

# Agenda Report

October 25, 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 WATER REVENUE BONDS, 2010A SERIES AND THE INVITATION OF BIDS FOR THE PURCHASE OF WATER REVENUE REFUNDING BONDS, 2010B SERIES OF SAID CITY; APPROVING A NOTICE OF INTENTION TO SELL BONDS, A PRELIMINARY OFFICIAL STATEMENT, NOTICE INVITING BIDS; AUTHORIZING THE PUBLICATION OF A NOTICE OF INTENTION TO SELL BONDS; AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$30,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA WATER REVENUE BONDS, 2010A SERIES, AND NOT TO EXCEED \$35,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA WATER REVENUE REFUNDING BONDS, 2010B SERIES, PAYABLE OUT OF THE WATER FUND, APPROVING THE EXECUTION AND DELIVERY OF A THIRD SUPPLEMENT TO WATER REVENUE BOND INDENTURE, A FOURTH SUPPLEMENT TO WATER REVENUE BOND INDENTURE, 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 Water Revenue Bonds, 2010A Series, and the invitation of bids for the purchase of Water Revenue Refunding Bonds, 2010B Series of said city; approving a notice of intention to sell bonds, a preliminary official statement, notices

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 \$30,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA WATER REVENUE BONDS 2010A SERIES, AND NOT TO EXCEED \$35,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA WATER REVENUE REFUNDING BONDS 2010B SERIES, PAYABLE OUT OF THE WATER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF A THIRD SUPPLEMENT TO WATER REVENUE BOND INDENTURE, A FOURTH SUPPLEMENT TO WATER REVENUE BOND INDENTURE, AN ESCROW AGREEMENT AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH.”**

**BACKGROUND:**

**Revenue Bonds – 2010A Series Build America Bonds (BABs)**

In 2002, the City Council adopted the Water System Master Plan (Master Plan) as an 18-year plan for capital improvements to the water system. The 2010A bonds will include funding for capital projects both inside and outside of the Master Plan. Some of the projects to be funded by proceeds of the 2010A Bonds include:

- (a) Complete Phase I of the Recycled Water Program which includes the design, permitting, and construction of facilities to connect to the recycled water treatment plant in the City of Glendale. This will supply and distribute recycled water within the City’s water service area;
- (b) Continue the installation of water mains, meters, and services and upgrade of facilities in accordance with the Water Distribution System Master Plan;
- (c) Design and install chloramine disinfection facilities to replace existing chlorine stations. Chloramine disinfection reduces by-products produced when using chlorine in the water system;
- (d) Design and construct the Sunset Perchlorate Treatment Plant for the Sunset Reservoir wells to remove perchlorate from the groundwater and increase local water supply. Although efforts will continue to secure alternative sources of funding for a portion of this project, construction of the treatment plant will be required even if such funding is not secured.

Depending on market conditions at the time of sale and the anticipated cost savings, all, or a portion of the 2010A Bonds may be offered as Build America Bonds (BABs). The American Recovery and Reinvestment Act of 2009 created BABs, a new financing product for municipal issuers. BABs are issued as taxable bonds for which the U.S. Treasury provides a 35 percent subsidy on interest payments. After accounting for the 35 percent subsidy payment, the net cost to the issuer is frequently lower than tax-exempt yields, specifically for the maturities after about ten years.

The BABs will be issued without a "call" feature that would provide the option to refund the bonds prior to their maturity. The non-call feature is typical for BABs and is an integral part of the present value savings compared to tax exempt bonds. The higher present value savings is also due to the BABs debt service structure which defers a portion of the principal payments to later years.

The resolution and ordinance authorize the issuance of, and approve the various documents in connection with, the issuance of the 2010A bonds (BABs), with a principal amount not to exceed \$30 million and at a true interest cost, without taking into account any subsidy payment, not to exceed 8 percent. In today's interest rate environment, the true interest cost, taking into account the subsidy payments from the Treasury Department, is estimated at 3.52 percent. The resolution also appoints Fulbright & Jaworski, LLP as bond and disclosure counsel, and Public Resources Advisory Group as Financial Advisor.

#### **Refunding Bonds- 2010B Series**

In August 2003, the City issued \$47,425,000 aggregate principal amount of its Water Revenue and Refunding Bonds, 2003 Series for the purpose of providing moneys to finance the costs of acquisition and construction of certain improvements to the water system, to refund outstanding debt of the water system, to fund a parity reserve fund, and to pay the costs of issuance of the 2003 bonds.

