



Agenda Report

October 26, 2015

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Director of Finance

SUBJECT: RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA APPROVING THE EXECUTION AND DELIVERY OF NOT TO EXCEED SIXTY MILLION AGGREGATE INITIAL PRINCIPAL AMOUNT OF REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2015A, APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A SIXTH SUPPLEMENTAL TRUST AGREEMENT, A SUPPLEMENT NO. 6 TO LEASE, A SUPPLEMENT NO. 6 TO SUBLEASE, A CONTRACT OF PURCHASE, A CONTINUING DISCLOSURE AGREEMENT, AN ESCROW AGREEMENT AND OTHER RELATED DOCUMENTS, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT AND APPROVING OTHER RELATED ACTIONS IN CONNECTION THEREWITH

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project and
2. Adopt a resolution of the City Council of the City of Pasadena approving the execution and delivery of not to exceed sixty million aggregate initial principal amount of Refunding Certificates of Participation, Series 2015A, approving the form and authorizing the execution and delivery of a Sixth Supplement Trust Agreement, a Supplement No. 6 to Lease, a Supplement No. 6 to Sublease, a Contract of Purchase, a Continuing

Disclosure Agreement, an Escrow Agreement and other related documents, authorizing the distribution of an official statement and approving other related actions in connection therewith.

BACKGROUND:

As part of the City's ongoing effort to implement cost reductions, the City has identified an outstanding bond issue that could be refinanced for debt service savings:

Issue	Original Amount	Outstanding Amount	Final Maturity	Average Interest Rate Remaining
2008C Certificates of Participation	\$71,450,000	\$60,455,000	2/1/2038	4.82%

In 2003, the City issued \$73.79 million Variable Rate Demand Certificates of Participation (City Hall and Park Improvement Project), (the "2003 COPs") in order to finance the City Hall seismic improvement and rehabilitation project. The 2003 COPs were issued with a AAA municipal bond insurance policy provided by Ambac. The City simultaneously entered into a cost of funds swap agreement with Ambac when it issued the series 2003 COPs. The sub-prime mortgage crisis in 2008 caused widespread interest rate dislocation in the insured variable rate tax exempt market. There were concerns that Ambac would convert the City's 2003 cost of funds swap into an alternative floating rate swap which would have significantly increased the City's cost of financing the City Hall project. As a result, staff negotiated with Ambac and terminated the swap while simultaneously refinancing the then outstanding 2003 COPs with the Refunding Certificates of Participation, Series 2008C (the "2008 COPs").

The City Council approved the issuance of the 2008C COPs in original aggregate principal amount of \$71,450,000. Proceeds of the 2008C COPs were used to refinance the 2003 COPs. Of the \$60,455,000 of principal amount currently outstanding on the 2008C COPs, \$55,335,000 (maturities 2019 to 2038) could be redeemed on February 1, 2018 at par and bear interest rates ranging from 4% to 5%. The proposed refinancing is an advanced refunding as opposed to current refunding. In case of an advanced refunding, proceeds of the new refunding bonds are deposited in an escrow account to pay principal and interest on the refunded bonds until the call date, at which time, all the 2008C bonds (the refunded bonds) will be paid off by the escrow agent. Once the proposed 2015A COPs closes, the refunded bonds become legally defeased and the City will no longer be obligated to pay debt payments associated with the 2008C COPs.

The necessary documents (Sixth Supplement Trust Agreement, a Supplement No. 6 to Lease, a Supplement No. 6 to Sublease, a Contract of Purchase, a Continuing Disclosure Agreement, an Escrow Agreement and Official Statement), in connection with the issuance of the proposed Refunding Certificates of Participation, Series 2015A, are provided in substantially final form. Bond Counsel has prepared the attached resolutions authorizing the sale and issuance of the Refunding Certificates of Participation, Series 2015A (the "2015A COPs") to refinance the 2008C COPs. The resolutions require action by the City Council and the Pasadena Public Financing Authority to approve the issuance of the 2015A COPs in an aggregate principal amount of not to exceed \$60 million. The resolutions authorize the execution and delivery by the City and the Authority of the necessary financing documents and certificates and related actions, including the distribution of the official statement in connection with the offering and sale of the series 2015A COPs.

