

Agenda Report

TO: CITY COUNCIL

December 10, 2007

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: ADOPTION OF A RESOLUTION AND THE FIRST READING OF AN ORDINANCE AUTHORIZING THE INVITATION OF BIDS FOR THE PURCHASE OF ELECTRIC REVENUE BONDS, 2008 SERIES, APPROVING A NOTICE OF INTENTION TO SELL BONDS, A PRELIMINARY OFFICIAL STATEMENT, AND A NOTICE INVITING BIDS, AUTHORIZING THE PUBLICATION OF A NOTICE OF INTENTION TO SELL BONDS, DECLARING ITS INTENTION TO REIMBURSE ITSELF FROM THE PROCEEDS OF SAID BONDS FOR CERTAIN EXPENDITURES MADE AND/OR TO BE MADE IN CONNECTION WITH THE ACQUISITION AND CONSTRUCTION OF CERTAIN CAPITAL IMPROVEMENTS, AUTHORIZING THE ISSUANCE OF A NOT TO EXCEED \$65 MILLION AGGREGATE PRINCIPAL AMOUNT OF BONDS, AND APPROVING THE EXECUTION AND DELIVERY OF A FOURTH SUPPLEMENT TO ELECTRIC REVENUE BOND FISCAL AGREEMENT AND A CONTINUING DISCLOSURE AGREEMENT.

RECOMMENDATION:

It is recommended that the City Council adopt:

1. A Resolution authorizing the invitation of bids for the purchase of Electric Revenue Bonds, 2008 Series, approving a notice of intention to sell bonds, a preliminary official statement and a notice inviting bids, authorizing the publication of a notice of intention to sell bonds, declaring its intention to reimburse itself from the proceeds of said bonds for certain expenditures made and/or to be made in connection with the acquisition and construction of certain improvements and authorizing certain other actions in connection therewith; and

2. **Conduct first reading of “AN ORDINANCE OF THE CITY OF PASADENA AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$65,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA ELECTRIC REVENUE BONDS, 2008 SERIES, PAYABLE OUT OF THE LIGHT AND POWER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF A FOURTH SUPPLEMENT TO ELECTRIC REVENUE BOND FISCAL AGENT AGREEMENT, A CONTINUING DISCLOSURE AGREEMENT, AND OTHER DOCUMENTS IN CONNECTION THEREWITH”.**

BACKGROUND

In March 2005, the City Council adopted the Electric Distribution System Master Plan (Master Plan) which identified the critical infrastructure challenges of the power distribution system and recommended system improvements over a 20-year period (2005-2025). Following the adoption of the Master Plan, in May 2006, the City Council approved the implementation and spending plan to fund the first six years of the Master Plan. The implementation and spending plan requires that the utility make a capital investment of \$122 million in its power distribution system over the next six years. The capital investment was in addition to other planned capital projects of \$75 million over the same period and did not include any new investments for energy supply.

As part of the approval process for the implementation and spending plan, the City Council approved a comprehensive plan to fund the first six years of the Master Plan and support ongoing operations. This funding plan requires the use of revenues from current rates to meet the operating requirements of the Master Plan, and the use of a mix of revenue bond financing and cash (on a 65:35 basis) to meet the ongoing capital requirements of the Master Plan. It further requires the issuance of revenue bonds in the aggregate of approximately \$113 million over the next ten years to finance the Master Plan and other power capital investments to augment the power distribution system capacity. The capital improvements as well as the installation of equipment and replacement of aging infrastructure identified in the Master Plan are ongoing and on schedule.

Consistent with the implementation and spending plan for the first six years of the Master Plan referenced above, the utility spent about \$19.3 million on Master Plan projects and \$11 million on non-master plan distribution capital projects in fiscal year 2007. The utility currently forecasts spending over the next five year approximately \$148.7 million on Master Plan projects, \$60.8 million on non-Master Plan distribution system projects and about \$16.0 million on modernization of the existing warehouse facility and the proposed field operations building to be constructed at the City Yards.

To finance capital improvements, the City Council approved an increase in the power distribution rates of approximately 32% for all customer groups effective July 2006, and an additional increase of 11% in the power distribution rates effective October 2007. The July 2006 increase has increased power distribution revenue by about \$10.8 million annually, and the October 2007 increase is expected to generate an additional \$5.1 million annually in power distribution revenue.

Proceeds of the proposed 2008 Electric Revenue Bonds will be used to finance the continued implementation of the Master Plan and the costs of construction and improvements to the Electric System, modernization of the existing warehouse facility, and construction of the new field operations building. The proceeds of the 2008 Electric Revenue Bonds will not be used for investment in energy supply.

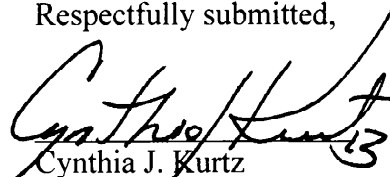
The Financing:

The 2008 Electric Revenue Bonds will have a maximum term of 30 years, will bear fixed interest rates and will be sold on a competitive basis. The option to insure the bonds will be given to the bidders who will compete based on the True Interest Cost on the bonds. The average annual debt service is currently estimated at \$3.89 million and the True Interest Cost is estimated at 4.82%. The estimated 4.82% True Interest Cost is based on today's market rates and is subject to change until the actual bidding is completed on the scheduled January 28, 2008 date. The Resolution and Ordinance also approve the various documents in connection with the issuance of the Electric Revenue Bonds and the appointment of Sidley Austin LLP as bond counsel, Orrick Herrington & Sutcliffe LLP as disclosure counsel, and Public Resources Advisory Group as financial advisor.

FISCAL IMPACT

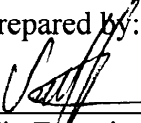
The annual debt service payment on this financing is estimated at \$3.89 million based on a level debt service schedule and today's interest rates. Payments will be made from the Light and Power Fund and funds are available from currently approved rates. The debt service coverage ratio in fiscal year 2007 was 521% or 5.21x, meaning that the available funds for debt service were 5.21 times greater than the actual debt service payments. It is estimated that the debt service coverage, including the annual debt service payment on the proposed 2008 Electric Revenue Bonds, will be approximately 3.9x.

Respectfully submitted,



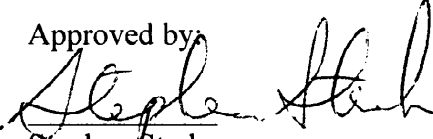
Cynthia J. Kurtz
City Manager

Prepared by:



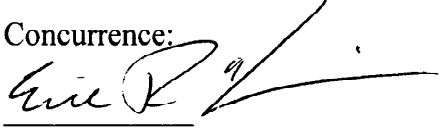
Vic Eganian
City Treasurer

Approved by:



Stephen Stark
Director of Finance

Concurrence:



Phyllis Currie
General Manager, Water and Power