



OFFICE OF THE CITY MANAGER

November 15, 2010

TO: Honorable Mayor and City Council

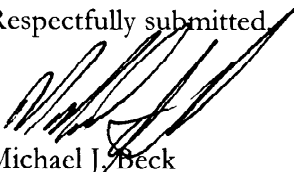
FROM: Michael J. Beck
City Manager

RE: Recovery Zone Facility Bond

This evening the City Council is asked to adopt a resolution transferring \$11,115,000 of the City's Recovery Zone Facility Bond (RZFB) Allocation to the California Enterprise Development Authority and take related actions for the purpose of financing the cost of construction, renovation, installation and equipping of commercial facilities for the benefit of Park Place Commercial, LLP., which is seeking to develop the Constance Hotel Project located at 880 E. Colorado Blvd.

In recent weeks there has been public discussion regarding the nature of the RZFBs and the parameters established by the Federal Government for the use of these bonds. The attached document provides a summary of responses to the questions that have been raised in this regard.

Respectfully submitted,



Michael J. Beck
City Manager

Recovery Zone Facility Bond (RZFB) FAQ's

How were RZFBs created?

Under the American Recovery and Reinvestment Act (ARRA), new categories of bonds were created. One new category is the Recovery Zone Facility Bond (RZFB). An RZFB is a type of tax-exempt private activity bond that is intended to increase financing opportunities for private development projects that have historically not qualified for tax-exempt financing.

What is a Recovery Zone?

The geographic area in which the proceeds of the RZFB must be spent. On August 10, 2009, City Council designated the entire City of Pasadena a Recovery Zone.

What is the benefit?

RZFBs provides issuers the ability to issue private activity tax-exempt bonds. As the purchaser of the bonds, the purchaser does not pay federal or state income tax on the INTEREST earned on the bond. Typically, a tax-exempt bond allows the issuer to pay a lower interest rate to the bondholders versus a taxable bond where the interest is typically higher.

EXAMPLE: If a buyer purchases a tax-exempt \$1 million bond at 6.5%, the buyer would earn \$65,000 per year and not have to pay federal or state income tax on the INTEREST earned. If the same \$1 million bond were a taxable bond, which would typically be issued at a higher rate e.g., 10%, the purchaser of the bond would pay federal and state tax on the \$100,000 interest earned. Consequently, for the issuer, the tax-exempt financing provides the benefit of lower cost of borrowing than a taxable transaction.

Is there a deadline by which they have to be issued?

The RZFB's must be issued by December 31, 2010. All unused allocations would be deemed forfeited and returned back to the State for reallocation to other state agencies.

How much is Pasadena's allocation and who decided the amount?

Pasadena's allocation is \$11.1 million. The amount was determined by the Federal Government based on factors such as the unemployment rate and number of home foreclosures. The RZFB allocation by the federal government to Pasadena is NOT an award of federal funding, but rather a designation of dollar amounts which may take advantage of the tax-exemptions allowed by the RZFB program. Accordingly, the use of such bonds does not involve any local or federal funds.

Will the City or Park Place Commercial be the issuer of the bonds?

No. In this case, the California Enterprise Development Authority (CEDA) will be the issuer of the bonds. For a fee to the developer, CEDA issues the tax-exempt bonds and acts as a conduit to the financing. This funding mechanism does not commit federal, state or local funds to the project. The ultimate lender will be a private financial institution. The ultimate borrower and obligor on the bonds will be Park Place Commercial LLP.

Will the City have any liability of financial obligation?

These are NOT City of Pasadena Bonds and the City will have no liability or financial obligation for the bonds.

What is the security of the bonds?

Typically, the security for the bonds will be a letter of credit issued by a bank with a credit rating of "A" or better. In this instance, there is expected to be two letters of credit, one from Evertrust Bank and a confirming letter of credit from the Federal Home Loan Bank of San Francisco. The security for Evertrust Bank will be the revenues generated from the actual project and the project itself.

What will be the interest paid on the bonds?

The interest rate paid depends on the credit of the borrower and/or the credit of the Letter of Credit bank that provides liquidity or security to the bondholders.

Does Pasadena have any money in the Park Place Commercial Project?

The City's does not have any of its own funds in the project.

Why is Park Place Commercial receiving all of Pasadena's allocation?

