

Agenda Report

April 11, 2011

TO: Pasadena Public Financing Authority

THROUGH: Finance Committee

FROM: Treasurer

SUBJECT: ADOPTION OF A RESOLUTION OF THE PUBLIC FINANCING AUTHORITY AUTHORIZING THE EXECUTION AND DELIVERY OF AN AMENDED AND RESTATED INDENTURE, AN AMENDED AND RESTATED LEASE, AN AMENDED AND RESTATED SUBLEASE, AND A BOND PURCHASE AGREEMENT AND CERTAIN OTHER ACTIONS RELATING THERETO.

RECOMMENDATION:

It is recommended that the Pasadena Public Financing Authority:

- 1) Directly sell the 2006 Variable Rate Demand Lease Revenue Bonds (Rose Bowl Refinancing and Improvement Projects) to Union Bank at 65% of LIBOR plus 0.75% for a 3-year term;
- 2) Adopt a resolution authorizing the execution and delivery of an amended and restated indenture, an amended and restated lease, an amended and restated sublease, and a bond purchase agreement, and certain other actions relating thereto.

BACKGROUND:

In February 2006, the Pasadena Public Financing Authority issued \$47,300,000 Variable Rate Demand Lease Revenue Bonds (Rose Bowl Refinancing and Improvement Projects), to refinance the then outstanding 1991 and 1996 Rose Bowl Certificates of Participation ("COPs") and provide additional proceeds to complete improvements to the Rose Bowl stadium and other facilities. The improvements at that time consisted, primarily, of new locker room and press room facilities at the Rose Bowl as well as a portion of the City Hall seismic retrofitting project.

The 2006 Lease Revenue Bonds were issued at that time as weekly variable rate demand bonds ("VRDBs"). As weekly VRDBs, the interest rate on the bonds is re-set every seven days and investors can sell or "put" back their bonds at each re-set date.

This structure relies on investment banks to serve as remarketing agents to re-set the weekly rate and to find new buyers for any of the bonds that are put back. In addition, commercial banks guarantee the repurchase of any bonds that are put back that cannot be remarketed to other investors. This guarantee is usually in the form of a bank letter of credit or standby bond purchase agreement and is one of two requirements imposed by the Securities and Exchange Commission ("SEC") for money market funds to invest in VRDBs. An additional requirement is for the bonds to have ratings at least in the double-A category from two rating agencies.

Concurrent with the original issuance of the bonds, the City synthetically fixed the rate on the bonds by entering into an interest rate swap agreement with Deutsche Bank AG, New York Branch. The swap agreement has a term equal to the final maturity of the bonds. Pursuant to the swap agreement, the City pays a fixed rate of 3.285% on the notional amount of the swap which is equal to the outstanding principal amount of the bonds and receives 65% of the London Interchange Bank Offering Rate ("LIBOR rate") on a like amount. At that time, the City also entered into a remarketing agreement with Merrill Lynch (the remarketing agent) and obtained a letter of credit from Citibank (the liquidity provider) with an initial term of three years that expired on February 16, 2009.

The liquidity crisis that began in late 2007 and intensified in 2008 placed severe pressure on banks and other financial institutions. As a result, the number of banks that were participating in the municipal credit market declined; the credit capacity of many of the banks that were able to continue to participate in the municipal credit market was reduced; and the demise of the auction rate securities market during the same period increased the demand for credit facilities at a time when supply was decreasing. As a result of capacity constraints, in 2008 Citibank informed the City of Pasadena that it would not be able to renew its outstanding letter of credit. After discussions and the solicitation of numerous banks in 2009, Finance staff was able to negotiate and obtain credit approval from Bank of America for a substitute direct pay letter of credit for the outstanding \$43 million Rose Bowl Variable Rate Demand Lease Revenue Bonds. The letter of credit was for a term of two years at an annual fee of 0.70% on the outstanding bonds and terminated on February 11, 2011. The City extended the facility with Bank of America for 90 days with a new expiration date of May 12, 2011 to allow time to complete letter of credit research.

