

Agenda Report

September 12, 2016

TO: Honorable Mayor and City Council
Pasadena Public Financing Authority

THROUGH: Finance Committee

FROM: Director of Finance
PPFA Treasurer

SUBJECT: JOINT ACTION: 2016A ROSE BOWL REFUNDING BONDS

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 issuance of not to exceed \$27,500,000 aggregate initial principal amount of Refunding Lease Revenue Bonds (Rose Bowl Renovation Project), Series 2016A, approving the form and authorizing the execution and delivery of a First Amendment to Amended and Restated Lease, A Second Amendment to Amended and Restated Sublease, a Purchase Agreement, a Preliminary Official Statement, a Continuing Disclosure Agreement, an Escrow Agreement, an Indenture and other related documents, authorizing the distribution of an Official Statement and approving other related actions in connection therewith.

It is recommended that the Pasadena Public Financing Authority:

1. Adopt a resolution authorizing the issuance of Lease Revenue Refunding Bonds in an amount not to exceed \$27,500,000 and the execution and delivery of a First Amendment to Amended and Restated Lease, Second Amendment to Amended

and Restated Sublease, Purchase Agreement, Escrow Agreement, Preliminary Official Statement and Final Official Statement in connection therewith, and authorizing the taking of certain 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	Weighted Average Interest Rate
Current Interest Portion of the 2010A Lease Revenue Bonds	\$36,808,265	\$25,220,000	3/1/2027	5.0%

In 2010, the City issued four series of lease revenue bonds, Series 2010A through D (Rose Bowl Renovation Project) in the aggregate amount of \$155,873,265. Series A Bonds in the amount of \$36,808,265 contains \$25,220,000 of current interest bonds maturing from year 2020 to 2027, with the remaining \$11,588,265 in the form of Capital Appreciation bonds maturing serially from 2027 to 2033. Current interest bonds require semi-annual interest payments, while the interest for Capital Appreciation bonds are all paid at the maturity of each bond.

The 2010 bonds were issued to finance the following improvements to the Rose Bowl Stadium:

- **Public Safety**
 - Widening of up to 12 tunnels at end zones
 - Added exit aisles and cross aisle at end zones
 - Field level exiting
- **Concourse Improvements**
 - Expansion from 2.5 square feet per person to 4.5 square feet per person
 - Increase restroom fixtures by 30%
 - New 17kV electrical system
- **New Press Box and Premium Seating**
 - Loge boxes
 - Club seating
 - Suites
 - Horizon Club Lounge
 - Updated Broadcasts and Control Facilities
 - New entry gates, scoreboard and video board

Of the \$25,220,000 principal amount outstanding on the 2010A current interest bonds, \$23,385,000 (maturities 2022 to 2027) could be redeemed on March 1, 2021 at par and bear interest rates of 5 percent. The 2020 and 2021 maturities are non-callable; therefore, refunding them does not produce savings and will remain outstanding. Staff's proposal is an advanced refunding as opposed to a current refunding. In the 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, the refunded 2010A bonds (the Refunded Bonds) will be paid off by the escrow agent. Once the proposed 2016A bonds close, the Refunded Bonds become legally defeased and the City will no longer be obligated to pay debt payments associated with the 2022 through 2027 maturities of the 2010A bonds.

The necessary documents (First Amendment to Amended and Restated Lease, Second Amendment to Amended and Restated Sublease, a Purchase Agreement, a Preliminary Official Statement, a Continuing Disclosure Agreement, an Escrow Agreement and Indenture), in connection with the issuance of the Lease Revenue Refunding Bonds, Series 2016A, are provided in substantially final form. Bond Counsel has prepared the attached resolutions authorizing the sale and issuance of the Lease Revenue Refunding Bonds, Series 2016A (the "2016A bonds") to refinance the Refunded Bonds. The resolutions require action by the City Council and the Pasadena Public Financing Authority to approve the issuance of the 2016A bonds in an aggregate principal amount of not to exceed \$27,500,000. 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 2016A bonds.

The proposed resolution authorizing the issuance of the 2016A bonds requests the City Council confirm the selections of Norton Rose Fulbright US 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 early to mid-October 2016 wherein the 2016A bond proceeds would be used to pay off a portion of the outstanding Refunded Bonds, 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.

