

Agenda Report

August 8, 2011

TO: Honorable Mayor and City Council

FROM: Department of Finance

**SUBJECT: RENEWAL OF THE STANDBY BOND PURCHASE AGREEMENT
RELATED TO PASADENA PUBLIC FINANCING AUTHORITY
TAXABLE VARIABLE RATE DEMAND LEASE REVENUE BONDS
(PASEO COLORADO PARKING FACILITIES), SERIES 2000.**

RECOMMENDATION:

It is recommended that the City Council

- 1- Approve the renewal of the existing Standby Bond Purchase Agreement (SBPA) with KBC Bank for a term of three years at an annual fee of 0.58% on the outstanding principal of the bonds;
- 2- To the extent that the proposed renewal of the SBPA could be considered subject to a new competitive selection process, grant the proposed renewal an exemption from the competitive selection process of the Competitive Bidding and Purchasing Ordinance, Pasadena Municipal Code Chapter 4.08, pursuant to Section 4.08.049(B) contracts for which the City's best interests are served.

BACKGROUND:

In 2000, the City sold \$32.385 million bonds to finance certain improvements to the parking facilities and public property adjacent to or beneath the then Plaza Pasadena shopping center and to finance the acquisition of the right, title and interest of the developer under a prior lease between the developer and Pasadena Community Development Commission. The 2000 bonds were initially issued with an insurance policy from MBIA. In 2008, the City refunded the bonds and reissued them with no insurance.

The bonds are taxable and structured as variable rate demand lease revenue bonds supported by a standby bond purchase agreement, the liquidity facility, with KBC Bank.

Variable Rate Demand Bonds or VRDBs are long-term bonds that carry a short-term interest rate that is reset every seven days. VRDBs have a "put" feature and are backed by a liquidity facility in the form of a standby bond purchase agreement or a bank letter of credit. VRDBs are qualified investments for Rule 2a-7 money market funds and are typically sold to money market funds which are required by the Securities and Exchange Commission (SEC) regulation to purchase securities rated in the AA category or higher.

The existing Standby Bond Purchase Agreement expires in September 2011. In January 2011, the City issued a Request For Credit Proposals (RFP) to 28 banks including several banks located within the City of Pasadena related to the 2006 Rose Bowl bonds. 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. Staff contacted those same banks who responded to the RFP in January as well as new ones. Only a few were interested in providing a credit facility for this particular financing. After carefully reviewing the few proposals, it is staff's recommendation to renew the attached SBPA with KBC at an annual fee of 0.58%. The City currently pays 0.40% annual fee on the existing SBPA. Given the current conditions in the credit market and the proposals received from three financial institutions, KBC's proposed 0.58% fee is reasonable and the most competitive rate.

COUNCIL POLICY CONSIDERATION:

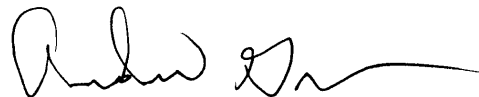
As part of its strategic plan goal to maintain fiscal responsibility and stability, the City Council established as an objective development of a plan to address the challenges associated with funding the Fire and Police Retirement System. This report and the recommendation contained herein are intended to fulfill that objective.

FISCAL IMPACT:

The recent taxable interest rate on the bonds has been resetting at an average 0.70% annual rate. Adding the liquidity fee of 0.58% and the remarketing fee of 0.8%, the total current financing cost adds up to an annual 1.36% rate. This rate has been historically the lowest rate since the issuance of the bonds and is expected to stay low as long as taxable short term rates remain unchanged in the near future. However, as the Fed raises the short term rates in the future, so will the cost of this financing.

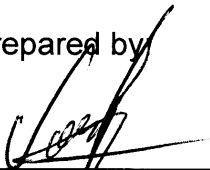
The cost of this action will be 0.58% of the outstanding bonds or \$159,500 for fiscal year 2012. Funding for this action will be addressed by the utilization of existing budgeted appropriations in account 8677-409-774612. No additional indirect or support costs will be required.

