

Agenda Report

June 30, 2003

TO: City Council
THROUGH: Finance Committee

FROM: City Manager

SUBJECT: APPROVAL OF A RESOLUTION AND THE FIRST READING OF AN ORDINANCE AUTHORIZING THE INVITATION OF BIDS FOR THE PURCHASE OF WATER REVENUE AND REFUNDING BONDS, 2003 SERIES, APPROVING A NOTICE OF INTENTION TO SELL BONDS, A PRELIMINARY OFFICIAL STATEMENT, A NOTICE INVITING BIDS AND OFFICIAL FORM OF PROPOSAL; AND AUTHORIZING THE PUBLICATION OF A NOTICE OF INTENTION TO SELL BONDS, ESTABLISHING A NOT TO EXCEED AMOUNT OF \$58 MILLION, THE EXECUTION AND DELIVERY OF A WATER REVENUE BOND INDENTURE, A FIRST SUPPLEMENT TO WATER REVENUE BOND INDENTURE, VARIOUS ESCROW AGREEMENTS AND A CONTINUING DISCLOSURE AGREEMENT

RECOMMENDATION

It is recommended that the City Council approve:

1. A Resolution authorizing the invitation of bids for the purchase of water revenue and refunding bonds, 2003 series, approving a notice of intention to sell bonds, a preliminary official statement, a notice inviting bids and official form of proposal; and authorizing the publication of a notice of intention to sell bonds, and
2. An Ordinance authorizing the issuance of a not to exceed \$58 million aggregate principal amount of Water Revenue and Refunding Bonds, 2003 series, payable out of the Water Fund and approving the execution and delivery of a water revenue bond indenture, a first supplement to water revenue bond indenture, various escrow agreements and a continuing disclosure agreement in connection therewith.

EXECUTIVE OVERVIEW

This agenda report requests authority to issue up to \$58 million in new Water Revenue Bonds. The proceeds will be used to:

- Refund all of the City's outstanding 1993 Water Revenue Bonds (approx. \$21.3 million);

- Prepay all of the City's obligations with the Financing Authority for Resource Efficiency of California (FARECal) (approx. \$1.6 million);
- Finance the first phase of the Water System Master Plan (approx \$22.0 million), and;
- Finance the initial phase of the water reclamation program (approx \$1.0 million).

The balance of the proceeds will be used to cover the cost of issuance and fund the required reserve fund.

BACKGROUND

In 2001, PWP engaged Montgomery Watson Harza (MWH) to evaluate the existing Water System to develop a capital improvement program for the Water System. In June 2002, MWH delivered a report on the Water System and an 18-year plan for capital improvements to the Water System. This report is now referred to as the Water System Master Plan.

The Water System Master Plan determined that an investment of approximately \$234.6 million over the next 18 years would be required to address existing deficiencies and to adequately and reliably produce and distribute water. Of this amount, the study calls for PWP to fund \$204 million of the identified improvements and for others to fund the remaining amount of \$30.6 million for perchlorate treatment. To allow for a reasonable planning horizon, PWP is closely studying the first five years of the plan and anticipates a capital spending level of approximately \$67 million for this time period, of which approximately \$43 million will be bond financed. The remaining \$24 million will be supplied by water rates on a pay-as-you-go basis.

In order to match the borrowing amounts with the timing of the projected spending levels, the initial bond issuance will include approximately \$22 million for new capital spending in years one through three. Additional cash is expected to be required in year four of the plan, (2006).

DISCUSSION

In order to consolidate existing water debt, ease the restrictions contained in previous bond transactions regarding the ability to issue additional debt in the future, and to take advantage of current interest rate markets, staff is recommending the refinancing of the two outstanding debt obligations of the Water Fund. The first is the 1993 Water Revenue Bond, and the second is the FARECal financing.

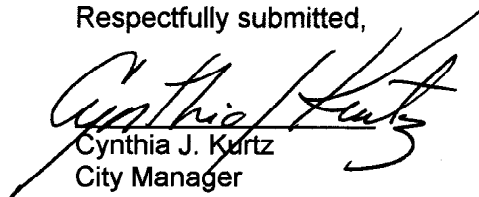
In developing the funding requirements for the proposed Water System Master Plan capital improvement program, staff utilized the cost of service study and conducted an analysis to determine a financial structure that supports the needed capital investments and minimize the rate impacts on water customers. Staff also examined the impact of various levels of debt financing for the capital improvement program. Based on this financial analysis, staff intends to use a funding mix of revenue bond financing and cash from rates on a 65:35 basis. This ratio was used to calculate the \$22 million cash requirement of the first financing.

In order to support the debt service and operating and maintenance expenses for the Water System, the City Council approved the imposition of a Capital Improvement Charge (CIC) of approximately \$0.20 per Billing Unit ("BU") in April 2003 and \$0.22 per BU in July 2004. The CIC amounts are based on the funding requirements for the first five years of the proposed Water System Master Plan capital expenditures plan, and will be specifically dedicated to fund the proposed Water System Master Plan water system improvements.