Initially, ten entities expressed an interest in the City issued Request For Proposals (RFP) that sought users for the RZFB, however, only three entities formally submitted responses to the RFP. One of those three was Park Place Commercial, LLP, which based on the criteria set forth in the RFP was selected as the recipient of the City's RZFB allocation. On May 10, 2010, the City Council awarded the allocation to assist with the renovation of the former Constance Hotel as part of an overall mixed-use project located at 880-940 East Colorado Boulevard. The award was based on the number of jobs the project anticipates creating, revenue generated to the local economy, new construction, expansion and modernization and green building practices. Projects were deemed ready if there are no major entitlements pending; and if in the sole opinion of the City, proceeds of the bonds are expected to be drawn down in accordance with federal tax laws and guidelines.

Is Park Place Commercial required to have a building permit to draw down the bonds?

Federal requirements do not require that a building permit be in hand prior to the issuance of the bonds. There are requirements for the commitment of funds within a certain period of time in the Code and Regulations that the borrower will have to meet, but having a building permit is not one of those requirements. These requirements include that the borrower certify that they reasonably expect to spend or enter into

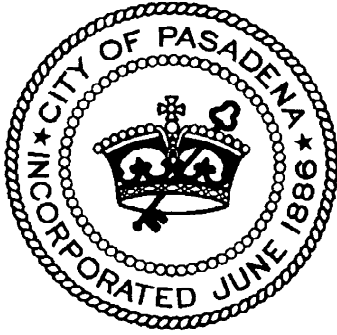
binding agreements within six months to spend 5% of the proceeds of the bonds. They also have to commit to spending substantially all of the proceeds within three years.

Can the RZFB be used for affordable housing?

Pursuant to federal regulations (Section 1400U-3 RECOVERY ZONE FACILITY BONDS) residential rental property is not eligible for use of RZFBs. The intent of the RZFBs is to focus on property involved in the active conduct of a qualified business. Residential rental property is specifically excluded from the definition of qualified business.

Are the bonds available to the public for purchase?

No, generally these bonds are sold to large institutional purchasers such as money market funds and mutual funds who purchase the bonds in large denominations, typically \$100,000 or more. The underwriter is expected to make a limited offering of the bonds to institutional investors.



Agenda Report

November 15, 2010

TO: Honorable Mayor and City Council

FROM: Finance Department

SUBJECT: RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA TRANSFERRING \$11,115,000 OF THE CITY OF PASADENA RECOVERY ZONE FACILITY BOND ALLOCATION TO THE CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY, APPROVING THE ISSUANCE BY CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY OF NOT TO EXCEED \$11,115,000 AGGREGATE PRINCIPAL AMOUNT OF THE AUTHORITY'S REVENUE OBLIGATIONS FOR THE PURPOSE OF FINANCING THE COST OF CONSTRUCTION, RENOVATION, INSTALLATION AND EQUIPPING OF COMMERCIAL FACILITIES FOR THE BENEFIT OF PARK PLACE COMMENRCIAL, L.P., PROVIDING THE TERMS AND CONDITIONS FOR SUCH OBLIGATIONS AND OTHER MATTERS RELATING THERETO HEREIN SPECIFIED

RECOMMENDATION:

It is recommended that the City Council adopt a resolution transferring \$11,115,000 of the City of Pasadena Recovery Zone Facility Bond Allocation to the California Enterprise Development Authority, approving the issuance by California Enterprise Development Authority of not to exceed \$11,115,000 aggregate principal amount of the authority's revenue obligations for the purpose of financing the cost of construction, renovation, installation and equipping of commercial facilities for the benefit of Park Place Commercial, L.P., providing the terms and conditions for such obligations and other matters relating there to herein specified.

BACKGROUND:

Under the American Recovery and Reinvestment Act (ARRA), new categories of bonds were created. One new category was the Recovery Zone Facility Bonds (RZFBs). Prior to issuing RZFBs, the local authority must designate a recovery zone. On August 10, 2009, the City Council adopted a resolution designating the entire city as a recovery zone. RZFBs give qualified, for-profit businesses the ability to have private activity, tax-exempt bonds issued for projects within a designated recovery zone. Under the ARRA Act, the City of Pasadena was allocated a volume cap of \$11.115 million RZFBs.

On May 10, 2010, the City Council awarded the City's allocation of \$11.115 million in RZFBs to Park Place Commercial, LP for the renovation of the former Constance Hotel. On July 26, 2010, City Council conducted a TEFRA hearing and adopted a resolution setting fourth the City's intent to issue RZFBs to undertake the financing of the project. On October 20, 2010, the zoning hearing officer approved a Conditional Use Permit along with other entitlements to permit the project. In addition, the hearing officer certified an Environmental Impact Report (EIR) and made environmental findings to adopt a Statement of Overriding Considerations.