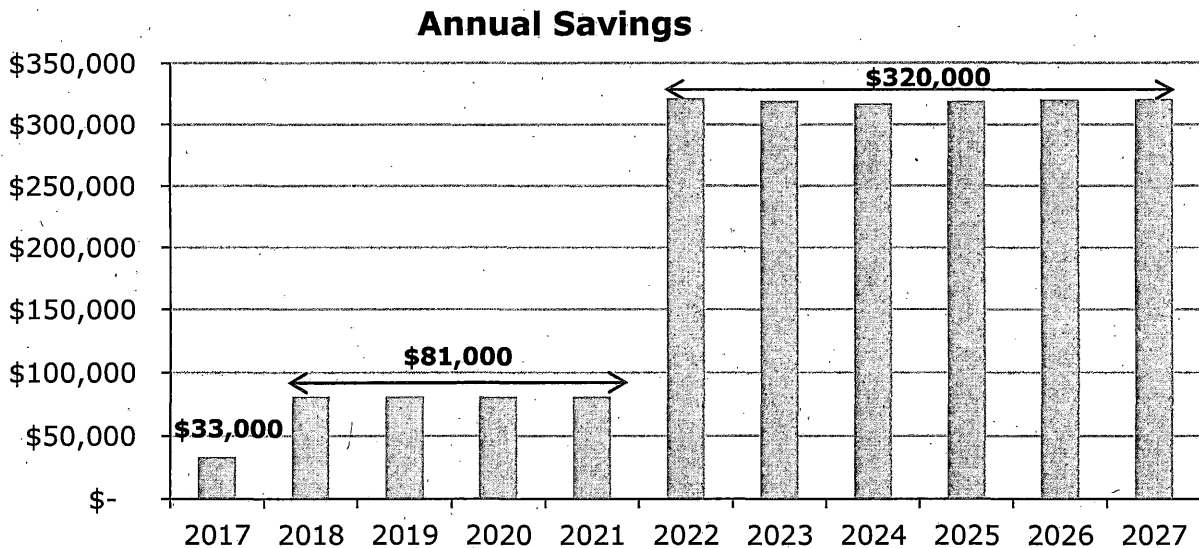
FISCAL IMPACT:

Revenues available for debt service come from six primary sources derived from the Rose Bowl Stadium: horizon/lounge membership, advertising/sponsorships, ticket & parking surcharges/premium ticket revenue, concessions, and miscellaneous revenues from meetings, banquets and other minor events.

Although the debt service payments are paid substantially from operating revenues derived from the Rose Bowl Stadium, the General Fund is ultimately responsible for securing the 2010A bonds. The savings from the recommended refinancing of the 2010A bonds would directly impact and benefit the Rose Bowl operating budget, while making an indirect impact and benefit to the General Fund.

The current interest portion of the 2010A bonds are outstanding in the amount of \$25,220,000 and are scheduled to mature in 2027 with a weighted average interest rate of 5.0 percent. Based on today's interest rates, the City could refund the recommended portion of the 2010A bonds to the same term at an "all-in" cost of approximately 1.72 percent. After refinancing the recommended portion of the 2010A bonds, \$1,835,000 will remain outstanding (maturities 2020 and 2021) which represents the non-callable portion of the current interest 2010A Series Bonds.

By taking advantage of low interest rates currently available in the market as of 08/15/2016, refinancing the current interest portion of the 2010A bonds is projected to produce annual savings of approximately \$81,000 per year through 2021 and \$320,000 thereafter through 2027 (see below graph). Over the life of the 2016A bonds, the City is projected to save \$2.27 million in total debt payments. In today's dollars, this translates into over \$2.04 million in net present value savings (equal to 8.73 percent of the refinanced principal amount).



Recently, bond markets experienced historically low interest rates as investors reacted to the “Brexit”, election uncertainty, and marginal economic news. Current interest rates remain relatively close to historical lows. The savings generated by refunding the Refunded Bonds is sensitive to the movements in interest rates. If interest rates increase by 0.25 percent, the annual savings generated by the refunding declines to approximately \$62,000 through the year 2021 and \$243,000 thereafter through 2027. Total savings would amount to \$1.73 million or \$1.53 million on a net present value basis (6.55 percent of the refinanced principal). If interest rates decrease by 0.25 percent, the annual savings generated by the refunding increases to approximately \$100,000 through 2021 and \$395,000 thereafter through 2027. Total savings would amount to \$2.81 million or \$2.56 million on a net present value basis (10.97 percent of the refinanced principal). The table below summarizes the potential financial savings based on market rates as of August 15, 2016.

	Annual Savings (2016 - 2021)*	Annual Savings (2022 - 2027)*	Total Savings	Net Present Value Savings (\$)	Net Present Value Savings (%)
Current Rates**	\$81,000	\$320,000	\$2.27 million	\$2.04 million	8.73%
Rates Increase by 0.25%	\$62,000	\$243,000	\$1.73 million	\$1.53 million	6.55%
Rates Decrease by 0.25%	\$100,000	\$395,000	\$2.81 million	\$2.56 million	10.97%

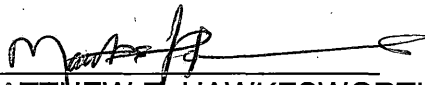
*Rounded to the nearest thousand

**As of August 15, 2016

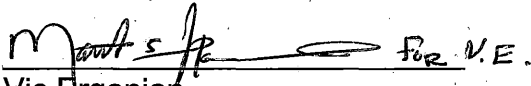
The recommended refunding will not extend the current term on the bonds nor will it borrow any additional funds.

All costs associated with the refunding will be incorporated and paid by the bond proceeds of the 2016A refunding bonds. Funds have already been appropriated in RBOC's Fiscal 2017 budget to pay debt service on the bonds. 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
PPFA Treasurer

Prepared by:


Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:


STEVE MERMELL
City Manager
PPFA Executive Director

Attachments: (7)

1. Preliminary Official Statement and Appendix A
2. First Amendment to Amended and Restated Lease
3. Second Amendment to Amended and Restated Sublease
4. Purchase Agreement
5. Continuing Disclosure Agreement
6. Escrow Agreement
7. Indenture