

Agenda Report

January 23, 2017

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Finance Department

SUBJECT ADOPTION OF A RESOLUTION AND THE FIRST READING OF AN ORDINANCE AUTHORIZING THE INVITATION OF BIDS FOR THE PURCHASE OF WATER REVENUE REFUNDING BONDS, 2017A SERIES OF SAID CITY, APPROVING A NOTICE OF INTENTION TO SELL BONDS, A PRELIMINARY OFFICIAL STATEMENT, AND 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 \$17,370,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA WATER REVENUE REFUNDING BONDS, 2017A SERIES, PAYABLE OUT OF THE WATER FUND, APPROVING THE EXECUTION AND DELIVERY OF A FIFTH SUPPLEMENT TO WATER REVENUE BOND INDENTURE, 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 subject to the 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 this report,
- 2 Adopt a resolution authorizing the invitation of bids for the purchase of water revenue refunding bonds, 2017A series of said city, approving a notice of intention to sell bonds, a preliminary official statement, and 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 \$17,370,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA WATER REVENUE REFUNDING BONDS, 2017A SERIES, PAYABLE OUT OF THE WATER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF A FIFTH SUPPLEMENT TO WATER REVENUE BOND INDENTURE, AN ESCROW AGREEMENT AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH.”**

BACKGROUND:

In 2007, the City issued its Water Revenue Bonds, 2007 Series to finance the continued implementation of the Master Plan and the costs of construction and improvements to the Water System. In developing the funding requirements for the Master Plan Capital Improvement Program, staff utilized the cost of service study and conducted an analysis to determine a financial structure that supports the needed capital investments and minimizes the rate impacts on water customers.

The proposed action is a pure refinancing of the outstanding 2007 bonds. It does not contemplate any new borrowing nor does it extend the term on the bonds. Currently the Water Fund pays an average rate of 4.46% on the outstanding 2007 bonds. At today's market rates, as of December 30, 2016, the City could refund these bonds at a true interest cost of 3.26% and realize a net present value savings of \$1.53 million, however, the competitive bidding of the proposed refunding bonds is not scheduled until March 2017. Given the recent sharp increase in interest rates and the market's anticipation for possible higher rates in 2017, there is no guarantee that the same economic savings from the refunding could be achieved in March 2017 when the competitive bidding occurs, therefore, it is staff's recommendation to proceed with the refunding and the competitive sale of the 2017 Water Revenue Refunding Bonds as long as the City anticipates a net present value savings of a minimum \$1 million or 5.75% of the refunded bonds.

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.

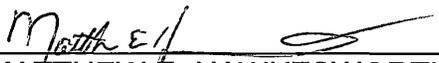
COUNCIL POLICY CONSIDERATION:

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

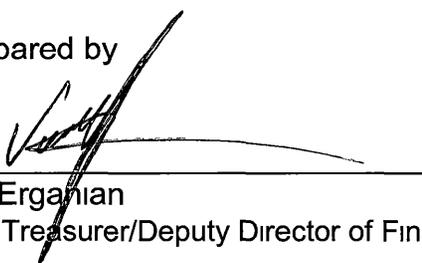
FISCAL IMPACT:

The 2017 Water Revenue Refunding Bonds will be sold on a competitive basis with a maximum term of 20 years and will bear fixed interest rates. It is estimated that the bonds will have an average life of 11 years with final maturity in fiscal year 2036. The refunding will not extend the term on the bonds and debt service savings are expected in every year. The True Interest Cost is currently estimated at 3.26% based on current market rates, which is subject to change until the actual bidding is complete on the scheduled March 13, 2017 date. Due to the high recent volatility in interest rates, it is staff's recommendation to proceed with the refunding and the competitive sale of the bonds only if the transaction is expected to generate a minimum of \$1 million of net present value savings or 5.75% of the existing principal amount of the refunded bonds. Debt service payments will be made from the Water Fund and will be addressed by utilization of existing budgeted appropriations in Account #42008300-8967700. Funds for the debt service payments are available from currently approved water rates.

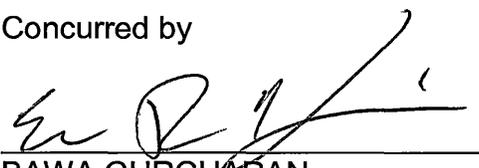
Respectfully submitted,


MATTHEW E HAWKESWORTH
Director of Finance
Department of Finance

Prepared by


Vic Erganian
City Treasurer/Deputy Director of Finance

Concurred by


BAWA GURCHARAN
Interim General Manager
Water & Power Department

Approved by


STEVE MERMELL
City Manager

- Attachments (2)
1) Preliminary Official Statement
2) Appendix A