

Agenda Report

December 16, 2002

TO: Pasadena Public Financing Authority
THROUGH: Finance Committee

FROM: City Manager

SUBJECT: APPROVAL OF A RESOLUTION APPROVING THE EXECUTION AND DELIVERY OF AN ASSIGNMENT, ASSUMPTION AND CONSENT AGREEMENT, AN AMENDED AND RESTATED LEASE, AN AMENDED AND RESTATED SUBLEASE, AN AMENDED AND RESTATED TRUST AGREEMENT, AN AMENDED AND RESTATED ASSIGNMENT AGREEMENT, AND APPROVING OTHER RELATED ACTIONS IN CONNECTION THEREWITH

RECOMMENDATION

It is recommended that the City Council approve a Resolution approving the execution and delivery of an assignment, assumption and consent agreement, an amended and restated lease, an amended and restated sublease, an amended and restated trust agreement, an amended and restated assignment agreement, and approving other related actions in connection therewith.

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 that 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.

There is a corresponding agenda report on tonight's agenda under the Finance Committee of the City Council. 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

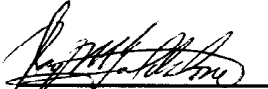
The total cost for the City Hall project is budgeted at \$88.795 million. In addition, \$4.2 million is being requested to fund portions of the Robinson Park Improvements and to complete the funding for the Eaton Wash Park Improvements. The total amount of the bonds will be approximately \$80 million. 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. Kurtz, City Manager

Approved by:



Jay M. Goldstone
Director of Finance