

# Agenda Report

June 23, 2014

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee

**FROM:** Department of Finance

**SUBJECT:** FIRST READING OF AN ORDINANCE AMENDING PASADENA MUNICIPAL CODE TITLE 4, CHAPTER 4.08, COMPETITIVE BIDDING ORDINANCE, TO PROVIDE FOR THE SOLICITATION AND ENTERING INTO A LOAN FACILITY WITH A FINANCIAL INSTITUTION DESIGNED TO SERVE AS AN INTERIM FINANCING OF IMPROVEMENTS TO THE ELECTRIC SYSTEM, WHICH LOAN FACILITY WILL BE EVIDENCED BY A SUBORDINATE ELECTRIC REVENUE BOND, AND AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$75,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA SUBORDINATE ELECTRIC REVENUE BOND PAYABLE OUT OF THE LIGHT AND POWER FUND

**RECOMMENDATION:**

It is recommended that the City Council:

Conduct the first reading of "AN ORDINANCE OF THE CITY OF PASADENA AMENDING PASADENA MUNICIPAL CODE TITLE 4, CHAPTER 4.08, COMPETITIVE BIDDING ORDINANCE, TO PROVIDE FOR THE SOLICITATION AND ENTERING INTO A LOAN FACILITY WITH A FINANCIAL INSTITUTION DESIGNED TO SERVE AS AN INTERIM FINANCING OF IMPROVEMENTS TO THE ELECTRIC SYSTEM, WHICH LOAN FACILITY WILL BE EVIDENCED BY A SUBORDINATE ELECTRIC REVENUE BOND, AND AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$75,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA SUBORDINATE ELECTRIC REVENUE BOND PAYABLE OUT OF THE LIGHT AND POWER FUND

**BACKGROUND:**

On December 3, 2013, the City issued its Electric Revenue/Refunding Bonds, 2013A Series (the “2013 Bonds”) in the aggregate principal amount of \$80,485,000 (attached is referenced agenda report dated September 30, 2013). The City expects the proceeds of the 2013 Bonds to be used primarily for the purpose of financing a portion of the Glenarm Repowering Project, which involves replacing the existing Broadway steam generating unit with a new 71 megawatt natural gas-fired combined cycle power generating unit (GT-5 Repowering Project). The GT-5 Repowering Project is the largest component of the electric system capital projects as approved by the City Council.

At the time the City Council approved the issuance of the 2013 Bonds, the City Council was informed that staff analyzed three other funding options for the remaining costs of the GT5 Repowering Project including financing all costs with a line of credit (“LOC”) and subsequently refinancing the LOC upon project completion. Staff believes that the LOC is a low-cost way of funding the balance of the GT-5 Repowering Project even if the timing of construction draws change or is delayed, as it greatly reduces the financing risk for the project. The recommended LOC will facilitate the issuance of the correct amount of fixed rate bonds without any insufficiencies or overages, minimizing long-term costs to ratepayers.

Fulbright & Jaworski LLP, Los Angeles, California, serving as Bond Counsel to the City, has determined that such a LOC evidenced by a revenue bond would be authorized under Article XIV of the City’s Charter. A revenue bond needs to be sold at a public sale (Section 1414 of the Charter). Section 1414 does not provide guidance on what constitutes a public sale. Because the final terms of the LOC are expected to be negotiated once a provider is selected, there needs to be more assurance that what is being contemplated is in fact a public sale. Section 1003 of the Charter provides that the City Council shall prescribe by ordinance a system of competitive bidding. The City has adopted a competitive bidding ordinance, which is codified as Chapter 4.08 of the Pasadena Municipal Code. Chapter 4.08, however, does not adequately address a LOC as contemplated. Fulbright believes that the City can amend the competitive bidding ordinance to allow for the competitive bidding of a LOC, and that the selection of a provider in compliance with such competitive bidding process would then constitute a public sale satisfying Section 1414 of the Charter.

The Ordinance attached amends the competitive bidding ordinance and also acts as the authorizing ordinance under Section 1412 of the Charter. The Ordinance authorizes the issuance of a subordinate electric revenue bond (the “Subordinate Electric Revenue Bond”), which Subordinate Electric Revenue Bond will evidence the obligation to repay the LOC. Upon the adoption of the Ordinance, staff will then prepare and submit a resolution for consideration by the City Council that will specify the competitive bidding procedure as authorized by the Ordinance. Staff will then solicit bids for the LOC and upon award, which will be approved by City Council, to the winning bidder begin

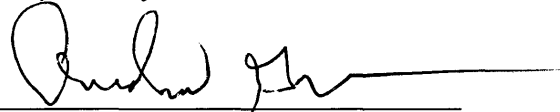
negotiating the necessary documents for the LOC and the Subordinate Electric Revenue Bond. Closing is expected to take place in September of 2014.

**FISCAL IMPACT:**

The LOC will be bid on a competitive basis with terms and conditions associated with loan facilities that are prevalent in the municipal credit markets. Repayments associated with the loan facility will be made from the Light and Power Fund. The method of calculating Interest on the loan facility will be pre-determined based on a well-established short-term index (e.g. LIBOR or SIFMA) and will be the index offered by the winning bidder and will be addressed by utilization of current and future appropriation in Power Capital Improvement Program Budget number 3194-Local Generation Repowering Project. The LOC is expected to have a term of approximately three years. The anticipated impact to other operational programs or capital projects as a result of this action will be none.

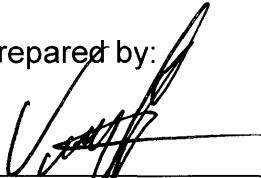
Under current market conditions, the structure of financing all remaining GT5 Repowering Project costs with a LOC and subsequently refinancing the LOC upon project completion with fixed rate bonds is expected to save ratepayers approximately \$3.4 million. Another benefit of the LOC structure is that it allows for the certainty of the correct issuance amount of future fixed rate bonds which avoids any overages or any short-falls in funding.

Respectfully submitted,



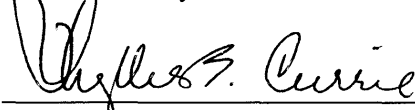
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Prepared by:



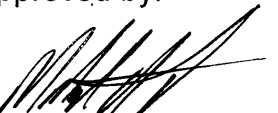
Vic Erganian  
Deputy Director of Finance/City Treasurer

Concurred by:



PHYLLIS CURRIE  
General Manager  
Water & Power Department

Approved by:



MICHAEL J. BECK  
City Manager