

Agenda Report

February 27, 2012

TO: Honorable Mayor and City Council
Pasadena Public Financing Authority

THROUGH: Finance Committee

FROM: Director of Finance/PPFA Treasurer

SUBJECT: **JOINT ACTION: RENEWAL OF BANK OF AMERICA LETTER OF CREDIT RELATED TO THE VARIABLE RATE DEMAND REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2008A (Conference Center Project)**

RECOMMENDATION:

It is recommended that the City Council/Pasadena Public Financing Authority:

- 1) Approve the renewal of the existing Bank of America Letter of Credit related to the City's Variable Rate Demand Refunding Certificates of Participation, Series 2008A (COPs) at an 0.425% annual fee for a term of three years; and
- 2) Authorize the Executive Director or the Treasurer of the Authority or any duly authorized designee thereof to execute and deliver an amendment to the Reimbursement Agreement and any and all such other documents, certificates and agreements necessary or desirable, including, if applicable, any amendments to the Remarketing Agreement relating to the COPs that may be required by the bank in connection therewith, in order to effect the renewal of the Letter of Credit (LOC) on substantially the terms set forth in the attached Exhibit A "Summary of Terms and Conditions" with such additions and changes thereto as shall be approved by the officer executing such amendment to the Reimbursement Agreement.

BACKGROUND:

In 2006, the City sold \$162.64 million in Certificates of Participation (COPs) to finance the expansion of the Pasadena Conference Center. The COPs were issued with an AAA municipal bond insurance policy and were issued in two tranches:

Series A: \$28 million Capital Appreciation Bonds (CABs); these are zero coupon bonds that effectively have a fixed interest rate; consequently, they have not been impacted by the crisis in the financial market.

Series B: \$135.5 million Auction Rate Certificates; these certificates carried a variable interest rate reset every seven days.

The City simultaneously entered into a swap agreement with Depfa Bank when it issued the Series 2006B COPs. The swap requires the City to pay (Depfa) a fixed rate equal to 3.536% and in return the City receives a variable rate equal to 64% of London Interbank Offered Rate (LIBOR index), which effectively created a "synthetic fixed rate" of 3.536%. This synthetic rate structure has provided the City the least cost financing rate and enabled the project financing to meet its objectives.

As a result of the failure of the auction rate market in early 2008, the City's auction rate certificates were no longer generating the expected low financing cost, and the City was paying excessive interest rates on its securities. In April 2008, the City refunded its 2006B Auction Rate Securities by issuing its 2008A Variable Rate Demand Refunding Certificates of Participation. Variable rate demand bonds, or VRDBs, are long-term bonds that carry a short-term interest rate that is reset every seven days. VRDBs, unlike auction rate bonds, have a seven day put feature and are backed by a liquidity facility and/or bank letter of credit (LOC). The City was fast to act and in early 2008 and locked in the letter of credit from Bank of America for a term of two years at a 40 basis point or 0.4% annual fee. During the same year, annual letter of credit fees increased to a range of 125-250 basis points or 1.25% to 2.5%.

The LOC from Bank of America expired on April 16, 2010 and was extended for two more years at a rate of 0.95% and later dropped to 0.55%. The current expiration date of the liquidity facility is April 16, 2012. The existing letter of credit needs to be extended in order for the bonds to be remarketed. Unfortunately, the credit market still remains tight and bank lending is still selective. The number of active participants in the LOC is limited. Several firms have exited the business or are not actively writing LOCs. Although the participation from the number of banks seems to have picked up, there has not been a dramatic change over the last twelve months. Most LOC providers are selectively authorizing LOCs, and in such cases often prefer essential credits (i.e., water and sewer and General

Obligation credits). Most issuers have the best chance to obtain an LOC from their primary banking relationship.

Staff solicited several banks, other than Bank of America, and obtained indicative pricings ranging from 0.67% to 1.5% annual fee for the letter of credit. Finance staff also reviewed other options including the refunding of the VRDBs with Floating Rate Indexed Notes, the direct purchase of the bonds by banks, and the termination of the interest rate swap and refunding of the bonds at current fixed rates. The latter option is uneconomical and very costly in the current interest rate environment. After careful analysis of the cost involved in each option, staff recommends proceeding with the extension of Bank of America LOC for a term of three years at an annual fee of 0.425%.

There's always the systematic risk which could affect the entire financial market or the banking sector and impact future pricing of liquidity facilities. There is also specific risk related to Bank of America. Any future downgrade of the bank's short term rating from the current A1P1 (first tier rating), although perceived as a low probability, could necessitate the reissuance of the bonds and replacement of the letter of credit with another financial institution at higher fees.

COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

The recommended renewal of the LOC at 42.5 basis points represents a decrease of 12.5 basis points or 0.125% fee on the outstanding 2008A VRDBs. This represents savings of \$168,375 in LOC fees per year and reduces the total borrowing cost of the financing to 4.04%.

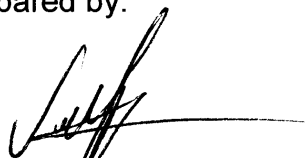
The cost of this action will be \$46,303 per month in letter of credit fees or \$555,636 annually. There are no points, fees or other charges by the bank to extend the liquidity facility for three years. There is an estimated \$3,500 legal fee to bank counsel related to the review and documentation of a new letter of credit and/or any amendments to the existing Reimbursement Agreement. There is no requirement for change in the appropriation for fiscal year 2012. Funding for this action will be addressed by the utilization of existing budgeted appropriation in PCOC operating budget account 690-952300.

Respectfully submitted,



ANDREW GREEN
Director of Finance/ PPFA Treasurer

Prepared by:



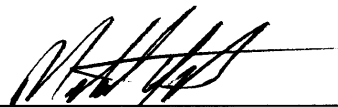
Vic Ergaman
Deputy Director of Finance/
City Treasurer

Concurrence:



MICHAEL ROSS
Chief Executive Officer, PCOC

Approved by:



MICHAEL J. BECK
City Manager/PPFA Executive Director

email: paul.sutherlen@baml.com

slee9@baml.com

BANK COUNSEL: White & Case LLP

Name: Neil W. Rust, Esq.
 Address: 633 West 5th Street, 19th Floor
 Los Angeles, CA 90071
 Telephone: (213) 620-7748
 Facsimile: (213) 452-2329
 email: nrust@la.whitecase.com

PROPOSED TERMS AND CONDITIONS SUBJECT TO CERTAIN EVENTS:

This Summary of Terms and Conditions is a commitment, subject to:

- Absence of any material adverse change, to be determined in the Bank's sole discretion,
- Agreement by BANA, in its sole discretion, as to all final terms and conditions and satisfactory documentation thereof (including satisfactory legal opinions).

Note: BANA's credit due diligence has been completed. Prior to close, we would appreciate confirmation from the City that there has been no material negative decrease in valuations of the leased properties.

RESCISSION BY THE BANK:

Bank of America reserves the right to unilaterally rescind part or all of the proposed terms and conditions herein at any time prior to their acceptance, which can be effected either by e-mail confirmation from the City or by signing and returning this document to the Bank.

EXPIRATION OF TERMS AND CONDITIONS:

Unless rescinded earlier, consideration of a financing based on the terms and conditions presented in this term sheet shall automatically expire on February 7, 2012. After receipt of a confirmation of term sheet acceptance, the Bank reserves the right to terminate, reduce or otherwise amend its commitment if the subject transaction is not closed by April 16, 2012.

FUTURE MODIFICATIONS:

The terms, conditions, pricing levels and fees (including legal fees and expenses) cited herein reference the financing and the Facility Amount as described in this Summary of Terms and Conditions and are subject to revision in the event that (i) the Facility Amount changes, (ii) the security or transaction structure is modified, (iii) after confirmation of term sheet acceptance the proposed financing does not close by April 16, 2012.

CONFIDENTIALITY:

This Summary of Terms and Conditions contains confidential and proprietary structuring and pricing information. Except for disclosure on a confidential basis to your accountants, attorneys and other professional advisors retained by you in connection with the Facility or as may be required by law, the contents of this Summary of Terms and Conditions may not be disclosed in whole or in part to any other person or entity without our prior written consent, provided that nothing herein shall restrict disclosure of information relating to the tax structure or tax treatment of the proposed Facility.

AGREEMENT BY THE ISSUER/OBLIGOR:

The Issuer hereby agrees to engage Bank of America to provide the Facility, which is the subject hereof, pursuant to the terms and conditions stated herein, and subject to further City Council approval in due course. Aside from the obligation of the Issuer to reimburse counsel to BANA for fees incurred after acceptance, the Issuer has no obligation to enter into an agreement with BANA. Please evidence your acceptance of the foregoing by either e-mail or by signing and returning a copy of this document to BANA.

ACCEPTED AND AGREED TO:

BY: _____

DATE: _____