

Agenda Report

July 14, 2014

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: ADOPTION OF A RESOLUTION ESTABLISHING COMPETITIVE BIDDING PROCEDURES FOR, APPROVING THE PUBLICATION OF NOTICE OF, AND AUTHORIZING THE DISTRIBUTION OF A REQUEST FOR LOAN FACILITY (LINE OF CREDIT) FOR THE ELECTRIC SYSTEM, AUTHORIZING THE ENTRY INTO A LOAN FACILITY AND CERTAIN ACTIONS RELATED THERETO, AND ADOPTION OF A REIMBURSEMENT RESOLUTION

RECOMMENDATION:

It is recommended that the City Council:

- a) Adopt a resolution establishing competitive bidding procedures for, approving the publication of notice of, and authorizing the distribution of a request for loan facility (Electric System); and authorizing the entry into a loan facility and certain actions relating thereto;
- b) Adopt a resolution declaring the City's intention to reimburse itself from the proceeds of one or more tax-exempt financing for certain expenditures made and/or to be made in connection with the acquisition, construction and equipping of certain capital improvements.

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. 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 in the future without any insufficiencies or overages, minimizing long-term costs to ratepayers. The total cost of the GT5 repowering project is estimated at about \$132 million. Of this total amount, about \$20 million is funded by equity, \$55 million will be funded with proceeds from the 2013 Electric Revenue Bonds and up to \$57 million will be funded with proceeds from the recommended line of credit. If needed, a portion of the proceeds from the line of credit may be used for short-term financing of other capital projects of the electric distribution system. Similar to the use of proceeds from the 2013 Bonds, it is practical to use the funds from the LOC as a funding source for the GT5 Repowering Project and other electric distribution system capital projects. The use of LOC funds for these purposes was included in the staff discussion and recommendation of approval of the Resolution inviting bids for the 2013 Bonds as approved by City Council on September 30, 2013. Upon completion of the project, the \$75 million LOC will be refunded with thirty year fixed rate electric revenue bonds.

On June 23, 2014, the City Council had the 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 and authorizing the issuance of not to exceed \$75 million aggregate principal amount of the City of Pasadena Subordinate Electric Revenue Bonds payable out of the Light and Power Fund.

The ordinance amendment added Section 4.08.056 to Title 4, Chapter 4.08 of the Pasadena Municipal Code setting forth an alternate competitive bidding process for loan facilities. The recommended Resolution authorizes staff to competitively solicit a loan facility in accordance with Section 4.08.056 of the Municipal Code and sets forth certain other administrative procedures governing the loan facility. The resolution also approves the forms of the Notice of Request for Loan Facility (Electric System) and the Request for Loan Facility (Electric System).

The City Council is also being asked to adopt a Reimbursement Resolution. The requested resolution allows the City to reimburse itself for certain expenditures


made for capital improvements and other expenses related to the improvements to the Electric System. The Reimbursement Resolution provides the City the ability to reimburse itself for expenditures made 60 days prior to this resolution and no later than 18 months from the date of the expenditures are made or the project is placed in service, but in no event more than three years after the date on which the expenditure is paid.

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. Interest payments 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.

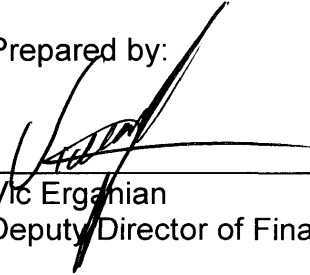
Under current market conditions, the structure of financing all remaining GT5 Repowering Project costs with a LOC and subsequently refinancing the LOC upon project completion with fixed rate bonds is expected to save ratepayers approximately \$3.4 million. Another benefit of the LOC structure is that 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,



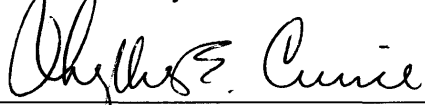
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