In January 2011, the City issued a Request for Credit Proposals (RFP) to 28 banks including several banks located within the City of Pasadena. The RFP specifically requested bids for a letter of credit, a standby bond purchase agreement, and/or a direct purchase of the bonds by a bank. Recent legislation regarding letter of credit options will allow the City to take advantage of a direct purchase option relating to the outstanding VRDBs. The City received five bids for a letter of credit, three bids for a standby bond purchase agreement and three bids for a direct purchase of the bonds. After a detailed financial analysis of the proposals with PRAG, the City's financial advisor, the City identified the direct purchase alternative with Union Bank as the optimal structure. This analysis considered the annual and upfront costs and the ongoing risks associated with each alternative. On February 28, 2011, the Director of Finance negotiated the deal

points of an initial term sheet with Union Bank to directly purchase the bonds subject to City Council approval. A direct purchase of the bonds by a bank is a cost-effective structure and provides the City with a number of advantages including eliminating several risks as compared to using a bank credit facility on publically offered VRDBs, as detailed below.

- **Bank Risk.** A direct purchase by a bank eliminates the bank risk inherent in publically offered VRDBs. Bank risk on publically offered VRDBs includes the possibility that the: i) the credit ratings on the bank providing the letter of credit on the VRDBs is lowered; or ii) short-term investors reach capacity constraints under SEC Rule 2(a)-7 with respect to VRDBs supported by certain banks. Either of these risks can negatively impact the weekly interest rates investors demand on the VRDBs and can therefore increase the City's costs.
- **Basis Risk.** A direct purchase by a bank eliminates the basis risk inherent in publically offered VRDBs swapped to a fixed rate based on 65% of LIBOR. Under the current structure, basis risk is the difference between what the City receives under the related swap (65% of LIBOR) and the tax-exempt interest rates it pays on its VRDBs which are set independently. Under the direct purchase structure, the City pays 65% of LIBOR to the Bank (plus a spread) which exactly matches the City's receipt of 65% of LIBOR under the related swap. As a result, the City both receives and pays 65% of LIBOR and locks in an exact fixed cost of 3.285% plus the spread of 75 basis points (for an all-in rate of 4.035%).
- **No Remarketing Fees.** Under a bank direct purchase structure, there is no need for a remarketing agent and therefore no remarketing fees. Currently, the remarketing agent receives a remarketing fee of 7 basis points of the outstanding par amount of the bonds.
- **No Rating Agency Fees.** Union Bank does not require credit ratings on this transaction. As a result, the upfront and annual rating agency fees associated with publically offered VRDBs is eliminated.

Direct Purchase Alternatives Received. Of the three direct purchase alternatives the City received, Union Bank was the lowest cost bidder. The following compares the 3-year direct purchase proposals the City received.

3 Year Direct Purchase Bids			
	Facility Fee	Upfront Costs	All-In Fee
Union Bank	65% of LIBOR + 75bps	\$100,000	85.8 bps
RBC	65% of LIBOR + 77bps	239,000	102.8 bps
Wells Fargo	65% of LIBOR + 85bps	95,000	95.5 bps

Basis Points (bps) = One Hundredth of One Percent

COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

The current letter of credit expires on May 12, 2011. As a result, the City must replace the letter of credit, extend the current letter of credit, or utilize a bank direct purchase structure. Staff's recommendation of a direct purchase structure through a private placement of the bonds with Union Bank is cost-effective and eliminates the current bank and basis risks and the rating agency and remarketing fees associated with publically offered VRDBs which are supported with a letter of credit. The recommended action also locks in an annual fixed interest rate cost of 4.035%. The 4.035% consists of the swap rate of 3.285% plus the 75 basis point spread offered by Union Bank. Currently, the debt service is being paid on an average 4.055% rate representing the 3.285% fixed rate on the swap plus 0.70 letter of credit fee, 0.07% remarketing fee. This will save an estimated \$7,600 per year. In addition, given recent increases in municipal interest rates, basis risks will be more of an issue over the next few years. Utilizing the recommended structure will eliminate basis risk over the next three years, which could save an additional estimated 0.10% or \$38,000 per year. There is, however, an unavoidable upfront cost of approximately \$100,000 as detailed below. Under the current bond distribution the Rose Bowl Operating Company (RBOC) would incur 80 percent and the City 20 percent of the one-time, upfront cost to complete the transaction. One option to address this up front cost would be for the City to front the necessary cost and be reimbursed by the RBOC over the next two to three years.