Park Place Commercial, L.P., at 880 E. Colorado Boulevard, is a two phased, multi-story mixed-use project measuring 231,711 square feet as approved by the Zoning Hearing Officer on October 20, 2010. The first phase includes the renovation of the existing 64,725 square foot hotel to provide 136 hotel rooms and add 20 new hotel rooms and five residential units. The second phase includes an office, retail/commercial (restaurant) component measuring 166,986 square feet.

The RZFBs will be issued by the California Enterprise Development Authority (CEDA) for the benefit of the project. The attached resolution transfers the City's \$11.115 million RZFB volume cap to CEDA for the benefit of Park Place Commercial, L.P. for use in financing the project and authorizes CEDA to issue the RZFB bonds.

COUNCIL POLICY CONSIDERATION:


By adopting this resolution, the City Council will meet the Objectives and Directives of the General Plan by continuing with the Diverse Economy which encourages the promotion and creation of a diverse economic base that serves residents by providing jobs and City revenues. Furthermore, Policy 10.8 of the General Plan (Regional Economy) is intended to attract and provide for Pasadena's share of the region's economic investment and development.

FISCAL IMPACT:

There is no fiscal impact to the City. The adoption of the resolution approving the transfer of the RZFB volume cap and issuance of RZFBs by the California Enterprise Development Authority complies with the requirements of the Internal Revenue Code.

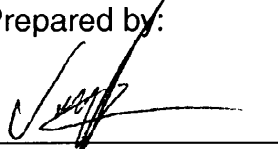
The City of Pasadena does not bear any responsibility for the tax exempt status of the Recovery Zone Facility Bonds, the debt service on the bonds, or any other matter related to the bonds.

Respectfully submitted,



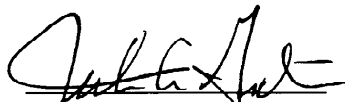
ANDREW GREEN
Director of Finance

Prepared by:



Vic Erganian
City Treasurer/Deputy Director of Finance

Approved by:



MICHAEL J. BECK
City Manager

RESOLUTION NO. ____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA TRANSFERRING \$11,115,000 OF THE CITY OF PASADENA RECOVERY ZONE FACILITY BOND ALLOCATION TO THE CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY, APPROVING THE ISSUANCE BY CALIFORNIA ENTERPRISE DEVELOPMENT AUTHORITY OF NOT TO EXCEED \$11,115,000 AGGREGATE PRINCIPAL AMOUNT OF THE AUTHORITY'S REVENUE OBLIGATIONS FOR THE PURPOSE OF FINANCING THE COST OF CONSTRUCTION, RENOVATION, INSTALLATION AND EQUIPPING OF COMMERCIAL FACILITIES FOR THE BENEFIT OF PARK PLACE COMMERCIAL, L.P., PROVIDING THE TERMS AND CONDITIONS FOR SUCH OBLIGATIONS AND OTHER MATTERS RELATING THERETO HEREIN SPECIFIED

WHEREAS, pursuant to Resolution No. 8969, the City Council of the City of Pasadena, California (the "City") designated the City of Pasadena Recovery Zone (the "Recovery Zone"); and

WHEREAS, the City has received \$11,115,000 of volume cap under Section 1400U-1(a)(3)(A) of the Internal Revenue Code of 1986 (the "Code"); and

WHEREAS, Section 5.04 of Internal Revenue Service Notice 2009-50 authorizes cities that receive recovery zone facility bond volume cap to allocate such volume cap to ultimate beneficiaries in any reasonable manner as they shall determine in good faith in their discretion for use for eligible costs for recovery zone property; and

WHEREAS, Park Place Commercial, L.P., a limited partnership duly organized and existing under the laws of the State of California (the "Applicant"), has submitted and the California Enterprise Development Authority (the "Authority") has accepted, an application requesting the Authority to issue, from time to time, pursuant to a plan of finance, its tax-exempt and/or taxable revenue obligations in an aggregate principal amount not to exceed \$11,115,000 (the "Obligations") for the benefit of the Applicant and/or a related or successor entity (the "Borrower") pursuant to Chapter 5 of Division 7 of Title 1 of the Government Code of the State, (commencing with Section 6500) (the "Act") the proceeds of which will be used in part to finance or reimburse the Borrower for the cost of construction, renovation, installation and equipping of the real property and improvements located at 880-940 East Colorado Boulevard, Pasadena, California (collectively, the "Facilities") and the payment certain costs of issuance in connection with the Obligations; and

WHEREAS, the Borrower has requested that the City provide an allocation of \$11,115,000 in recovery zone facility bond volume cap to finance the Facilities and has requested that such allocation be transferred by the City to the Authority for the purpose of issuing the Obligations to finance the Facilities; and

