Agenda Report

September 12, 2016

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: ADOPTION OF A RESOLUTION AND THE FIRST READING OF AN ORDINANCE AUTHORIZING THE INVITATION OF BIDS FOR THE PURCHASE OF ELECTRIC REVENUE/REFUNDING BONDS, 2016A SERIES OF SAID CITY; APPROVING A NOTICE OF INTENTION TO SELL BONDS, A PRELIMINARY OFFICIAL STATEMENT, A NOTICE INVITING BIDS; AUTHORIZING THE PUBLICATION OF A NOTICE OF INTENTION TO SELL BONDS; AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED $140,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA ELECTRIC REVENUE/REFUNDING BONDS, 2016A SERIES, PAYABLE OUT OF THE LIGHT AND POWER FUND; APPROVING THE EXECUTION AND DELIVERY OF A NINTH SUPPLEMENTAL TO ELECTRIC REVENUE BOND FISCAL AGENT AGREEMENT, AN ESCROW AGREEMENT, A CONTINUING DISCLOSURE AGREEMENT, AND AUTHORIZING CERTAIN 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 authorizing the invitation of bids for the purchase of electric revenue/refunding bonds, 2016A series of said city, approving a notice of intention to sell bonds, a preliminary official statement, a notice inviting bids, authorizing the publication of a notice of intention to sell bonds, and authorizing certain other actions in connection therewith; and

3. Conduct the first reading of "**AN ORDINANCE OF THE CITY OF PASADENA AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED $140,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA ELECTRIC REVENUE/REFUNDING BONDS, 2016A SERIES, PAYABLE OUT OF THE LIGHT AND POWER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF A NINTH SUPPLEMENT TO ELECTRIC REVENUE BOND FISCAL AGENT AGREEMENT, AN ESCROW AGREEMENT AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH.**"

EXECUTIVE SUMMARY:

The objective of the recommended 2016A Electric Revenue/Refunding Bonds is to achieve the following three goals:

1. Refund the current outstanding estimated $60 million balance on the existing Bank of America line of credit (LOC) which served as a short term construction financing mechanism for the GT5 project;
2. Borrow $30 million to complete improvements on the Electric Distribution System in accordance with the adopted 5-year (FY 2017 – FY 2021) Capital Improvement Program for the Electric System;
3. Refund a substantial portion of the 2008 Electric Revenue Bonds currently outstanding in a total principal amount of $48.615 million to decrease debt service payments and realize significant savings. The recommended refunding will not extend the current term on the bonds.

BACKGROUND:

The adopted Fiscal Year 2017 Capital Improvement Program (CIP) for the Electric System provides for the issuance of revenue bonds and the use of equity contribution to finance additions and improvements to the electric system. The CIP is primarily driven by the Electric System Distribution Master Plan and the Integrated Resources Plan and it consists of key projects such as the local repowering project, automation and upgrades of substations, expansion of the electric distribution system from 17 kilovolts ("kV") to 34 kV, replacements of electrical components such as transformers, cables and switches, and modernization of the local electricity distribution system.

The local repowering project which is the largest component of the CIP involves replacing the existing Broadway steam generating unit (B-3) with a new 71 megawatt ("MW") natural gas-fired combined cycle electricity generating facility (GT5 Repowering Project). The cost of the GT5 Repowering Project which is expected to begin commercial operations in late 2016 was partly funded, on a short term basis, with approximately $60 million from the Bank of America Line of Credit facility (LOC). It is recommended that the outstanding balance on the

LOC of approximately $60 million be refinanced, on a long term fixed rate basis, by the issuance of the proposed 2016A Electric Revenue /Refunding Bonds. The LOC which was approved by the City Council in 2014 provided the Electric System a low cost way of funding the remaining cost of the GT5 Repowering project during its construction period as well as other electric distribution system capital improvements projects and saved ratepayers approximately $3.4 million.