Bank fee:	\$10,000
Bank Counsel fee:	40,000
Bond Counsel fee:	25,000
Financial Advisor fee:	25,000
Rating agency fees:	0
<u>Total</u>	<u>\$100,000</u>

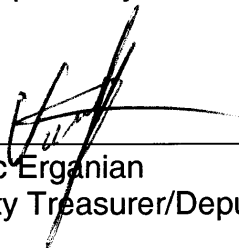
Should this action need additional appropriations, staff will return with a budget amendment at the time the quarterly amendment report is presented.

Respectfully submitted,



ANDREW GREEN
Treasurer

Prepared by,



Vic Erganian
City Treasurer/Deputy Director of Finance

Approved by:



MICHAEL J. BECK
Executive Director

RESOLUTION NO. _____

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE PASADENA PUBLIC FINANCING AUTHORITY AUTHORIZING THE EXECUTION AND DELIVERY OF AN AMENDED AND RESTATED INDENTURE, A BOND PURCHASE AGREEMENT, AN AMENDED AND RESTATED LEASE, AND AN AMENDED AND RESTATED SUBLEASE AND CERTAIN OTHER ACTIONS RELATING THERETO

WHEREAS, the Pasadena Public Financing Authority (the "Authority") has heretofore issued its Variable Rate Demand Lease Revenue Bonds (Rose Bowl Refinancing and Improvement Projects), Series 2006 (the "Bonds") pursuant to that certain bond indenture, dated as of February 1, 2006 (the "Indenture"), by and between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee"); and

WHEREAS, the Authority entered into a reimbursement agreement (the "Reimbursement Agreement") with Bank of America, N.A. and the City, pursuant to which the Bank issued a direct-pay letter of credit (the "Letter of Credit"), which expires on May 12, 2011; and

WHEREAS, pursuant to Section 2.13 of the Indenture, the Authority, as directed by the City of Pasadena, California (the "City"), may effect a change in mode with respect to the Bonds; and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Indenture may be amended if such amendment will be effective following the mandatory tender of the Bonds; and

WHEREAS, pursuant to the Indenture, including without limitation Sections 4.08 and 4.10 thereof, the Bonds shall be subject to a mandatory tender on the date of the Conversion (the "Mandatory Tender Date"); and

WHEREAS, the Authority and the City propose to (i) allow the Letter of Credit to expire, (ii) amend and restate the Indenture (the "Amended and Restated Indenture") to, among other things, create a new LIBOR-index based mode (the "Index Mode"), and (iii) change the mode of the Bonds to bear interest in the Index Mode; and

WHEREAS, the Authority and the City further propose to enter into a Bond Purchase Agreement (the "Bond Purchase Agreement") with Union Bank, N.A., providing that Union Bank, N.A. shall purchase all of the Bonds on the Mandatory Tender Date; and

WHEREAS, the Authority and the City desire to enter into an amended and restated lease (the "Amended and Restated Lease"), which amends and restates that certain lease (the "Lease"), by and between the City and the Authority, dated February 1, 2006, to accommodate the terms of the Bond Purchase Agreement; and

WHEREAS, the Authority and the City desire to enter into an amended and restated sublease (the "Amended and Restated Sublease"), which amends and restates that certain sublease (the "Sublease"), by and between the Authority and the City, dated February 1, 2006, to accommodate the terms of the Bond Purchase Agreement; and

