

Agenda Report

February 26, 2018

TO: Honorable Mayor and City Council
Pasadena Public Financing Authority

THROUGH: Finance Committee

FROM: Director of Finance/PPFA Treasurer

SUBJECT: **JOINT ACTION: RENEWAL OF BANK OF AMERICA LETTER OF CREDIT RELATED TO THE VARIABLE RATE DEMAND REFUNDING CERTIFICATES OF PARTICIPATION, Series 2008A (Conference Center Project)**

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) Approve the renewal of the existing Bank of America Letter of Credit related to the City's Variable Rate Demand Refunding Certificates of Participation, Series 2008A (COPs) at a 0.34% annual fee for a term of three years; and
- 3) Approve a resolution of the City Council of the City of Pasadena approving the form of and authorizing the execution and delivery of a Fourth Amendment to Reimbursement Agreement; and authorizing the execution and delivery of other related documents and approval of other documents and actions in connection therewith.

It is recommended that the Public Financing Authority:

- 1) Approve the renewal of the existing Bank of America Letter of Credit related to the City's Variable Rate Demand Refunding Certificates of Participation, Series 2008A (COPs) at a 0.34% annual fee for a term of three years; and
- 2) Approve a resolution of the Board of Directors of the Pasadena Public Financing Authority approving the form of and authorizing the execution and delivery of a Fourth Amendment to Reimbursement Agreement; and authorizing the execution and delivery of other related documents and approval of other documents and actions in connection therewith.

BACKGROUND:

In 2006, the City sold \$162.64 million in Certificates of Participation (COPs) to finance the expansion of the Pasadena Conference Center. The COPs were issued with an AAA municipal bond insurance policy and were issued in two tranches:

Series A: \$28 million Capital Appreciation Bonds (CABs); these are zero coupon bonds that effectively have a fixed interest rate.

Series B: \$135.5 million Auction Rate Certificates; these certificates carried a variable interest rate reset every seven days.

The City simultaneously entered into a swap agreement with Depfa Bank when it issued the Series 2006B COPs. The swap requires the City to pay (Depfa) a fixed rate equal to 3.536% and in return the City receives a variable rate equal to 64% of London Interbank Offered Rate (LIBOR index), which effectively created a "synthetic fixed rate" of 3.536%. This synthetic rate structure has provided the City the least cost financing rate and enabled the project financing to meet its objectives.

As a result of the failure of the auction rate market in early 2008, the City's auction rate certificates were no longer generating the expected low financing cost, and the City was paying excessive interest rates on its securities. In April 2008, the City refunded its 2006B Auction Rate Securities by issuing its 2008A Variable Rate Demand Refunding Certificates of Participation. Variable rate demand bonds (VRDBs) are long-term bonds that carry a short-term interest rate that is reset every seven days. VRDBs, unlike auction rate bonds, have a seven day put feature and are backed by a liquidity facility and/or bank letter of credit (LOC). The current LOC from Bank of America expires on March 15, 2018. The

existing letter of credit needs to be extended in order for the bonds to be remarketed.

Staff, along with Urban Futures, the City's financial advisor, solicited numerous banks including regional, national and Wall Street banks and obtained indicative pricings ranging from 0.30% to 0.75% annual fee for the letter of credit. Finance staff also reviewed other options including the refunding of the VRDBs with Floating Rate Indexed Notes, the direct purchase of the bonds by banks, and the termination of the interest rate swap and refunding of the bonds at current fixed rates. The latter option is uneconomical and very costly in the current interest rate environment. After careful analysis of the cost involved in each option, staff recommends proceeding with the extension of Bank of America LOC for a term of three years at the same current annual fee of 0.34%.

There's always the systematic risk which is the risk that could affect the entire financial market or the banking sector and impact future pricing of liquidity facilities. There is also specific risk related to Bank of America. Any future downgrade of the bank's short term rating from the current A1P1 (first tier rating), although perceived as a low probability, could necessitate the reissuance of the bonds and replacement of the letter of credit with another financial institution at higher fees.

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.

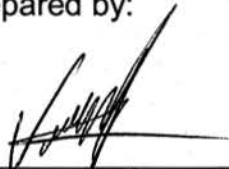
FISCAL IMPACT:

The cost of this action will be \$38,165 per month in letter of credit fees or \$457,980 annually. There are no points, fees or other charges by the bank to extend the liquidity facility for three years. There is an estimated \$12,500 legal fee to bank counsel and bond counsel, and \$7,500 to the City's municipal advisor related to the review and documentation of a new letter of credit and/or any amendments to the existing Reimbursement Agreement. There is no requirement for change in the appropriation for fiscal year 2018. Funding for this action will be addressed by the utilization of existing budgeted appropriation in PCOC operating budget account 690-952300.

Respectfully submitted,


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