The current outstanding amount of 2003 bonds is \$36,825,000 with interest rates ranging from 4 to 5 percent for maturities beginning in 2011 and ending in 2033. Current market yields for water system bonds for the same maturities range from approximately .40 percent to 4.33 percent. These bonds are eligible for redemption beginning June 1, 2013, but the City has the option to take advantage of the current favorable market yields by exercising the redemption opportunity now. This would be accomplished by repaying approximately \$31 million of the higher yielding 2003 bonds by issuing new refunding bonds at lower yields. Consequently, staff is recommending authorization to issue up to \$35 million to provide the maximum flexibility to take advantage of market conditions. Prior to selling the bonds, staff, along with the financial advisor, will reevaluate

## Water Fund Revenue and Refunding Bonds

October 25, 2010

Page 4 of 5

the economics of the refunding, the structure of the bonds including the amortization of the principal, and then 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 Water Revenue Refunding Bonds, 2010B Series will produce significant debt service savings which can be obtained over the term of the new bonds. The 2010B bonds will be issued with fixed interest rates and sold on a competitive basis with a maximum maturity not to exceed the final maturity of the outstanding 2003 bonds to be refunded. The bidders will compete to purchase the 2010B bonds from the City based on the lowest true interest cost on the 2010B bonds. Based on the interest rates at the time of the sale and the final structure of the refunding bonds, it is anticipated that the City will realize a net present value savings in the range of \$1.7 million to \$2.5 million.

The Resolution and Ordinance authorize the issuance of, and approve the various documents in connection with, the issuance of the 2010B bonds, with a principal amount not to exceed \$35 million and at a true interest cost not to exceed 4.75 percent. 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:**

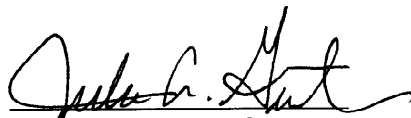
In today's interest rate environment, it is anticipated that the Water Fund will realize up to \$2.5 million in net present value savings, or 8.3 percent savings of refunded bonds, from the refunding of the 2003 bonds with the 2010B bonds. The actual savings will depend on the market conditions at the time the actual bidding is completed on the scheduled December 13, 2010 date. The true interest cost of the 2010A refunding bonds is estimated at 2.78 percent. On the same date, the 2010A bonds, the new money portion, will be sold on a competitive basis with a maximum term of 30 years, will bear fixed interest rates, and sold as BABs. The true interest cost of the BABs structure for the 2010A bonds is currently estimated at 3.52 percent and is subject to change until the actual bidding is complete on the scheduled December 13, 2010 date. Debt service payments will be made from the Water 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.

Prepared by:



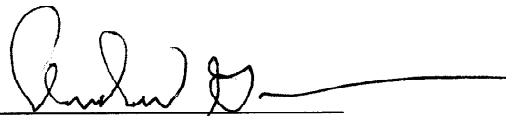
Vic Erganian  
Deputy Director of Finance/  
City Treasurer  
Department of Finance

Approved by:



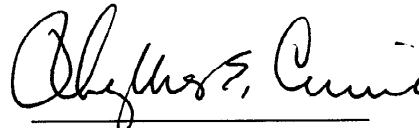
*For* MICHAEL J. BECK  
City Manager

Respectfully submitted,



ANDREW GREEN  
Director of Finance

Concurrence:



PHYLLIS E. CURRIE  
General Manager, Water and Power

EXHIBIT A

SOURCES AND USES OF FUNDS

City of Pasadena, California  
 Water Revenue Bonds, 2010A Series and 2010B Series  
 Case 2: 30-Year Deferred New Money & Accelerated Refunding  
 (Interest Rates as of October 7, 2010)

Dated Date            12/16/2010  
 Delivery Date        12/16/2010

Sources:	Water Revenue Bonds, 2010A Series (New Money)	Water Revenue Refunding Bonds, 2010B Series (Refunding)	Total
<hr/>			
Bond Proceeds:			
Par Amount	30,000,000.00	31,565,000.00	61,565,000.00
Premium		2,871,929.45	2,871,929.45
	<hr/>	<hr/>	<hr/>
	30,000,000.00	34,436,929.45	64,436,929.45
<hr/>			
Uses:	Water Revenue Bonds, 2010A Series (New Money)	Water Revenue Refunding Bonds, 2010B Series (Refunding)	Total
<hr/>			
Project Fund Deposits:			
Project Fund	29,563,509.80		29,563,509.80
Refunding Escrow Deposits:			
Cash Deposit		0.15	0.15
SLGS Purchases		33,974,127.00	33,974,127.00
		<hr/>	<hr/>
		33,974,127.15	33,974,127.15
Other Fund Deposits:			
Debt Service Reserve Fund	164,667.74	173,257.90	337,925.64
Delivery Date Expenses:			
Cost of Issuance	121,822.46	128,177.54	250,000.00
Underwriter's Discount	150,000.00	157,825.00	307,825.00
	<hr/>	<hr/>	<hr/>
	271,822.46	286,002.54	557,825.00
Other Uses of Funds:			
Additional Proceeds		3,541.86	3,541.86
	<hr/>	<hr/>	<hr/>
	30,000,000.00	34,436,929.45	64,436,929.45
<hr/>			