

# Agenda Report

DATE: MARCH 22, 2004

TO: City Council  
THROUGH: Finance Committee

FROM: Cynthia J. Kurtz, City Manager

SUBJECT: APPROVAL OF A RESOLUTION AUTHORIZING THE EXECUTION AND DELIVERY OF REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2004A AND SERIES 2004B, APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A FIRST SUPPLEMENTAL TRUST AGREEMENT, A SUPPLEMENT NO. 1 TO LEASE, A SUPPLEMENT NO. 1 TO SUBLEASE, A PURCHASE AGREEMENT, ESCROW AGREEMENTS, A CONTINUING DISCLOSURE AGREEMENT, AN AUCTION AGENCY AGREEMENT AND OTHER RELATED DOCUMENTS, AUTHORIZING THE DISTRIBUTION OF AN OFFICIAL STATEMENT AND APPROVING OTHER RELATED ACTIONS IN CONNECTION THEREWITH IN AN AMOUNT NOT TO EXCEED \$41.5 MILLION

## RECOMMENDATION

It is recommended that the City Council adopt a Resolution authorizing the execution and delivery of refunding Certificates of Participation, Series 2004A and Series 2004B, a first supplemental Trust Agreement, a supplement no. 1 to Lease, a supplement no. 1 to Sublease, a Purchase Agreement, Escrow Agreements, a Continuing Disclosure Agreement, an Auction Agency Agreement and other related documents, authorizing the distribution of an Official Statement and approving other related actions in connection therewith in an amount not to exceed \$41.5 million.

## BACKGROUND

In 1993, the City issued \$79,835,000 in COPs. A portion of the proceeds (\$29.1 million) was used to advance refund a 1989 COP issues, while a portion of the proceeds (\$41.9 million) was used to advance refund a 1990 COP issue. The balance of the proceeds was split between the cost of issuance, the funding of the required reserve and new money (\$5 million) for some additional projects. The \$5 million was allocated between improvements and renovations to the Pasadena Community Health

Center (\$4.7 million) and improvements to the headquarters of the Western Justice Center (\$700,000).

In addition, in 1996, the City issued \$14.68 million in COPs for various capital projects including, Old Pasadena Streetscapes and Alley Walkways, Raymond/Grove Mixed Use Project, Fair Grove Shopping Center, Repayment to the Housing Trust Fund, Lake Washington Redevelopment Project/North Lake Plaza Revitalization Loan, Villa Parke Center, Arroyo Parkway Storm Drain Improvements, and Delacey Parking Structure Seismic Upgrade.

## **DISCUSSION**

Staff is now recommending that a portion of the 1993 COPs and all of the remaining 1996 COPs be refunded with 2004 COPs due to the City's ability to save money. The reason the entire 1993 COPs are not being refunded is because a portion of those COPs are non-callable. In total, approximately \$30 million of the remaining 1993 COPs will be refunded, while the remaining \$10 million of the 1996 COPs will be refunded.

Several structural options were considered; however, in order to produce the highest savings for the City, staff is recommending that the bonds be in a variable rate mode and structured as Auction Rate Certificates (ARCs).

Over the years, Pasadena has periodically accessed the municipal market for variable rate municipal obligations. Historically, the City has utilized variable rate demand obligations (VRDOs) for this purpose, and several variable rate COPs utilizing this structure currently are outstanding. An essential element of VRDOs is that the investor has the ability to tender its holdings back to the issuer at any time. Accordingly, VRDOs require some form of external or internal liquidity facility – typically in the form of a bank line or letter of credit. These facilities must be renewed periodically, which entails ongoing administration as well as uncertainty as to future availability and pricing.

Auction Rate Certificates (ARCs) were developed in the early 1990s as an alternative structure by which municipal issuers could access variable rate debt. The principal difference between these two products is that unlike VRDOs, auction rate products are long-term instruments that offer investors liquidity only through the auction process. While a variety of auction periods have been created, the most common for the tax-exempt market has been a 35-day auction cycle. More recently, a 7-day auction product has been introduced to the municipal market and the buyer base for this product is almost exclusively retail.

Mechanically, investors place orders at interest rates where they are willing to own the ARCs. An independent auction agent then ranks the bids from the lowest to the highest interest rates. The lowest interest rate at which all of the ARCs can be sold at par is established as the rate for the next remarketing period and the investors who bid the lower rates receive the bonds.

Needless to say, this structure, as with any variable rate structure presents the City with interest rate risks. Staff believes that the amount of risk and the exposure to the City is

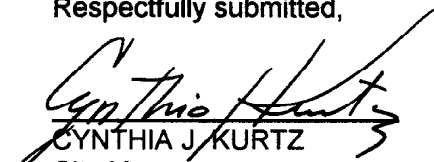
acceptable given the magnitude of the projected savings and how interest rates have performed over the past 20 to 30 years.

Related Pasadena Public Financing Authority items are also on tonight's agenda for approval.

**FISCAL IMPACT**

The proposed refunding will result in lower interest rates and a present value savings of approximately \$2.7 million, with final maturity on the refunded portion of the 1993 and the 1996 COPs being in fiscal year 2019.

Respectfully submitted,

  
CYNTHIA J. KURTZ  
City Manager

Approved by:

  
JAY M. GOLDSTONE  
Director of Finance