

# Agenda Report

December 12, 2005

TO: City Council  
THROUGH: Finance Committee  
FROM: City Manager  
SUBJECT: APPROVAL OF A RESOLUTION AUTHORIZING THE ENTRY INTO AN INTEREST RATE SWAP TRANSACTION AND CERTAIN ACTIONS RELATING THERETO

## **RECOMMENDATION**

It is recommended that the City Council approve a Resolution authorizing the entry into an interest rate SWAP transaction and certain actions relating thereto.

## **ROSE BOWL OPERATING COMPANY**

On December 1, 2005, the Rose Bowl Operating Company (RBOC) voted to support this Resolution and the recommended financing structure.

## **BACKGROUND**

### **Rose Bowl Improvements**

In January 2004, the City and the University of California, Los Angeles (UCLA) entered into a 20 year agreement to host UCLA home football games at the Rose Bowl stadium. As part of the agreement, the City is required to construct new locker rooms and a media center and have them operational no later than August 1, 2007.

The Project, which was included in the fiscal year 2006-2010 Capital Improvement Program Budget, provides for the construction of new locker rooms and a multi-purposed media center on the south end of the Rose Bowl stadium. The upgrades will improve the space layout, color, texture, plumbing, and lighting of the locker rooms and adjacent areas. The media center will handle press interviews and also provide for multi-purpose space for special events and meetings.

The Project as originally envisioned was a remodel within and around the existing locker room structure. As planning proceeded, it became clear that it would be difficult to meet a number of essential locker room program requirements in the structural confines of the South End of the Rose Bowl. More importantly, the uncertainties of a remodel project made the delivery of completed locker rooms (within the time frame between football seasons, with no construction during the season) problematic.

The revised Project now calls for the new locker rooms to be subterranean below the existing Court of Champions apron, outside the stadium footprint with access from the existing vehicular tunnels 23A and 28A. Under the current Project design, the construction will be essentially new construction instead of a remodel, with cost and time savings as well as a product which can deliver the required program elements. The media center will be constructed under the stadium in the location of the existing locker rooms. While the proposed new location of the locker rooms is able to meet and exceed the required programmatic requirements for the Project, its greatest asset is that it allows for a continuous construction time frame without disruption to the existing stadium facilities during the 2006 football season. Accessibility to the media room will be improved with the construction of direct elevator access.

The originally estimated cost for these improvements was approximately \$12 million. The funds were to come from a combination of approximately \$10 million through the issuance of Certificates of Participation (COPs) and \$1.8 million from the Tournament of Roses (TofR). The plan was to restructure the 1991 Press Box COPs and the 1996 Rose Bowl Capital Improvement COPs to extend their maturities from the current 2011 and 2016, respectively to 2024, the final term of the UCLA lease. The City would then capitalize the debt service savings and issue additional debt in the amount of about \$10 million. This would put the annual debt service payments of the RBOC at \$2.5 million, the amount reflected in the 20 year financial model previously presented to the City Council.

Current project cost estimates are \$16.3 million for the required improvements. This will add nearly \$4.3 million onto the originally estimated COP size. Of this amount, \$1.8 million will still come from the TofR under the current agreement between the City of Pasadena and the TofR. This amount could increase, depending upon the success of the National Championship Game and the availability of additional cashflow to the TofR. This will not be known until after the game and all revenues and expenses have been accounted for. Applying the \$1.8 million against the increased Project costs, the amount the City/RBOC will have to fund is still \$4.5 million higher than originally estimated. This will add approximately \$400,000 annually to the debt service. Based upon the 20 year financial model it is even more questionable whether or not the RBOC will be able to fully cover \$2.9 million per year. Without generating additional revenues or cutting costs elsewhere in the RBOC's operating/capital budget, there is a likelihood that the City's General Fund will have to cover a portion of the debt service.

### **City Hall Improvements**

On January 24, 2005, the City Council approved the award of the general contractor contract for the City Hall Project to Clark Construction Group. Along with this approval, the City Council approved a supplemental funding plan to close the \$24,321,083 gap that existed between the amount originally estimated for the cost of the Project and the amount of Clark's bid. This plan called for a one-time additional transfer from the Light and Power Fund to the General Fund in the amount of \$9 millions, fund raising and grants in the amount of \$6 million, and a General Fund contribution in the amount of \$9,321,083. The General Fund portion was to come from the issuance of COPs at some future date when the funds were needed. Given that the City has spent most of the proceeds from the 2002 City Hall COPs and the fact that the City could lock in very attractive interest rates, staff is recommending that the City Council incorporate these funds into the Rose Bowl financing. The debt service on this portion of the proceeds will be paid for by the General Fund and not the RBOC. Annual debt service is projected to be \$820,000 and has been included in the General Fund forecast.

