

Agenda Report

May 24, 2010

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Finance Department

SUBJECT: ADOPTION OF A RESOLUTION AND THE FIRST READING OF AN ORDINANCE AUTHORIZING THE INVITATION OF BIDS FOR THE PURCHASE OF ELECTRIC REVENUE REFUNDING BONDS, 2010A SERIES OF SAID CITY; APPROVING A NOTICE OF INTENTION TO SELL BONDS, A PRELIMINARY OFFICIAL STATEMENT, A NOTICE INVITING BIDS; AUTHORIZING THE PUBLICATION OF A NOTICE OF INTENTION TO SELL BONDS; AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$45,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA ELECTRIC REVENUE REFUNDING BONDS, 2010A SERIES, PAYABLE OUT OF THE LIGHT AND POWER FUND, APPROVING THE EXECUTION AND DELIVERY OF A SIXTH SUPPLEMENTAL TO ELECTRIC REVENUE BOND FISCAL AGENT AGREEMENT, AN ESCROW AGREEMENT, A CONTINUING DISCLOSURE AGREEMENT, AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH.

RECOMMENDATION:

It is recommended that the City Council adopt:

1. A Resolution authorizing the invitation of bids for the purchase of Electric Revenue Refunding Bonds, 2010A Series of said city, approving a notice of intention to sell bonds, a preliminary official statement, a notice inviting bids, authorizing the publication of a notice of intention to sell bonds, 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 \$45,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA ELECTRIC REVENUE REFUNDING BONDS, 2010A SERIES, PAYABLE OUT OF THE LIGHT AND POWER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF A SIXTH SUPPLEMENT TO ELECTRIC REVENUE BOND FISCAL AGENT AGREEMENT, AN ESCROW AGREEMENT AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH.”**

BACKGROUND:

In 2002, the City issued \$82,320,000 aggregate principal amount of its Electric Revenue Bonds, 2002 Series for the purpose of providing moneys to finance the costs of acquisition and construction of certain improvements to the Electric System, to fund a parity reserve fund and pay the costs of issuance of the 2002 Bonds. More specifically, proceeds from the 2002 Bonds were primarily used to finance the “Repowering Project” which included the replacement of then existing steam generators Broadway Unit 1 and Broadway Unit 2 with two new 45MW simple-cycle combustion turbines. These units are located on the Glenarm property and designated as Gas Turbine Unit 3 and Unit 4.

The current outstanding amount of 2002 Bonds is \$51,555,000 with interest rates ranging from 4.0% to 5.25%. Current market yields for Electric System bonds for the same maturities range from approximately 0.69% to 3.74%. Since the 2002 bonds can be optionally redeemed at 100% beginning June 1, 2012, the City can establish an escrow of US Treasury securities to defease and repay some of the 2002 bonds while simultaneously issuing new refunding bonds at lower yields presenting an opportunity to generate savings by way of advance refunding of a portion of the 2002 bonds. In today’s interest rate environment, it is economical to refund \$39.285 million of the outstanding \$51.55 million. Consequently, staff is requesting issue authorization of up to \$45 million to provide the maximum flexibility to take advantage of market conditions. Staff, along with the financial advisor, will reevaluate the economics of the refunding and determine the most economical amount of the outstanding bonds to refund depending on market conditions at the time of the bond sale.

The issuance of the proposed 2010 refunding bonds will produce significant debt service savings which can be obtained over the term of the new bonds. The 2010 bonds will be issued with fixed interest rates and sold on a competitive basis with the same maturities as the existing 2002 bonds to be refunded. The bidders will compete to purchase the 2010 bonds from the City based on the lowest true interest cost on the 2010 bonds. Based on current market conditions and the proposed bond structure, the anticipated savings are to be up to \$1.886 million resulting in net present value savings of \$1.284 million or 3.96% of refunded

principal. The Resolution and Ordinance authorize the issuance of, and approve the various documents in connection with, the issuance of the Electric Revenue Refunding Bonds, Series 2010, with a principal amount not to exceed \$45 million and at a true interest cost not to exceed 5.0%. The resolution also appoints Fulbright & Jaworski, LLP as bond and disclosure counsel, and Public Resources Advisory Group as Financial Advisor.

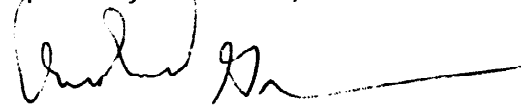
COUNCIL POLICY CONSIDERATION

This action supports the City Council strategic goal to maintain fiscal responsibility and stability.

FISCAL IMPACT

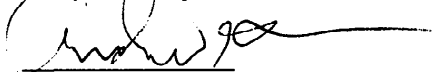
In today's interest rate environment, it is anticipated that the Power Fund will realize up to \$1.284 million in net present value savings. The actual savings will depend on the market conditions at the time the actual bidding is completed on the scheduled July 19, 2010 date. It is also estimated for the bonds to have a term of 11 years with final maturity in FY 2021, which is the same as the current bonds. The all in true interest cost is estimated at 3.329% based on current market rates. Debt service payments will be made from the Power Fund and funds are available from currently approved rates. The attached Exhibit A is the estimated sources and uses of funds based on today's market interest rates.

Respectfully submitted,



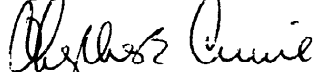
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City Treasurer/Deputy Director of Finance

Concurrence:



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