WHEREAS, the issuance of the Obligations must be approved by the governmental unit on behalf of which the Obligations are issued and a governmental unit having jurisdiction over the territorial limits in which the Facilities are located pursuant to the public approval requirement of Section 147(f) of the Code; and

WHEREAS, the Facilities are located within the territorial limits of City of Pasadena (the "City") and the City Council of the City (the "City Council") is the elected legislative body of the City; and

WHEREAS, the Facilities are expected to provide significant benefits to the residents of the City through the services to be provided by the Borrower and the Facilities will also create employment opportunities for residents of the City over the long term; and

WHEREAS, the Authority and the Borrower have requested that the City Council approve the issuance of the Obligations by the Authority and the financing of the Facilities with the proceeds of the Obligations pursuant to Section 147(f) of the Code; and

WHEREAS, the Authority's issuance of the Obligations will result in a more economical and efficient issuance process because of the Authority's expertise in the issuance of conduit revenue bonds; and

WHEREAS, it is intended that this Resolution shall comply with the public approval requirements of Section 147(f) of the Code; *provided, however*, that this Resolution is neither intended to nor shall it constitute an approval by the City Council of the Facilities for any other purpose; and

WHEREAS, a public hearing was held by the City Council on July 26, 2010, at the meeting which commenced at the hour of 7:30 p.m., at the City of Pasadena, Council Chambers, located at 100 North Garfield Avenue, Room S249, Pasadena, California 91109, following duly published notice thereof in a newspaper of general circulation in the City of Pasadena, on July 12, 2010, and all persons desiring to be heard have been heard.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED by the City Council of the City as follows:

Section 1. The City Council hereby finds and determines that all of the recitals are true and correct.

Section 2. The City hereby transfers \$11,115,000 of its recovery zone facility bond volume cap under Section 1400U-1(a)(3)(A) of the Code (the "Allocation") to the Authority for the benefit of the Borrower for use in financing the Facilities.

Section 3. The Authority is hereby authorized to use the Allocation to issue the Obligations under Section 1400U-3 of the Code and loan the proceeds thereof to the Borrower to finance the construction, renovation, installation and equipping of the Facilities and to pay costs of issuance of the Obligations. This resolution shall constitute "host" approval of the issuance of the Obligations within the meaning of Section 147(f) of the Code and shall constitute the approval

of the issuance of the Obligations within the meaning of the Act; *provided, however*, that this Resolution shall not constitute an approval by the City Council of the Facilities for any other purpose. The City shall not bear any responsibility for the tax-exempt status of the Obligations, the repayment of the Obligations or any other matter related to the Obligations.

Section 4. The Authority shall give written notice to the City within ten (10) business days of issuance of the Obligations.

Section 5. All actions heretofore taken by the officers, employees and agents of the City with respect to the transfer of the Allocation to the Authority and the approval of the issuance of the Obligations by the Authority are hereby approved, confirmed and ratified, and the officers and employees of the City and their authorized deputies and agents are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all certificates and documents which they or bond counsel may deem necessary or advisable in order to consummate the transfer of the Allocation to the Authority and the approval of the issuance of the Obligations by the Authority and otherwise to effectuate the purposes of this Resolution.

Section 6. This Resolution shall take effect from and after its adoption.

RESOLVED FURTHER, the City Clerk of the City of Pasadena shall certify the adoption of this resolution, and thenceforth and thereafter the same shall be in full force and effect.

PASSED, APPROVED AND ADOPTED this ____th day of November, 2010 by the following vote:

AYES:

NOES:

ABSTAIN:

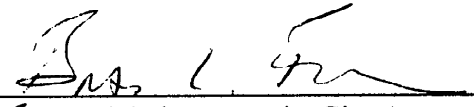
ABSENT:

Bill Bogaard, Mayor

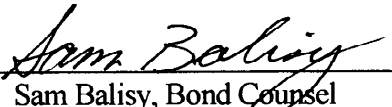
ATTEST:

Mark Jomsky, City Clerk

APPROVED AS TO FORM:



For Michele Bagneris, City Attorney



Sam Balisy, Bond Counsel

CERTIFICATE OF THE CITY CLERK

I, Mark Jomsky, City Clerk of the City of Pasadena, hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted at the meeting of the City Council of the City of Pasadena duly and regularly held in Pasadena, California, on November __, 2010, of which meeting all of the members of said Board had due notice.

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified, rescinded or revoked in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the City of Pasadena hereto this _____ day of _____, 2010.

Mark Jomsky, City Clerk