Additional New Funding

Staff is also recommending the borrowing of an additional $30 million through this financing transaction to fund certain projects related to the Distribution System. The proceeds of the 2016A Bonds are expected to be used to finance a portion of the adopted FY 2017 CIP. The major objectives of the Capital Improvement Program during the five-year period are focused on improving system infrastructure, system capacity, and reliability. Projects will focus on upgrades to distribution components as well as major facilities: switchgear, cable, overcurrent protection devices, substations and dispatch sites. Expansion of the electric distribution system from 17 kV to 34 kV, and cable rejuvenation programs will ensure adequate service for new customers; construction of electrical systems undergrounding and planning for sub-transmission system enhancements will mitigate risk and ensure dependability in service.

In addition to strategic infrastructure improvements to increase system capacity and reliability, key capital improvement projects include installation of fiber optic connections to key substations to expand automation projects such as meter data management and communication systems, security of major components and enhancement of the time-of-use metering subsystems. Proceeds from the revenue bonds will also fund a new project (as approved by the City Council) for sub-transmission system enhancements. This project provides for a study and subsequent construction of a new interconnection between two receiving stations and a major substation. The new installation will offer alternate routes for bulk power delivery and afford opportunities to de-energize aged portions of the system for needed repair and replacement. This project will also consider the impacts of distributed generation on the requirements for enhancements to the sub-transmission and distribution systems. PWP's capital improvement plan is financed with a combination of pay-go revenues from current rates and long-term financing from revenue bonds.

PWP's long-term practice is to fund capital projects with approximately 30-35% current revenues with the balance from long-term bonds. This practice is reflective of industry best-practices and is consistent with the concept of ensuring that investment in long-term assets is shared appropriately by both current and future customers. The funding provided by the recommended financing for Electric System capital projects is consistent with this practice.

Refunding the 2008 Series for Economic Benefits

The third objective of the 2016A Electric Revenue Refunding bonds is to take advantage of the current low interest rates and refund all or a portion of the 2008 Series. In today's interest rate environment, there is the potential to refund $47,130,000 of the outstanding 2008 Bonds with the expectation to lower the debt service payments resulting in aggregate net present value savings. The 2008 Bonds were originally issued to acquire and fund construction of the distribution system, modernize a warehouse facility, and construct and improve a field operations building at the City yard. The outstanding 2008 Bonds bear interest at rates ranging from 4% to 5%, and the yield for the refunding portion of the 2016A Bonds is approximately 2.75%, based on current market conditions. The anticipated net present value savings from the potential refunding is approximately $6.5 million (or 13.7% of the refunded par). The inclusion of the refunding will depend on market conditions at the time of pricing. 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 2008 Bonds is sensitive to the movements in interest rates. If interest rates increase by 0.25 percent, the present value savings on the refunding drops from $6.5 million to $5.5 million and if rates decrease by 0.25%, the present value savings increases to $7.5 million.

The resolution and ordinance authorize the issuance of and approve the various documents in connection with the issuance of the Electric Revenue/Refunding Bonds, 2016A Series, with a principal amount not to exceed $140 million and at a true interest cost not to exceed 5.00 percent. The resolution also appoints Norton Rose Fulbright US LLP as bond counsel and Public Resources Advisory Group as Financial Advisor.

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

COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

The 2016A Bonds will be sold on a competitive basis with a maximum term of 30 years and will bear fixed interest rates. It is estimated that the bonds will have an average life of 16.7 years with final maturity in fiscal year 2046. The All-in true interest cost is estimated at 3.06 percent based on current market rates, which is subject to change until the actual bidding is complete on the scheduled October 31st, 2016 date. The refunding of the 2008 Electric Bonds is estimated to generate $6.5 million of net present value savings or 13.7% of the existing principal amount of the refunded bonds, based on current market conditions. Debt service payments will be made from the Light and Power Fund and will be addressed by utilization of existing budgeted appropriations in Account #45004270-867700. Funds for the debt service payments are available from currently approved electric rates.

Respectfully submitted,

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Attachments: Preliminary Official Statement and Appendix A