

Agenda Report

November 14, 2011

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Finance Department

SUBJECT: ADOPTION OF A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA, CALIFORNIA, AUTHORIZING THE INVITATION OF BIDS FOR THE PURCHASE OF WATER REVENUE REFUNDING BONDS, 2011A 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; APPROVING AND RATIFYING THE FORM AND EXECUTION AND DELIVERY OF A FOURTH SUPPLEMENTAL TO WATER REVENUE BOND INDENTURE, AN ESCROW AGREEMENT AND CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH; AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

RECOMMENDATION:

It is recommended that the City Council adopt:

1. A Resolution of the City of Pasadena authorizing the invitation of bids for the purchase of water revenue refunding bonds, 2011A series, 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; approving and ratifying the form and execution and delivery of a fourth supplemental to water revenue bond indenture, an escrow agreement and continuing disclosure agreement in connection therewith; and authorizing certain other actions in connection therewith

BACKGROUND:

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 \$34,970,000 with interest rates ranging from 4.0% to 5.00% for maturities beginning in 2012 and ending in 2033. In today's interest rate environment, it is economical to refund the 2014 through 2033 maturities which are advance refundable (as limited by federal tax regulations) equal to \$27.67million of the outstanding \$34.97 million. Current market yields for Water System bonds for the same maturities range from approximately 0.35% to 4.30%. Since the 2003 Bonds can be optionally redeemed at 100% beginning on June 1, 2013, the City can establish an escrow of US Treasury securities in advance to defease and repay some of the 2003 bonds while simultaneously issuing new refunding bonds at lower yields presenting an opportunity to generate savings by way of advance refunding a portion of the 2003 bonds. Consequently, staff is requesting issue authorization of up to \$35 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 Water Revenue Refunding Bonds, 2011A Series will produce significant debt service savings which can be obtained over the term of the new bonds. The 2011A bonds will be issued with fixed interest rates and sold on a competitive basis with the same maturities as the existing 2003 bonds to be refunded. The bidders will compete to purchase the 2011A bonds from the City based on the lowest true interest cost on the 2011A bonds. Based on market conditions as of October 31, 2011, and the proposed bond structure, the anticipated savings are estimated at an average of \$120,000 per year or \$1.78 million on a net present value basis representing a net present value savings of 6.45% of the refunded principal. The attached Resolution and Ordinance No. 7199, which was adopted by the City Council on November 8, 2010, authorize the issuance of, and approve the various documents in connection with, the issuance of the 2011A bonds, with a principal amount not to exceed \$35 million and at a true interest cost not to exceed 4.75%. 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's strategic goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

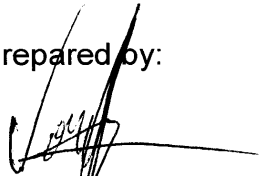
In today's interest rate environment, it is anticipated that the Water Fund could realize up to \$1.78 million in net present value savings from the refunding of 2003 bonds with the 2011A bonds representing an estimated annual savings of \$120,000 through June 30, 2031. This is a pure refunding for savings purposes. There will be no amendments to the terms of the bonds. The actual savings will depend on the market conditions at the time the actual bidding is completed on the scheduled December 13, 2011 date. Under current market conditions, the true interest cost of the 2011A Refunding Bonds is estimated at 3.19%. Debt service payments will be addressed by the utilization of existing budgeted appropriations in account #8677-402-833000 made from the Water Fund and funds are available from current rates. The attached Exhibit A represents the estimated sources and uses of funds based on market interest rates as of October 31, 2011.

Respectfully submitted,



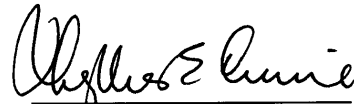
ANDREW GREEN
Director of Finance

Prepared by:



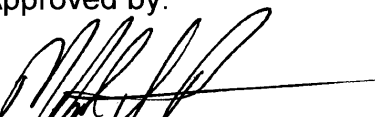
Vic Erganian
City Treasurer/Deputy Director of Finance

Concurred by:



PHYLLIS CURRIE
General Manager
Water and Power

Approved by:



MICHAEL J. BECK
City Manager

Attachments: (2)

Attachment A: Estimated Sources and Uses of Funds

Attachment B: Preliminary Official Statement, Notice of Intention to Sell Bonds, Notice Inviting Bids, Fourth Supplemental to Indenture, Escrow Agreement, and Continuing Disclosure Agreement.

