Agenda Report

March 22, 2010

TO: Honorable Mayor and City Council / Pasadena Public Financing Authority

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: Joint Action: Extension of Bank of America Letter of Credit related to the Variable Rate Demand Refunding Certificates of Participation, Series 2008A (Conference Center Project).

RECOMMENDATION:

It is recommended that the City Council/Pasadena Public Financing Authority approve the extension of the existing Bank of America Letter of Credit related to the City's Variable Rate Demand Refunding Certificates of Participation, Series 2008A (COPs) at an 0.95% annual fee for a term of two years and authorize the Executive Director or the Treasurer of the Authority or any duly authorized designee thereof to execute and deliver an amendment to the Reimbursement Agreement and any and all such other documents, certificates and agreements necessary or desirable, including, if applicable, any amendments to the Remarketing Agreement relating to the COPs that may be required by the Bank in connection therewith, in order to effect the extension of the Letter of Credit on substantially the terms set forth in the attached Exhibit A "Summary of Terms and Conditions" with such additions and changes thereto as shall be approved by the officer executing such amendment to the Reimbursement Agreement.

PASADENA CENTER OPERATING COMPANY (PCOC) FINANCE COMMITTEE

This item was presented to the PCOC Finance Committee on March 16, 2010 as information only. No formal action was taken.

BACKGROUND:

In 2006, the City sold $162.64 million in Certificates of Participation (COPs) to finance the expansion of the Pasadena Conference Center. The COPs were issued with a AAA municipal bond insurance policy and were issued in two tranches:

Series A: $28 million Capital Appreciation Bonds (CABs); These are zero coupon bonds that effectively have a fixed interest rate; consequently, they have not been impacted by the crisis in the financial market.

Series B: $135.5 million Auction Rate Certificates which carried a variable interest rate reset every seven days.

The City simultaneously entered into a swap agreement with Depfa Bank when it issued the Series 2006B COPs. The swap requires the City to pay (Depfa) a fixed rate equal to 3.536% and in return the City receives a variable rate equal to 64% of London Interbank Offered Rate (LIBOR index), which effectively created a "synthetic fixed rate" of 3.536%. This synthetic rate structure has provided the City the least cost financing rate and enabled the project financing to meet its objectives.

As a result of the failure of the auction rate market in early 2008, the City's auction rate certificates were no longer generating the expected low financing cost, and the City was paying excessive interest rates on its securities. In April 2008, the City refunded its 2006B Auction Rate Securities by issuing its 2008A Variable Rate Demand Refunding Certificates of Participation. Variable rate demand bonds or VRDBs are long-term bonds that carry a short-term interest rate that is reset every seven days. VRDBs, unlike auction rate bonds, have a seven day put feature and are backed by a liquidity facility and/or bank letter of credit (LOC). The City was fast to act and in early 2008 locked in the letter of credit from Bank of America for a term of two years at a 40 basis point or 0.4% annual fee. During the same year, annual letter of credit fees increased to a range of 125-250 basis points or 1.25% to 2.5%.

The existing LOC from Bank of America expires on April 16, 2010 and needs to be extended in order for the bonds to be remarketed. Unfortunately, the credit market remains very tight and banks are still unwilling to lend. A recent overview by PFM, one of the City's financial advisory firms, indicates that there are a few trends that are important to highlight. The number of active participants in the LOC is limited. Several firms have exited the business or are not actively writing LOCs. Although the participation from the number of banks seems to have picked up, there has not been a dramatic change over the last eighteen months. Most LOC providers are selectively authorizing LOCs, and in such cases often prefer essential credits (i.e., water and sewer and General Obligation credits). Most issuers have the best chance to obtain an LOC from their primary banking relationship.

Based on PFM's overview, most fees are being quoted 100-150 basis points for cities and counties. Of course, like bond investors, banks are very weary of headline risk. In

other words, bank fees are not solely based on underlying ratings. Even though a City can have very strong ratings, any perception of budgetary difficulties can have an upward effect on fees. In January 2010, Finance staff began negotiating with Bank of America and has secured a commitment for an extension of the existing letter of credit at 95 basis points or 0.95% for a term of two years on the terms set forth in the attached Exhibit A "Summary of Terms and Conditions".

Prior to recommending the extension of the LOC, Finance staff along with the City's financial advisors has reviewed other options including the refunding of the VRDBs with Floating Rate Indexed Notes. After careful analysis of the cost and risks involved in each option, it is staff's recommendation to proceed with the extension of Bank of America LOC for a term of two years.

COUNCIL POLICY CONSIDERATION

This action supports the City Council Strategic Goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

The recommended extension of the LOC at 95 basis points represents an increase of 55 basis points or 0.55% fee on the outstanding 2008A VRDBs. This represents an increase of $748,000 in LOC fees per year and increases the total borrowing cost of the financing to 4.59%.

Staff has identified at least two sources of revenues to mitigate this cost. The Rebate Liability Fund held by the bond trustee is overfunded as a result of lower expected arbitrage rebate liability and higher investment earnings. As a result, it is estimated that approximately $400,000 will be available to transfer out of this fund to reduce the debt service payment in 2011. As the project has been completed, there is still $1,056,000 of investment earnings in the 2006 Certificate Fund that can be withdrawn from the account for the benefit of the project. The combination of these two sources of funding will be sufficient to cover the additional letter of credit fees for the next two years.

