Agenda Report

TO: City Council
ATTN: Finance Committee

DATE: JULY 20, 1998

FROM: Cynthia J. Kurtz, Acting City Manager

SUBJECT: RECOMMENDATION TO REFUND ALL OUTSTANDING ELECTRIC REVENUE BONDS AND TO ISSUE ADDITIONAL BONDS IN THE AMOUNT $15 MILLION

RECOMMENDATION

It is recommended that the City Council approve:

1. A resolution authorizing the invitation of bids for the purchase of the bonds; approving a Notice of Intention to Sell Bonds, a Preliminary Official Statement, a Notice Inviting Bids and Official Form of Proposal; and authorizing the publication of the Notice of Intention to Sell Bonds; and
2. an Ordinance authorizing the issuance by the City of electric revenue bonds payable from the Light and Power Fund, providing the terms and conditions for the issuance of the bonds and approving the various Escrow Agreements and the Continuing Disclosure Agreement for the 1998 bonds.

BACKGROUND

As part of the ongoing process to explore various cost reduction strategies and to provide opportunities to adequately fund the Electric Utility's Reserve for Stranded Investment, staff have examined numerous debt restructuring options in order to both reduce annual debt service costs and to free up working capital which could be placed into the Reserve.

Under the proposed restructuring of the 1990 Electric Revenue Bonds (1990 Bonds) and the issuance of new bonds to cover the 1998 and 1999 capital improvement needs of the Utility, staff will be able to reduce the interest rate paid on the current 1990 Bonds, extend the maturity on these Bonds in order to further reduce the annual debt service costs through the year 2011 (a total savings of over $1 million per year) and issue additional debt, structured in a way as to not cause the annual debt service of the Electric Utility to ever rise above the current annual debt service level. Even with $15 million in additional debt, the debt can be structured in a way that the Utility will still save approximately $500,000 annually through the year 2011. After that time, the

Utility will incur debt expenses higher than it would if the restructuring and new money issue had not been done; however, will still be significantly below the $7.5 million currently incurred annually.

The Deregulation Committee and the City Council have previously approved this concept.

DISCUSSION

While preparing the bond documents for the refunding and new money issue and reviewing the bond indentures for the remaining three bond issues (the 1992 Bonds, 1993 Bonds and 1994 Bonds), it became apparent that it would be in the City's best interest to refund all of the outstanding bonds and to create a new master bond indenture. When these Bonds were originally issued and the bond documents written, deregulation was not contemplated. As such, when the bond coverage requirement test is calculated each year, it compares new annual revenues to annual debt service in order to determine whether rates have been set high enough to provide adequate coverage. Beginning in fiscal year 2003, the City intends to sell its energy at market and take the shortfall in revenues (difference between the cost of the energy and the sale of the energy) from the Reserve for Stranded Investment. Since any withdrawal from the Reserve is not considered revenues under the current bond documents, the City will be in technical default on its Electric Revenue Bonds. Under the new indentures, funds withdrawn from the Reserve for Stranded Investment will be counted towards the coverage requirements.

Interest rates have also dropped significantly since staff first began exploring the refunding concept. Because of this, there will now be further economic savings realized by the Utility by completing this total refunding.

Finally, there is significant pressure being placed on the Utility to provide some rate relief to its largest customers. Staff has been exploring options to generate revenues or savings above those incorporated into the Financial Plan that could be used to provide rate relief to its largest customers before July 1, 2002. By refunding all of its outstanding electric revenue bonds, the City will also be able to restructure the debt payments to further reduce the annual debt service in the early years of deregulation. It is estimated that this will produce an additional $500,000 to $700,000 annually. These savings will provide a portion of the desired rate relief for the Utility's larger customers.

