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FINANCE DEPARTMENT

Actions Related to the City's Variable Rate Obligations Series 2008A Conference Center Bonds and Series 2000 Paseo Colorado Bonds

Presented by:

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City Council – Item 19

Background

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- In 2006, the City issued $162.64 million bonds to finance the expansion of PCOC. Of those, $134 Million were Variable Rate Demand Bonds (VRDBs).
- IN 2000, the City issued $28 million VRDBs to finance the Paseo garages.
- VRDBs are long-term bonds that carry a short-term interest rate that is reset every seven days and carry a seven-day “put” feature.
- VRDBs are backed by a liquidity facility.

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Background

- COVID-19 crisis caused severe turbulence in the financial markets – Stocks and Bonds
- Fear of a prolonged economic downturn caused a liquidity crisis.
- Lack of demand for VRDBs – Investors fleeing to cash.
- Rates significantly rose on short-term VRDBs.
- The spike in rates increases the amount of monthly debt service payments on the City's VRDBs.
- The City is exposed to $134.7 million of VRDBs (PCOC) and $22.7 million VRDBs (Paseo Colorado).
- Continued liquidity crisis could potentially cause remarketing failures of the VRDBs and further increase in cost.

Fiscal Impact

- At current interest rates, the projected increase in the debt service amount is estimated at:
  - $535,000 per month to PCOC
  - $88,000 per month to the Parking Fund
- These are estimates based on this week's reset rates and could go higher or lower depending on the liquidity in the market.
- The senate bill introduced would allow the Federal Reserve to purchase municipal debt in an effort to ease the economic strain of the coronavirus pandemic on state and local governments.

Recommendation

1. Find that proposed action is exempt from CEQA requirements;
2. Authorize the City Manager and the Director of Finance to execute any technical amendments to the bond indentures to permit the City to purchase and hold for investments purposes any tender obligation which cannot be remarketed;
3. Authorize an amendment to the City's investment policy to permit the purchase of any such tender obligations issued by the City or any other agency even if such obligations have a stated maturity exceeding five years.