Respectfully submitted,




ANDREW GREEN
Director of Finance
Department of Finance

Prepared by



Vic Ergonian
Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK
City Manager

Attachments:

Exhibit A – KBC proposal dated July 1, 2011



July 1, 2011

EXHIBIT A

Proposal to

The City of Pasadena

for up to

\$28,312,987

to provide liquidity support for

The Pasadena Public Financing Authority Taxable Variable Rate
Demand Lease Revenue Refunding Bonds
(Paseo Colorado Parking Facilities) Series 2008



KBC Bank N.V., New York
1177 Avenue of the Americas
New York, NY 10036

Telephone: (212) 541-0729
Facsimile: (212) 541-0793

July 1, 2011

Mr. Vicken Erganian
City of Pasadena
100 N. Garfield Ave. Room N125
Pasadena, CA 91109

**RE: Pasadena Public Financing Authority Taxable Variable Rate Demand Lease
Revenue Refunding Bonds (Paseo Colorado Parking Facilities) Series 2008 (the
"Bonds")**

Dear Mr. Erganian:

KBC Bank N.V., New York Branch (the "Bank") is pleased to present to you this proposal to extend its existing Standby Bond Purchase Agreement (the "Facility") which provides liquidity support for up to \$28,312,987 of Bonds issued by the Authority

Please note that this proposal does not represent a commitment by the Bank to provide a facility, but is merely an outline of the general terms and conditions under which the Bank would provide the Facility. Formal credit approval will be required prior to the extension of this Facility and the Bank's commitment will be subject to satisfactory negotiation of other terms and conditions and the execution and delivery of documentation necessary or appropriate for a transaction of this type in form, scope and substance satisfactory to the Bank and its counsel. Upon mandate, credit approval will be sought within two weeks.

We value our relationship with the City of Pasadena (the "City"), and hope to work with you on this extension. If you should have any questions, please do not hesitate to call Kurt Barkley at (212) 541-0726 or Kevin Wood at (212) 541-0729.

Sincerely,


Kurt Barkley
Managing Director


Kevin Wood
Vice President

Terms & Conditions

Bond Issuer:	The Pasadena Public Financing Authority (the "Authority").						
Bank Facility:	Standby Bond Purchase Agreement ("SBPA" or "Facility").						
Purpose:	To provide liquidity support for the Pasadena Public Financing Authority Taxable Variable Rate Demand Lease Revenue Refunding Bonds (Paseo Colorado Parking Facilities) Series 2008 (the "Bonds")						
Security:	Shall be consistent with the existing agreement.						
Facility Size:	Up to \$28,312,987						
Facility Provider:	KBC Bank N.V., New York Branch 1177 Avenue of the Americas New York, NY 10036						
Primary Contacts:	Kurt Barkley Managing Director Public Finance Department Phone: (212) 541-0726 Fax: (212) 541-0793 Kurt.Barkley@kbc.be	Kevin Wood Vice President Public Finance Department Phone: (212) 541-0729 Fax: (212) 258-9404 Kevin.Wood@kbc.be					
Bank Ratings:	<u>Agency</u> Moody's: S&P: Fitch:	<u>Long-term / Short Term</u> Aa3 / P-1 A / A-1 A / F1	<u>Outlook</u> Negative Stable Stable				
Audit:	www.kbc.com (Investor Relations)						
Term:	Three (3) year term.						
Annual Facility Fees:	<table border="1"><thead><tr><th>Term</th><th>3-Year</th></tr></thead><tbody><tr><td>SBPA</td><td>58 bppa</td></tr></tbody></table>	Term	3-Year	SBPA	58 bppa		
Term	3-Year						
SBPA	58 bppa						

All Facility fees are based on the outstanding Facility amount and are payable quarterly in arrears on an actual/360 day basis.

The Facility Fee shall increase by ten basis points (0.10%) per annum from and after the date of each rating notch downgrade of the long-term unenhanced rating assigned to any general fund lease obligation of the City (the "Ratings") by either Fitch or S&P below AA based on the lesser by Fitch or S&P. If the Ratings fall below investment grade by any rating agency, the Facility Fee shall increase by one hundred basis points (1.00%) per annum. If the Ratings are withdrawn or suspended by any rating agency or an event of default occurs or is continuing, the Facility Fee shall increase by one hundred basis points (1.00%) per annum. All such fee increases are cumulative.

Draw Repayment: The repayment terms of the SBPA shall be consistent with the existing agreement.

Bank Bond Rating Covenant: The Bonds have already received a bank bond rating from Fitch; any future costs associated with maintaining the rating and/or CUSIP will be assumed by the City. A bank bond rating must be maintained during the life of the Facility.

Terms & Conditions: A Facility that will be acceptable to all parties and will include, but not be limited to, conditions precedent, representations and warranties, events of default, cross default provisions, increased cost/reduced return provisions, financial covenants, financial reporting, indemnification protection, waiver of jury trial and such other provisions as the Bank determine to be appropriate in this type of transaction.

Domestic Counsel: David Field
Chapman and Cutler
111 W. Monroe St
Chicago, IL 60603
Phone: (312) 845-3792

Legal Fees and Expenses: The Bank shall be reimbursed for all fees incurred by the Bank and its counsel in connection with the transaction, including out-of-pocket expenses. These expenses are as follows:

Domestic Counsel:
\$3,500 capped plus disbursements