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA, CALIFORNIA, AUTHORIZING THE INVITATION OF BIDS FOR THE PURCHASE OF WATER REVENUE REFUNDING BONDS, 2011A 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; APPROVING AND RATIFYING THE FORM AND EXECUTION AND DELIVERY OF A FOURTH SUPPLEMENT TO WATER REVENUE BOND INDENTURE, AN ESCROW AGREEMENT AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH; AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, pursuant to Article XIV of the Charter (the "Charter") of the City of Pasadena (the "City"), the City Council of the City (the "City Council") is authorized to provide for the issuance of revenue bonds for the purpose of providing moneys for the acquisition and construction of additions to, and extensions and improvements of, the water system of the City, and for refunding bonds for the purposes of refunding any revenue bonds issued pursuant to such Article, by ordinance authorizing the issuance of such revenue bonds and/or refunding bonds; and

WHEREAS, pursuant to Ordinance No. 7199 of the City, adopted on November 8, 2010, the City Council has heretofore authorized, among other things, the issuance of not to exceed \$35,000,000 aggregate principal amount of water revenue refunding bonds of the City (originally to be designated "Water Revenue Refunding Bonds, 2010B Series" and now to be designated "Water Revenue Refunding Bonds, 2011A Series" (hereinafter referred to as the "2011A Bonds")) for the purpose of (i) refunding a portion of the City's outstanding Water Revenue and Refunding Bonds, 2003 Series (the "2003 Bonds") issued pursuant to Article XIV of the Charter, and a Water Revenue Bond Indenture, dated as of August 1, 2003, by and between the City and The Bank of New York Mellon Trust Company, N.A. (formerly known as BNY Western Trust Company), as trustee (the "Trustee") (the "Master Indenture"), as supplemented by a First Supplement to Water Revenue Bond Indenture, dated as of August 1, 2003, by and between the City and the Trustee, and (ii) paying costs of issuance of the 2011A Bonds; and

WHEREAS, the City Council deems it necessary and proper to reauthorize the invitation of bids for the purchase of the 2011A Bonds, such 2011A Bonds be sold in the manner and at the time or times and place hereinafter set forth; and

WHEREAS, there has been presented to this meeting the forms of certain financing documents previously approved by the City Council pursuant to Ordinance No. 7199 to be executed and delivered by the City in connection with the issuance of the 2011A Bonds for the approval and ratification thereof by this City Council;

NOW, THEREFORE, the City Council does hereby resolve, determine and order as follows:

Section 1. The foregoing recitals are true and correct and the City hereby so finds and determines.

Section 2. Electronic proposals for the purchase of the 2011A Bonds shall be received by the Director of Finance of the City at the time or times and place determined as provided in the Notice of Intention to Sell Bonds and the Notice Inviting Bids as hereinafter approved.

Section 3. The Director of Finance is hereby authorized and directed to publish a Notice of Intention to Sell Bonds, substantially in the form annexed hereto as "Exhibit A" and hereby approved by this City Council, by one insertion in the Pasadena Star-News, a newspaper of general circulation published in the City, at least five days prior to the date of receiving proposals for the purchase of the 2011A Bonds.

Section 4. The Director of Finance is further authorized and directed to publish a Notice of Intention to Sell Bonds by one insertion in The Bond Buyer, a financial publication generally circulated throughout California and reasonably expected to be disseminated among prospective bidders for the 2011A Bonds, at least five days prior to the date of receiving proposals for the purchase of the 2011A Bonds.

Section 5. The City Council hereby approves the Preliminary Official Statement relating to the 2011A Bonds substantially in the form on file with the City Clerk, a copy of which has been made available to this City Council, with such changes therein as the Director of Finance of the City may determine necessary, to be furnished to prospective bidders for the 2011A Bonds as provided in Section 7 hereof. The City authorizes the Director of Finance to deem the Preliminary Official Statement to be final within the meaning of Securities and Exchange Commission Rule 15c2-12 subject to completion of those items permitted by said Rule. The City Council directs the City Clerk to file the Preliminary Official Statement in his office and to identify it as being the Preliminary Official Statement so approved hereby, by an endorsement thereon to that effect over his signature. The Director of Finance or his designee is authorized and directed to execute and deliver a final Official Statement in substantially the form of the Preliminary Official Statement hereby approved, with such additions thereto and changes therein as are consistent with this Resolution and recommended or approved by Disclosure Counsel to the City and approved by such officers and employees, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. The forms of the Fourth Supplement to Water Revenue Bond Indenture (the "Fourth Supplement"), the Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") and the Escrow Agreement (the "Escrow Agreement"), proposed to be executed and entered into by and between the City and the Trustee in connection with the issuance of the 2011A Bonds and attached hereto as "Exhibits C, D and E," respectively, are hereby ratified and approved, and the Director of Finance (or, in the absence of the Director of Finance, his designee) is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Fourth Supplement, the Continuing Disclosure Agreement and the Escrow Agreement in substantially said forms, with such changes as may be approved by the Director of Finance (or, in the absence of the Director of Finance, his designee), acting on behalf of the City, subject to advice of counsel, such execution thereof to constitute conclusive evidence of the approval of the City of all changes from the forms of the Fourth

