term intent to phase out the PCIC and utilize the Pasadena Public Financing Authority to facilitate these types of financial transactions.

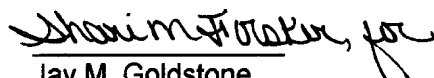
FISCAL IMPACT

The total cost for the City Hall project is budgeted at \$88.795 million. In addition, \$4.2 million is being requested to fund portions of the Robinson Park Improvements and to complete the funding for the Eaton Wash Park Improvements. The total amount of the bonds will be approximately \$80 million. The annual debt service is projected to be approximately \$5 million. The funding source for this debt service will be approximately 50% from ongoing General Fund revenues and 50% from the increase to the General Fund Transfer from the Light and Power Fund.

Respectfully submitted,


Cynthia J. Kutz, City Manager

Approved by:


Jay M. Goldstone
Director of Finance