The proposed resolution authorizing the issuance of the 2015A COPs requests the City Council confirm the selections of Sidley Austin, LLP as Bond Counsel, Urban Futures, Inc. as Financial Advisor and Wells Fargo Bank, N.A. as underwriter.

Following City Council and Authority Board adoption of the resolutions, closing is tentatively scheduled for mid to late November 2015 wherein the 2015A COPs proceeds would be used to pay off a portion of the outstanding 2008C COPs, and pay the related costs of issuance.

ENVIRONMENTAL ANALYSIS:

The proposed actions are governmental fiscal activities that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project to CEQA, no environmental document is required.

FISCAL IMPACT:

The 2008C COPs are currently outstanding in the amount of \$60,455,000 and are scheduled to mature in 2038 with an average interest rate of 4.82%. Based on today's interest rates, a portion of the 2008C COPs could be refunded to the same term at an "all-in" cost of approximately 3.5%. After refinancing a portion the 2008C, \$5,120,000 will remain outstanding on the 2008C COPs. This outstanding amount represents the non-callable portion of the 2008C COPs.

The General Fund is legally obligated for the rental payments made for use of the leased properties securing the 2008C COPs. The savings from the recommended refinancing of the 2008C COPs would directly impact and benefit the General Fund's budget.

By taking advantage of low interest rates currently available in the market, refinancing the 2008C COPs is projected to produce annual savings of approximately \$128,000 per year through 2018 and \$207,000 thereafter through 2038, the final term of the 2015C COPs. Over the life of the 2015A COPs, the City is projected to save \$4.46 million in total debt payments. In today's dollars, this translates into over \$3.14 million in net present value savings (equal to 5.7% of the refinanced principal amount). Typically, municipal issuers set a minimum present value savings goal equal to 3.0% of the refunded principal amount in determining if a refinancing is worthwhile to pursue.

Bond markets have experienced increased volatility over the past few months as investors attempt to anticipate the timing of the Federal Reserve Board's hike in interest rates. Current interest rates remain relatively close to historical lows. The savings generated by refunding the 2008C COPs is sensitive to the movements in interest rates. If interest rates increase by 0.20%, the annual savings generated by the refunding declines to approximately \$85,000 through 2018 and \$134,000 thereafter through 2038. Total savings would amount to \$2.92 million or \$2.02 million on a net present value basis (3.65% of the refinanced principal). If interest rates decrease by 0.20%, the annual savings generated by the refunding increases to approximately \$165,000 through 2018 and \$270,000 thereafter through 2038. Total savings would amount to \$5.78 million or \$4.15 million on a net present value basis (7.51% of the refinanced principal). The table below summarizes the potential financial savings based on market rates as of October 7, 2015.

	Annual Savings (2016 - 2018)*	Annual Savings (2019 - 2038)*	Total Savings	Net Present Value Savings (\$)	Net Present Value Savings (%)
Current Rates**	\$128,000	\$207,000	\$4.46 million	\$3.15 million	5.69%
Rates Increase by 0.20%	\$85,000	\$134,000	\$2.92 million	\$2.02 million	3.65%
Rates Decrease by 0.20%	\$165,000	\$270,000	\$5.78 million	\$4.15 million	7.51%

*Rounded to the nearest thousand

**As of October 7, 2015

The recommended refunding will not extend the current term on the bonds nor will it borrow any additional funds.

All cost associated with the refunding will be incorporated and paid by the bond proceeds of the 2015 refunding bonds. Funds have already been appropriated in account 101-10120005-872200 to pay debt service on the bonds in fiscal year 2016. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,


MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:


Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:


MICHAEL J. BECK
City Manager

Attachments:

Preliminary Official Statement
Appendix A
Sixth Supplemental Trust Agreement
Supplement No. 6 to Amended and Restated Lease
Supplement No. 6 to Amended and Restated Sublease
Contract of Purchase