### **The Financing**

As previously noted, the City intends to issue COPs to raise the necessary funds for both the RBOC and City Hall projects. After looking at a variety of options, it is staff's belief that the most advantageous structure is to issue variable rate demand bonds and then lock in a fixed rate by entering into a floating-to-fix interest rate swap agreement with a qualified counterparty (a highly-rated bank or securities firm). This is the similar structure used by the City for the 2002 City Hall financing. This is also known as synthetic fixed rate debt. The swap will have the net effect of converting the City's variable rate debt service obligation to a fixed rate obligation at an interest rate that is more favorable than if the City had issued traditional fixed rate debt from the outset. While the savings from the swap cannot be projected with complete accuracy, in today's market, the City can expect to lower its borrowing cost by 50 basis points (.5%) or more by structuring synthetic fixed rate debt compared to issuing traditional fixed rate bonds.

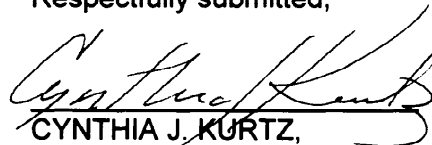
The floating-to-fix rate swap agreement can be negotiated with a single provider (usually the underwriter of the associated variable rate bonds) or the swap can be competitively bid to a broader group of potential counterparties. The proposed plan of finance for the Rose Bowl improvements and the proposed balance of the funds required for the City Hall project calls for the competitive bidding of the swap.

The City Council is currently being asked to only approve the interest rate swap portion of the financing at this time. This will lock in an interest today and protect the City against rising rates. Sometime in late January or February, staff will return to the City Council to seek approval of the various bond documents in order to complete the balance of the financing transaction. The interest rate swap will not actually take affect until the close of the COP transaction. It is estimated that it will cost the City/RBOC roughly 1 bp (.01%) in order to lock in a rate in December for a transaction that will close in February. Based upon the threat of rising interest rates, it is staff belief that the benefit of interest rate certainty outweighs the possible 1 bp cost.

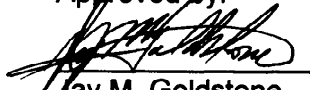
### **FISCAL IMPACT**

The total amount of the interest rate swap will not exceed \$50 million which is the projected size of the COP. Of this amount, approximately \$20.1 million will cover the refunding of the 1991 and 1996 Rose Bowl COPs, \$14.5 million will cover the cost of the 2006 Rose Bowl improvements, \$9.3 million will cover the balance of the City Hall project, and balance will cover the required reserve fund and the costs of issuance. Debt Service on the COP will be approximately \$3.7 million annually and will be proportionately paid by the RBOC and the General Fund.

Respectfully submitted,

  
CYNTHIA J. KURTZ,  
City Manager

Approved by:

  
Jay M. Goldstone  
Director of Finance

RESOLUTION NO. \_\_\_\_\_

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA AUTHORIZING THE ENTRY INTO AN INTEREST RATE SWAP TRANSACTION AND CERTAIN ACTIONS RELATING THERETO

WHEREAS, the City of Pasadena (the "City") is a municipal corporation and a chartered city of the State of California (the "State"), organized and existing under its Charter, the Constitution and the laws of the State; and

WHEREAS, pursuant to its Charter, the City has the power to exercise any rights, powers and privileges granted or prescribed by the general laws of the State; and

WHEREAS, the City anticipates entering into a lease and lease-back transaction with the Pasadena Public Financing Authority (the "Authority") for the property on which the Rose Bowl Stadium and related facilities are located pursuant to which the City would be obligated to make base rental payments ("Base Rental Payments"), consisting of a principal component (the "Principal Component") in a fixed amount and an interest component (the "Interest Component") consisting of variable amounts; and

WHEREAS, the Authority anticipates issuing its lease revenue bonds (the "Bonds") the principal of which will be payable from the Principal Component of the City's Base Rental Payments and the interest on which will be payable from the Interest Component of the City's Base Rental Payments; and

WHEREAS, the City expects that the proceeds of the Bonds will be used, *inter alia*, to (i) prepay the City's obligations with respect to the outstanding City of Pasadena 1991 Variable Rate Demand Certificates of Participation (Rose Bowl Improvement Projects), executed and delivered pursuant to the Trust Agreement, dated as of December 1, 1991, among Bank of America National Trust and Savings Association, the City and the Pasadena Civic Improvement Corporation (the "Corporation"), (ii) prepay the City's obligations with respect to the outstanding City of Pasadena 1996 Variable Rate Demand Certificates of Participation (Rose Bowl Improvement Projects), executed and delivered pursuant to the Amended and Restated Trust Agreement, dated as of June 1, 1996, among BNY Western Trust Company, the City and the Corporation (iii) finance additional improvements to the Rose Bowl Stadium and related facilities and (iv) finance additional improvements to City Hall and related facilities; and

WHEREAS, the Bonds are expected to be issued as variable rate bonds, the interest on which shall be adjusted periodically as provided in the Bond Indenture for the Bonds between the Authority and The Bank of New York Trust Company, N.A., as trustee, and each installment of the Interest Component of the City's Base Rental Payment shall be equal to the corresponding installment of interest on the Bonds; and