FISCAL IMPACT


The estimated annual debt service on this transaction is \$3.5 million. Payments will be made from the Water Fund and funds are available from currently approved rates.

Respectfully submitted,




Cynthia J. Kurtz
City Manager

Approved by:



Jay M. Goldstone
Director of Finance

Concurrence:



Phyllis Currie
General Manager, Water and Power

ORDINANCE NO. _____

AN ORDINANCE OF THE CITY OF PASADENA AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$58,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA WATER REVENUE AND REFUNDING BONDS, 2003 SERIES, PAYABLE OUT OF THE WATER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF A WATER REVENUE BOND INDENTURE, A FIRST SUPPLEMENT TO WATER REVENUE BOND INDENTURE, VARIOUS ESCROW AGREEMENTS AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH.

WHEREAS, pursuant to Article XIV of the Charter (the "Charter") of the City of Pasadena (the "City"), the City Council of the City (the "City Council") is authorized to provide for the issuance of revenue bonds for the purpose of providing moneys for the acquisition and construction of additions to, extensions, improvements, or repairs of the water system of the City by ordinance authorizing the issuance of such revenue bonds; and

WHEREAS, pursuant to Ordinance 6541 of the City, adopted on May 25, 1993, the City has heretofore issued \$25,000,000 principal amount of its City of Pasadena Water Revenue Bonds, 1993 Series (the "1993 Bonds"), of which \$21,845,000 principal amount is now outstanding and unpaid; and

WHEREAS, the City has heretofore executed and delivered that certain Resource Efficiency Program Agreement, dated July 1, 1994 (the "1994 Contract"), by and between the Financing Authority for Resource Efficiency of California ("FARECal") under its Resource Efficiency Program and the City - Water Division, as Participant, under which 1994 Contract the City was obligated to make installment payments in the original aggregate principal amount of \$2,115,000, of which \$1,720,000 is now outstanding and unpaid; and

WHEREAS, in connection with the execution and delivery of the 1994 Contract, the City, pursuant to Resolution No. 94R-7138 adopted by the City Council on June 27, 1994, authorized and approved the issuance of \$19,470,000 principal amount of the Financing Authority for Resource Efficiency of California Revenue Bonds, 1994 Series (First Resource Efficiency Program) (the "FARECal Bonds"), \$2,115,000 principal amount of which FARECal Bonds were secured by the installment payments to be made by the City under the 1994 Contract; and

WHEREAS, pursuant to Article XIV of the Charter, the City now proposes to issue its Water Revenue/Refunding Bonds, 2003 Series (the "2003 Bonds") pursuant to an Water Revenue Bond Indenture, dated as of July 1, 2003, by and between the City and BNY Western Company, as trustee (the "Trustee") (the "Master Indenture"), as supplemented by a First Supplement to Water Revenue Bond Indenture, dated as of July 1, 2003, by and between the City and the Trustee (the "First Supplement," and together with the Master Indenture, the "Indenture"), to provide moneys (i) for the acquisition and construction of additions to, and extensions and improvements of, the Water System (ii) to fund a reserve fund for the 2003 Bonds, (iii) to pay costs of issuance of the 2003 Bonds and (iv) to refund in their entirety the

outstanding 1993 Bonds and the 1994 Contract (collectively, the "Refunded Obligations"), said 2003 Bonds not to constitute an indebtedness of the City but to constitute obligations which shall be payable as to both principal and interest, and any premiums upon the redemption of any thereof prior to maturity, only from the Water Fund of the City and certain other funds as provided in the Indenture; and this Ordinance is for the purpose of authorizing the issuance of such 2003 Bonds.

NOW, THEREFORE, the People of the City of Pasadena ordain as follows:

Section 1. Authorization to Issues 2003 Bonds; Purpose; Principal Amount.

(a) Pursuant to Article XIV of the Charter, the City Council does hereby authorize to be issued, upon the terms and conditions as hereinafter set forth, the 2003 Bonds in the aggregate principal amount of not to exceed \$58,000,000 for the (i) acquisition and construction of additions to, and extensions and improvements of, the Water System and, (ii) refunding of the Refunded Obligations, including the payment of costs and expenses incidental thereto.

(b) This Ordinance shall constitute complete authority to issue the Bonds pursuant to the Indenture as provided herein.

Section 2. Issuance of Bonds. The 2003 Bonds shall be issued pursuant to and in accordance with the terms and conditions set forth in this Ordinance, and more specifically in the Master Indenture and the First Supplement.

Section 3. Date of Issuance; Maximum Interest Rates. The 2003 Bonds shall be dated their date of delivery. The maximum interest rate to be payable on the 2003 Bonds shall not exceed an amount that will result in a true interest cost to the City of greater than six percent (6%) per annum.

Section 4. Maturity Dates. The maximum term for the 2003 Bonds shall be 30 years. Subject to the preceding sentence, the 2003 Bonds shall mature and be payable on such dates as specifically set forth in the First Supplement described in Section 6 hereof.