SUMMARY OF OUTSTANDING/NEW MONEY PRINCIPAL

Refunding Bonds	
- 1990 Bonds	$15,960,000
- 1992 Bonds	30,820,000
- 1993 Bonds	10,905,000
- 1994 Bonds	2,865,000
New Money Bonds	
- 1998 Bonds	15,000,000
TOTAL	$75,550,000

FISCAL IMPACT

Under this proposal, overall debt structure of the refunded bonds and the new money bonds will still result in lower annual debt service. In addition, the new money issue will free up a like dollar amount within the Light and Power Fund which will be transferred into the Reserve for Stranded Investments. This structure has been factored into the financial plan.

Respectfully submitted,

CYNTHIA J. KURTZ
Acting City Manager

Approved by:

JAY M. GOLDSTONE
Director of Finance

Ordinance Fact Sheet

TO: City Council **DATE:** JULY 20, 1998

ATTENTION: Finance Committee

FROM: Cynthia J. Kurtz, Acting City Manager

SUBJECT: An Ordinance of the City of Pasadena authorizing the issuance by the City of not to exceed $90,000,000 aggregate principal amount of City of Pasadena Electric Revenue/Refunding Bonds, 1998 Series, payable out of the Light and Power Fund, and approving the execution and delivery of an Electric Revenue Bond Fiscal Agent Agreement, a First Supplement to Electric Revenue Bond Fiscal Agent Agreement, various escrow agreements and a continuing disclosure agreement in connection therewith.

TITLE OF PROPOSED ORDINANCE:

An Ordinance of the City of Pasadena authorizing the issuance by the City of not to exceed $90,000,000 aggregate principal amount of City of Pasadena Electric Revenue/Refunding Bonds, 1998 Series, payable out of the Light and Power Fund, and approving the execution and delivery of an Electric Revenue Bond Fiscal Agent Agreement, a First Supplement to Electric Revenue Bond Fiscal Agent Agreement, various escrow agreements and a continuing disclosure agreement.

PURPOSE OF THE ORDINANCE:

The proposed ordinance authorizes the City of Pasadena to issue refunding and new money bonds solely supported by revenues in the Light and Power Fund. This ordinance will permit staff to issue the electric revenue bonds in an amount not to exceed $90 million and carry an interest rate greater than 6% and will permit staff to execute the appropriate documents to consummate the sale.

REASON FOR PROPOSED BOND SALE:

As part the ongoing process to explore various cost reduction strategies and to provide opportunities to adequately fund the Electric Utility's Reserve for Stranded Investment, staff examined numerous debt restructuring options in order to both reduce annual debt service costs and to free up working capital which could be placed into the Reserve.

MEETING OF 7/20/98

AGENDA ITEM NO. 5.C.1.

Under the proposed restructuring of the 1990 Electric Revenue Bonds (1990 Bonds) and the issuance of new bonds to cover the 1998 and 1999 capital improvement needs of the Utility, staff will be able reduce the interest rate paid on the current 1990 Bonds, extend the maturity on these Bonds in order to further reduce the annual debt service costs through the year 2011 (a total savings of over $1 million per year and issue additional debt, structured in a way as to not cause the annual debt service of the Electric Utility to ever rise above the current annual debt service level. Even with $15 million in additional debt, the debt can be structured in a way that the Utility will still save approximately $500,000 annually through the year 2011. After that time, the Utility will incur debt expenses hirer than it would if the restructuring and new money issue had not been done: however, will still be significantly below the $7.5 million currently incurred annually.

PROGRAMS, DEPARTMENTS OR GROUPS AFFECTED:

The authorization to issue the recommended bonds impacts the Light and Power Fund.

FISCAL IMPLICATIONS:

Under this proposal, overall debt structure of the refunded bonds and the new money bonds will still result in lower annual debt service. In addition, the new money issue will free up a like dollar amount within the Light and Power Fund which will be transferred into the Reserve for Stranded Investments. This structure has been factored into the financial plan.

Respectfully submitted,

for CYNTHIA J. KURTZ
Acting City Manager

Approved by:

JAY M. GOLDSTONE
Director of Finance