WHEREAS, Section 5922 of the California Government Code provides that in connection with, or incidental to, the issuance or carrying of bonds (defined to include lease agreements) any public entity may enter into any contracts which the public entity determines to

be necessary or appropriate to place the obligations represented by the bonds, in whole or in part, on the interest rate, currency, cash flow or other basis desired by the public entity, including without limitation contracts commonly known as interest rate swap agreements or contracts providing for payments based on levels of, or changes in, interest rates or stock or other indices, or contracts to exchange cash flows or a series of payments, in each case to hedge payment, rate, spread or similar exposure; and

WHEREAS, the City desires to authorize certain officers of the City to enter into an interest rate swap transaction as authorized by Section 5922 of the California Government Code in connection with its obligations to pay the Base Rental Payments with a view to economically providing for fixed payments in connection with the Interest Component of the Base Rental Payments and to achieving savings by paying a lower fixed swap amount compared to using a fixed rate Interest Component for the Base Rental Payments; and

WHEREAS, the terms and conditions of such interest rate swap transaction shall be as set forth in the ISDA Master Agreement, as amended and supplemented by the U.S. Municipal Counterparty Schedule to the Master Agreement and the Credit Support Annex to such Schedule, each in the form submitted to this meeting (such ISDA Master Agreement, as so amended and supplemented, as the same may be modified and completed in accordance with this Resolution being referred to as the "Swap Agreement"); and

WHEREAS, the interest rate swap transaction authorized hereby shall constitute a Transaction under the Swap Agreement (a "Transaction"), the specific terms of which shall be contained in a Confirmation (a "Confirmation") to be delivered on or about the date such Transaction is agreed upon by the parties;

NOW, THEREFORE, BE IT RESOLVED, ORDERED AND FOUND by the City Council of the City of Pasadena, that:

Section 1. The form of Swap Agreement presented to this meeting, and on file with the City Clerk, is hereby approved. Each of the City Manager and the Director of Finance, acting singly, is hereby authorized and directed for, on behalf of, and in the name of the City, to execute and deliver the Swap Agreement in substantially said form with such counterparty meeting the criteria described below as shall be selected by the officer executing the Swap Agreement and with such changes, insertions and deletions to the Swap Agreement as may be consistent with this Resolution and the determinations made pursuant hereto and as may be approved by the officer executing the Swap Agreement, such approval to be conclusively evidenced by the execution and delivery thereof.

The counterparty to the Swap Agreement shall be an entity the long-term, unenhanced, unsubordinated obligations of which are rated at least Aa3 by Moody's Investors Service, Inc. ("Moody's") or AA- by Standard & Poor's Rating Services ("S&P") at the time of execution of the Swap Agreement and the trade date of the Confirmation or the obligations of which under the Swap Agreement, including the Credit Support Annex, are unconditionally guaranteed by an entity the long-term, unenhanced, unsubordinated obligations of which are rated at least Aa3 by Moody's or AA- by S&P at the time of execution of the Swap Agreement and the trade date of the Confirmation.

Section 2. Each of the City Manager and the Director of Finance, acting singly, is hereby authorized to enter a Transaction in connection with the Base Rental Payments and accept and execute the Confirmation describing the Transaction; provided, however, that the following limitations shall be applicable to the Confirmation and Transaction: (i) the term of the Transaction shall not extend beyond December 31, 2023; (ii) the initial notional amount of the Transaction shall not exceed \$50 million, and after the Bonds are issued shall not at any time exceed the unpaid amount of the Principal Component of the Base Rental Payments; (iii) the fixed rate payable by the City under the Transaction shall not exceed 4% per annum; and the variable rate to be received under the Transaction shall not be less than 60% of the one month LIBOR rate.

Section 3. The City Council of the City hereby finds and determines that the Transaction authorized hereby is designed to reduce the amount of rate risk and result in a lower cost of borrowing when used in combination with the issuance of the Bonds.

Section 4. The City Manager, the Director of Finance, the City Clerk and the other appropriate officers of the City are hereby authorized and directed, acting singly, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the transactions contemplated by this Resolution and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the Swap Agreement and the Confirmation. Any actions heretofore taken by such officers in connection therewith are hereby ratified, confirmed and approved.

Section 5. The City Clerk is hereby authorized and directed to attest the signature of the City Manger, the Director of Finance or such other City officers as may be required or appropriate in connection with the execution and delivery of the Swap Agreement, the Confirmation or any related document or instrument .

Section 6. This Resolution shall take effect immediately upon its adoption.

PASSED by the City Council of the City of Pasadena at a regular meeting this 12th day of December, 2005, by the following vote:

AYES:

NOES:

ABSENT:

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City Clerk

APPROVED AS TO FORM:



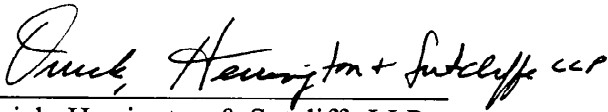
12/6/08

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FOM City Attorney

(120216422)

APPROVED AS TO FORM:



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Orrick, Herrington & Sutcliffe LLP