Section 5. Source of Payment. The 2003 Bonds shall not constitute an indebtedness of the City but shall constitute obligations which shall be payable as to both principal and interest, and any premiums upon the redemption of any thereof prior to maturity, only from the Water Fund of the City, as provided in Article XIV of the Charter, and certain other funds as authorized by Article XIV and provided in the Indenture.

Section 6. Approval of Master Indenture and First Supplement. In order to prescribe the terms and conditions upon which the 2003 Bonds are to be issued, secured, executed, authenticated and held, the Master Indenture and the First Supplement proposed to be executed and entered into by the City and the Trustee, in substantially the forms attached hereto as Exhibits A and B, respectively, are hereby approved, and the Director of Finance (or, in the absence of the Director of Finance, his designee) is hereby authorized and directed, for and in the name and on behalf of the City, to execute, and the City Clerk is authorized to affix the official seal of the City to, and deliver the Master Indenture and the First Supplement to the Trustee in substantially such forms, with such changes (including, without limitation, such changes as may

be necessary to provide for the issuance of a municipal bond insurance policy and/or a surety bond for the reserve fund if so determined or such changes as may be requested by rating agencies providing a rating on the 2003 Bonds) as may be approved by the Director of Finance (or, in the absence of the Director of Finance, his designee), acting on behalf of the City, subject to advice of counsel, such execution thereof to constitute conclusive evidence of the approval of the City of all changes from the forms of the Master Indenture and the First Supplement presented to this meeting.

Section 7. Escrow Agreements. The Escrow Agreements relating to the Refunded Obligations, proposed to be executed and entered into by and between the City and the Escrow Agent, in substantially the forms attached hereto as Exhibit C, are hereby approved, and the Director of Finance (or, in the absence of the Director of Finance, his designee) is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Escrow Agreements to the Escrow Agent in substantially said forms, with such changes as may be approved by the Director of Finance (or, in the absence of the Director of Finance, his designee), acting on behalf of the City, subject to advice of counsel, such execution thereof to constitute conclusive evidence of the approval of the City of all changes from the forms of the Escrow Agreements presented to this meeting.

Section 8. Continuing Disclosure Agreement. The Continuing Disclosure Agreement, proposed to be executed and entered into by and between the City and the Trustee, in substantially the form attached hereto as Exhibit D is hereby approved, and the Director of Finance (or, in the absence of the Director of Finance, his designee) is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the trustee the Continuing Disclosure Agreement in substantially said form, with such changes as may be approved by the Director of Finance (or, in the absence of the Director of Finance, his designee), acting on behalf of the City, subject to advice of counsel, such execution thereof to constitute conclusive evidence of the approval of the City of all changes from the form of the Continuing Disclosure Agreement presented to this meeting.

Section 9. Official Action. All actions heretofore taken by the officers and agents of the City with respect to the issuance of the 2003 Bonds and the negotiation and execution of said agreements are hereby approved, confirmed and ratified. The City Manager, the Director of Finance, the City Treasurer, the City Clerk and any and all other officers of the City are hereby authorized and directed, for and in the name and on behalf of the City to do any and all things and take any and all actions, including, without limitation, the negotiation of a municipal bond insurance policy for all or any of the 2003 Bonds and a surety bond in lieu of cash for any reserve fund, and including execution and delivery of any and all certificates, requisitions, agreements and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the issuance, sale and delivery of the 2003 Bonds pursuant to the agreements described herein.

Section 10. Provisions Necessary and Desirable. The provisions of this Ordinance are deemed necessary and desirable to facilitate the issuance and sale of the 2003 Bonds authorized by this Ordinance.

Section 11. Publication. The City Clerk shall certify to the passage and adoption of this Ordinance and shall cause this Ordinance, excepting the exhibits attached hereto, to be published once in the PASADENA STAR-NEWS, a daily newspaper of general circulation published in said City.

Section 12. Effective Date. This Ordinance shall take effect on the date of publication pursuant to Section 11, subject only to the right of referendum provided in Section 1413 of the City Charter.

Signed and approved this ____ day of _____, 2003.

Mayor of the City of Pasadena, California

I HEREBY CERTIFY that the foregoing Ordinance was adopted by the City Council of the City of Pasadena at its regular meeting held _____, 2003, by the following vote:


Ayes:

Noes:

Absent:

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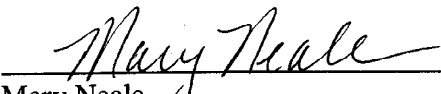
APPROVED AS TO FORM:



Michele Beal Bagneris
City Attorney

Jane L. Rodriguez
City Clerk

APPROVED AS TO FORM:



Mary Neale
Sidley Austin Brown & Wood LLP
Bond Counsel

**ORDINANCE EXHIBITS ON FILE
FOR PUBLIC VIEWING IN
THE CITY CLERK'S OFFICE**