WHEREAS, there have been presented to this meeting proposed forms of the following documents and agreements:

- (1) The Amended and Restated Indenture;
- (2) The Bond Purchase Agreement;
- (3) The Amended and Restated Lease; and
- (4) The Amended and Restated Sublease; and

NOW, THEREFORE, BE IT RESOLVED, ORDERED AND FOUND by the Board of Directors of the Pasadena Public Financing Authority, that:

Section 1. Each of the Executive Director and the Treasurer, acting singly, is hereby authorized and directed for, on behalf of, and in the name of the Authority, take all actions necessary and appropriate to effect a change in mode with respect to the Bonds so that the Bonds will bear interest in a new Index Mode to be created under the Amended and Restated Indenture.

Section 2. The form of Amended and Restated Indenture presented to this meeting, and on file with the Secretary, is hereby approved. Each of the Executive Director and the Treasurer, acting singly, is hereby authorized and directed for, on behalf of, and in the name of the Authority, to execute and deliver the Amended and Restated Indenture in substantially said form, with such changes, insertions and deletions as may be consistent with this Resolution and as may be approved by the officer executing the Amended and Restated Indenture, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. The form of Bond Purchase Agreement presented to this meeting, and on file with the Secretary, is hereby approved. Each of the Executive Director and the Treasurer, acting singly, is hereby authorized and directed for, on behalf of, and in the name of the Authority, to execute and deliver the Bond Purchase Agreement in substantially said form, with such changes, insertions and deletions as may be consistent with this Resolution and as may be approved by the officer executing the Bond Purchase Agreement, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. The form of Amended and Restated Lease presented to this meeting, and on file with the Secretary, is hereby approved. Each of the Executive Director and the Treasurer, acting singly, is hereby authorized and directed for, on behalf of, and in the name of the Authority, to execute and deliver the Amended and Restated Lease in substantially said form, with such changes, insertions and deletions as may be consistent with this Resolution and as may be approved by the officer executing the Amended and Restated Lease, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. The form of Amended and Restated Sublease presented to this meeting, and on file with the Secretary, is hereby approved. Each of the Executive Director and the Treasurer, acting singly, is hereby authorized and directed for, on behalf of, and in the name of the Authority, to execute and deliver the Amended and Restated Sublease in substantially said form, with such changes, insertions and deletions as may be consistent with this Resolution and as may be approved by the officer executing the Amended and Restated Sublease, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. The Executive Director, Treasurer, Secretary and all other appropriate officers of the Authority are hereby authorized and directed, acting singly, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the transactions contemplated by this Resolution and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, including without limitation amended Bonds, an integration certificate with respect to the interest rate swap, dated December 15, 2005, related to the Bonds, notices to Bondholders, certificates and instructions to the Trustee and a supplemental tax certificate for the Bonds. Any actions heretofore taken by such officers in connection therewith are hereby ratified, confirmed and approved.

Section 7. The Secretary is hereby authorized and directed to attest the signature of the Executive Director, the Treasurer or such other Authority officers as may be required or appropriate in connection with the execution and delivery of the agreements and documents contemplated by this Resolution or any related document or instrument.

Section 8. This Resolution shall take effect immediately upon its adoption.

PASSED by the Board of Directors of the Pasadena Public Financing Authority at a regular meeting this 11th day of April, 2011, by the following vote:

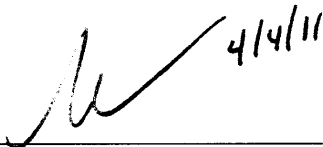
AYES:

NOES:

ABSENT:

Secretary

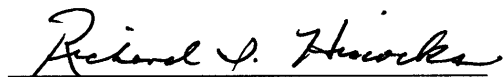
APPROVED AS TO FORM:

 4/4/11

City Attorney

APPROVED AS TO FORM:

ORRICK, HERRINGTON & SUTCLIFFE LLP
per



Richard I. Hiscocks, Partner