Supplement, the Continuing Disclosure Agreement and the Escrow Agreement presented to this meeting.

Section 7. The Director of Finance is authorized and directed to cause to be furnished to prospective bidders, upon their request, a reasonable number of copies of Ordinance No. 7199, the Master Indenture, the Fourth Supplement, the Continuing Disclosure Agreement, the Escrow Agreement and the Preliminary Official Statement. The Director of Finance is authorized and directed to cause to be furnished to prospective bidders, upon their request, a reasonable number of copies of the Notice Inviting Bids substantially in the form annexed hereto as "Exhibit B" and hereby approved by the City Council. The Director of Finance is further authorized and directed, after any proposal for the purchase of the 2011A Bonds has been accepted by the Director of Finance, and after the final Official Statement has been prepared, to cause to be furnished to the successful bidder(s), for use in connection with the resale of the 2011A Bonds, such number of copies of the final Official Statement as may be reasonably required.

Section 8. The Director of Finance may withdraw or modify the Notice Inviting Bids and the Notice of Intention to Sell Bonds, or either, at any time by notice published via Thomson Municipal News or other means determined by the Director of Finance to reasonably reach potential bidders for the 2011A Bonds. If the Director of Finance should withdraw the Notice Inviting Bids or the Notice of Intention to Sell Bonds at any time before the 2011A Bonds are awarded, and should at a later date determine that it is desirable to receive bids for the 2011A Bonds, the Director of Finance is hereby authorized to redistribute the respective Notice Inviting Bids and republish the Notice of Intention to Sell Bonds with such modifications or revisions as are approved by the Director of Finance.

Section 9. The City Council shall confirm the award of the 2011A Bonds at the time and date specified in the respective Notice Inviting Bids by subsequent City Council action; provided, that if the City Council does not hold a meeting or does not achieve a quorum on the date on which bids for the 2011A Bonds are received, the Director of Finance or his designee is hereby authorized and directed on behalf of the City to accept the best bid for the 2011A Bonds received (or reject all bids) pursuant to and subject to the terms and conditions set forth in the Notice Inviting Bids and to take such other actions as the Director of Finance deems appropriate, consistent with the provisions hereof, and upon the execution by any member of this City Council and by the Director of Finance of a Written Order to award the 2011A Bonds to the best bidder, the 2011A Bonds shall be so awarded, and the interest rate or rates on the 2011A Bonds as have been bid by the best bidder so awarded the 2011A Bonds shall be fixed.

Section 10. The law firm of Fulbright & Jaworski L.L.P., Los Angeles, California, is hereby retained as Bond Counsel and Disclosure Counsel in connection with the issuance of the 2011A Bonds, upon such terms and conditions as shall be approved by the Director of Finance.

Section 11. The firm of Public Resources Advisory Group, Los Angeles, California, is hereby retained as financial advisor in connection with the issuance of the 2011A Bonds, upon such terms and conditions as shall be approved by the Director of Finance.

ADOPTED at a regular meeting of the City Council this 14th day of November, 2011, by the following vote:

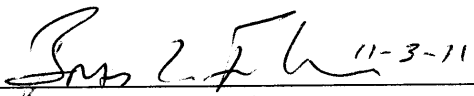
AYES:

NOES:

ABSENT:

APPROVED AS TO FORM:

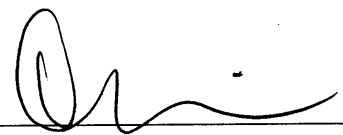
ATTEST:

For  11-3-11

Michele Beal Bagneris
City Attorney

Mark Jomsky
City Clerk

APPROVED AS TO FORM:



Danny Kim
Fulbright & Jaworski L.L.P.
Bond Counsel