

Agenda Report

November 17, 2003

TO: City Council/Pasadena Community Development Commission

FROM: City Manager/Chief Executive Officer

SUBJECT: **JOINT PUBLIC HEARING: RELATING TO THE ISSUANCE OF REVENUE REFUNDING BONDS IN THE APPROXIMATE AMOUNT OF \$40 MILLION BY THE PASADENA COMMUNITY DEVELOPMENT COMMISSION AND APPROVING AN ESCROW AGREEMENT WITH RESPECT TO SPECIAL TAX BONDS OF THE CITY, ALL RELATED TO THE HOLLY STREET APARTMENTS**

RECOMMENDATION OF CITY MANAGER/CHIEF EXECUTIVE OFFICER

1. It is recommended that the City Council adopt a Resolution approving the issuance of revenue refunding bonds by the Pasadena Community Development Commission, making declarations and approving an escrow agreement with respect to special tax bonds of the City, all related to Holly Street Apartments.
2. It is recommended that the Pasadena Community Development Commission adopt a Resolution authorizing the issuance of Multifamily Housing Revenue Refunding bonds, the execution and delivery of related documents and approving other related actions in connection therewith.

BACKGROUND

In 1991, the Pasadena Community Development Commission (PCDC) issued two series of multifamily housing revenue bonds in an aggregate amount of \$39,400,000 to provide financing for the project then known as the Civic Center West Project, and currently known as Holly Street Apartments. The proceeds of the bonds were used to make a loan to Pasadena Civic Center West, a California limited partnership (PCCW) that constructed the project. PCCW, as the owner of the apartments, has paid the debt service on the bonds.

At the time of issuance of the bonds by the PCDC, the City issued \$9,497,570.40 principal amount of special tax bonds to finance public improvements necessitated by the construction of the project. In 1997, the City issued special tax bonds to refund the previous issue of special tax bonds.

PCCW has recently sold the Holly Street Apartments to a new owner, Holly Street, L.P. The new owner has requested that the PCDC consider the issuance of refunding bonds to refund, in whole, the bonds issued by the PCDC in 1991 to finance the project. Under current market conditions substantial savings can be achieved if the 1991 bonds are refinanced. Staff has been working with the new owner of the project on the documents necessary to issue the refunding bonds.

The final maturity date of the PCDC refunding bonds is expected to be later than the final maturity date of the 1991 bonds, and under the provisions of the Internal Revenue Code, in order for the interest on the refunding bonds to be excluded from the gross incomes of the owners of the refunding bonds (i.e. for such interest to be tax-exempt), the "applicable elected representative" with respect to the PCDC must hold a public hearing on the issuance of the refunding bonds and approve the issuance of the refunding bonds following such hearing. Under the Code, the City Council of the City is the "applicable elected representative" to hold the public hearing.

The project owner has advised the City that, in conjunction with the issuance of the refunding bonds by the PCDC, it desires to advance funds necessary to defease a portion of the City's outstanding special tax bonds, and that it would like assurances that the City will not issue additional special tax bonds, or otherwise levy special taxes except as necessary to pay the scheduled debt service on the special tax bonds to remain outstanding and the administrative expenses of the City related to those bonds. The City will need to enter into an escrow agreement to provide for payment of the special tax bonds with the contribution of funds by the project owner.

DISCUSSION

In order for the final maturity of the refunding bonds to be later than the final maturity of the 1991 bonds, and for the refunding bonds to be tax-exempt, the City Council needs to hold a public hearing on the issuance of the refunding bonds by the PCDC, and to approve the issuance of the refunding bonds by the PCDC. The refunding bonds are not in any way obligations of the City.

In order to assist the project owner with the PCDC refunding bond issue, the City has been requested to enter into an escrow agreement with respect to its special tax bonds related to the project, to allow the project owner to defease a portion of those bonds, and to agree to not issue any additional special tax bonds or finance any additional facilities with special tax revenues, and to only levy special taxes as necessary to pay outstanding bonds and related administrative expenses. The facilities to be financed by the special tax bond financing program were completed along with the completion of the construction of the project, and the City has only been levying special taxes to pay bond debt service and related administrative expenses, so to covenant to act in the future in this manner is consistent with the intended purpose of the special tax program and the actions by the City over the last 12 years.

The PCDC, as the proposed issuer of the refunding bonds, must authorize the issuance of the bonds and approve the related bond documents. The refunding bond documents to which the PCDC is a party include a Trust Indenture which provides the basic terms of the refunding bonds; a Financing Agreement which provides for the loan of the refunding bond proceeds to the project owner, to be used by the project owner to repay the 1991 bonds; a Regulatory Agreement and Declaration of Restrictive Covenants which requires that some of the units in the project be rented to low and very low income tenants; a

Bond Purchase Agreement whereby UBS Financial Services Inc. agrees to buy the refunding bonds subject to certain conditions specified therein; an Official Statement which describes the refunding program to prospective purchasers of the refunding bonds; and an Assignment and Intercreditor Agreement which specifies the rights of the parties involved in the financing if certain defaults occur. The various bond documents clearly state that the refunding bonds are limited obligations of the PCDC, payable solely from loan repayments by the project owner. In addition, the project owner has indemnified the PCDC in the Financing Agreement against any litigation or claims that may arise by reason of the refinancing program.

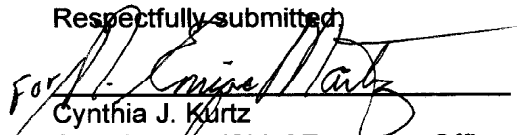
The refunding bonds will be rated AAA by Standard & Poor's Ratings Service, by reason of a financial guaranty of Fannie Mae to pay the debt service on the refunding bonds in the event that the project owner does not make timely payment of amounts owing on the bond loan. The project owner is required to pay all expenses of the PCDC related to the issuance of the refunding bonds, and an annual fee to the PCDC equal to one-eighth of one percent of the principal amount of the refunding bonds, in part as compensation for the monitoring by the PCDC of the project owner's compliance with the requirements of the bond Regulatory Agreement and Declaration of Restrictive Covenants.

The proposed escrow agreement for the special tax bonds, as well as the refunding bond documents, have been reviewed by bond counsel to the City for this matter, Quint & Thimmig LLP. Bond Counsel has also reviewed the proposed determinations by the City relative to the special tax bonds. Quint & Thimmig LLP served as bond counsel to the City in connection with the issuance of the special tax refunding bonds in 1997.

FISCAL IMPACT

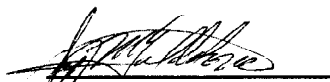
The proposed PCDC bonds will be payable from the project revenues and are not an obligation of the City. The special tax bonds are payable solely from special taxes levied on the project and are not general obligations of the City. The current owner of the Holly Street Apartments has agreed to pay all costs in connection with the issuance of the refunding bonds and the payoff of a portion of the special tax bonds.

Respectfully submitted,




Cynthia J. Kurtz
City Manager/Chief Executive Officer

Approved by:



Jay M. Goldstone
Director of Finance
Commission Treasurer

Concurrence:



Richard Bruckner
Dir. Of Planning and Development