

Agenda Report

JULY 19, 2004

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBJECT: RESOLUTION OF THE CITY COUNCIL AUTHORIZING THE ISSUANCE OF ONE OR MORE CITY OF PASADENA PENSION OBLIGATION DEBENTURES IN AN AMOUNT NOT TO EXCEED \$41,000,000 AND THE ISSUANCE OF ONE OR MORE CITY OF PASADENA PENSION OBLIGATION BONDS, APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A FIRST SUPPLEMENTAL TRUST AGREEMENT, A BOND PURCHASE AGREEMENT, AND AUTHORIZING OTHER MATTERS RELATING THERETO

RECOMMENDATION

It is recommended that the City Council adopt a Resolution authorizing the issuance of one or more City of Pasadena Pension Obligation Debentures in an amount not to exceed \$41,000,000 and the issuance of one or more City of Pasadena Pension Obligation Bonds, approving the form of and authorizing the execution and delivery of a First Supplemental Trust Agreement, a Bond Purchase Agreement, and other related matters.

BACKGROUND

The City Charter established the Fire and Police Retirement System and prescribed certain benefits to police and fire employees who are members of the System. In 1977, the Charter was amended and the FPRS was closed to all new members. New public safety employees of the Police and Fire Departments were then covered under the State's Public Employee Retirement System. In 1977, the Charter was also amended to provide for a cost-of-living adjustment (COLA) for FPRS beneficiaries comparable to changes in the regional consumer price index.

Due to the uncapped COLA provision, System costs grew at a faster pace than the annual City's contribution and in 1991, the City and the System entered into a Contribution Agreement which called for the City to make annual supplemental financial contributions to the FPRS. These contributions included the annual net proceeds of tax increment received by the City from the Downtown Redevelopment Project Area and an annual fixed amount from the City's General Fund, beginning with \$3,118,343 and growing to \$4,786,458. Payments from the Downtown tax increment will cease in 2014, while the General Fund contributions are scheduled to be reduced by \$3 million per year in 2024.

On March 15, 1999 the City Council approved a new Contribution Agreement. This Agreement was also approved by the FPRS Board on March 18, 1999. Among other things, the Contribution Agreement calls for the City to issue Pension Obligation Bonds. The net proceeds of \$100 million were paid to the System by the City. In exchange for this, the FPRS conditionally assigned to the City all cashflow specified under the previous contribution agreement. This cashflow has been used to cover the City's Pension Obligation Bond debt service.

DISCUSSION

Subsequent to the issuance of the first Pension Obligation Bonds, market conditions changed dramatically and there were three consecutive years of market decline. As with all Systems, FPRS experienced losses to the market value of its assets and decided to modify the methodology used to calculate the City's Supplemental Contributions called for in the 1999 Contribution Agreement. The modification was the imposition of "corridors" when calculating the market related value of the assets. The City disagreed with this change and discussions and ultimately negotiations ensued between the FPRS and City.

An agreement was reached between the parties that among other things, calls for FPRS to discontinue the use of corridors and for the City to provide an infusion of cash into the System to improve the funding of the Plan.

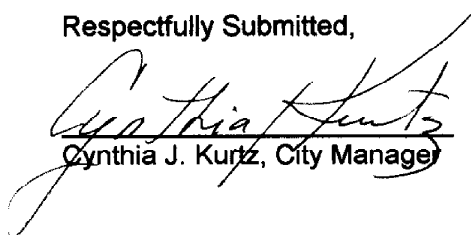
The action before the City Council will authorize the City to proceed with a second Pension Obligation Bond in an amount not to exceed \$41.0 million, with net proceeds of \$40 million being transferred to the System in three installments of \$15 million, \$15 million and \$10 million no later than August 31, 2004, November 1, 2004 and January 2, 2005, respectively.

The transaction will actually be a private placement with DEPFA Bank and the interest rate will float at LIBOR plus 24 basis points. The Bonds will have a maturity of May 2015, coinciding with the expiration of the Downtown Project Area which is December 31, 2014.

FISCAL IMPACT

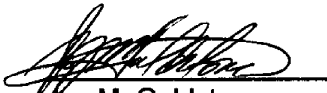
It is projected that the annual debt service on the bonds will be approximately \$2.5 million annually, with a balloon payment of nearly \$15 million due and payable in May 2015. It is projected that the debt service on these bonds will be solely from the tax increment from the Downtown Redevelopment Project Area.

Respectfully Submitted,



Cynthia J. Kurtz, City Manager

Approved:



Ray M. Goldstone
Director of Finance