Respectfully submitted;

ANDREW GREEN
Director of Finance

Prepared by:

Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:

MICHAEL J. BECK
City Manager

EXHIBIT A

Bank of America
Merrill Lynch

Proposal to Renew a Direct Pay Letter of Credit Supporting Certificates of Participation to:

City of Pasadena

SUMMARY OF TERMS AND CONDITIONS

Submission Date: February 4, 2010

ISSUER/OBLIGOR:
Pasadena Public Financing Authority/City of Pasadena

ISSUE:
City of Pasadena Variable Rate Refunding Certificates of Participation, Series 2008 (the "Bonds")

FACILITY:
Direct pay letter of credit (the "LOC") providing credit and liquidity support for the Bonds and issued pursuant to a reimbursement agreement (the "Reimbursement Agreement" or "Agreement", and together with the LOC, the "Facility")

FACILITY PROVIDER:
Bank of America, NA ("BANA" or the "Bank")

FACILITY AMOUNT:
Total of $136,358,786 (i.e. $134,720,000 plus required interest coverage)

DOCUMENTATION:
Documentation, including the LOC and the Reimbursement Agreement, would be prepared by Neil Rust of White & Case utilizing the Reimbursement Agreement dated as of April 1, 2008 between the Issuer and BANA. Mr. Rust is prepared to offer a fee quote estimated at $7,500 plus disbursements and capped at $12,500 plus disbursements.

The Agreement would be documented either by amendment or by restatement, at the option of Issuer, and would include:

- Fees/Rates as outlined in the Attachment
- Inclusion of Remarketing Agent clause 7.12 contained in Series 2006 Variable Rate Demand Lease Revenue Bonds Reimbursement Agreement (Rose Bowl) dated as of February 1, 2009 between the Issuer and BANA
- Other clauses substantially similar to the Reimbursement Agreement for this subject LOC transaction dated as of April 1, 2008 between the Issuer and BANA

BANA CONTACTS:

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Title:	Senior Vice President/Senior Product Delivery Officer Credit	Vice President/Senior Product Delivery Underwriter
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email:	paul.sutherlen@baml.com	greg.s.bailey@baml.com

BANK COUNSEL: White & Case LLP

Bank of America
Merrill Lynch

Name:	Neil W. Rust, Esq.
Address:	633 West 5th Street, 19th Floor
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PROPOSED TERMS AND CONDITIONS SUBJECT TO CERTAIN EVENTS:
This Summary of Terms and Conditions is a commitment, subject to:

- Absence of any material adverse change, to be determined in the Bank's sole discretion,
- Agreement by BANA, in its sole discretion, as to all final terms and conditions and satisfactory documentation thereof (including satisfactory legal opinions).

RESCISSION BY THE BANK:
Bank of America reserves the right to unilaterally rescind part or all of the proposed terms and conditions herein at any time prior to their acceptance, which can only be effected by signing and returning this document to the Bank.

EXPIRATION OF TERMS AND CONDITIONS:
Unless rescinded earlier, consideration of a financing based on the terms and conditions presented in this term sheet shall automatically expire 3 weeks from the date hereof.

After receipt of a signed term sheet, the Bank reserves the right to terminate, reduce or otherwise amend its commitment if the subject transaction is not closed by April 17, 2010.

FUTURE MODIFICATIONS:
The terms, conditions, pricing levels and fees (including legal fees and expenses) cited herein reference the financing and the Facility Amount as described in this Summary of Terms and Conditions and are subject to revision in the event that (i) the Facility Amount changes, (ii) the security or transaction structure is modified, (iii) after receipt of a signed term sheet the proposed financing does not close by April 17, 2010.

CONFIDENTIALITY:
This Summary of Terms and Conditions contains confidential and proprietary structuring and pricing information. Except for disclosure on a confidential basis to your accountants, attorneys and other professional advisors retained by you in connection with the Facility or as may be required by law, the contents of this Summary of Preliminary Terms and Conditions may not be disclosed in whole or in part to any other person or entity without our prior written consent, provided that nothing herein shall restrict disclosure of information relating to the tax structure or tax treatment of the proposed Facility.

AGREEMENT BY THE ISSUER / OBLIGOR:
The Issuer hereby agrees to engage Bank of America to provide the Facility, which is the subject hereof, pursuant to the terms and conditions stated herein. Aside from the obligation of the Issuer to reimburse counsel to BANA for fees incurred after acceptance, the Issuer has no obligation to enter into an agreement with BANA. Please evidence your acceptance of the foregoing by signing and returning a copy of the document to BANA.

ACCEPTED AND AGREED TO:
By: ____________________ Date: 2/17/10

VIC ERGANIAN
CITY TREASURER / DEPUTY FINANCE DIRECTOR

Bank of America Merrill Lynch

ATTACHMENT I
RATES/FEES

Up-Front Fee: None

Commitment Fees:

Commitment Expiration Date	Commitment Fee Rate
364 Days	.90% p.a.
2 Years (rounded to 4/30/12)	.95% p.a.
3 Years (rounded to 4/30/13)	1.10% p.a.
5 Years (rounded to 4/30/15)	1.20% p.a.

Fee rates for downgrade pricing grid levels will be determined in good faith in the documentation process

Interest Rates:
Note: These are BANA's current municipal market standards

(a) Bank Rate: The greater of: (i) BANA's Prime Rate plus 1.5%, (ii) the Federal Funds Rate plus 3.0%, and (iii) 7.50%.

(b) Liquidity Rate: Days 1 - 90: Bank Rate
Day 91 and thereafter: Term Loan Rate
Provided further that at no time shall the Liquidity Rate be less than the rate on any outstanding Notes.

(c) Term Loan Rate: Bank Rate plus 1.00%

(d) Default Rate: Bank Rate plus 3.00%.

Termination Fee:
Unchanged