

Agenda Report

TO: City Council **DATE:** August 14, 2006

THROUGH: Finance Committee

FROM: City Manager

SUBJECT: RESOLUTION APPROVING THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$165,000,000 AGGREGATE PRINCIPAL AMOUNT OF CERTIFICATES OF PARTICIPATION (CONFERENCE CENTER PROJECT), SERIES 2006A AND SERIES 2006B, APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A SECOND SUPPLEMENTAL TRUST AGREEMENT, A SUPPLEMENTAL NO.2 TO LEASE, A SUPPLEMENTAL NO. 2 TO SUBLEASE, PURCHASE AGREEMENTS, A CONTINUING DISCLOSURE AGREEMENT, AN AUCTION AGENCY AGREEMENT, AN INTEREST RATE SWAP AGREEMENT AND OTHER RELATED DOCUMENTS, AUTHORIZING THE DISTRIBUTION OF OFFICIAL STATEMENTS AND APPROVING OTHER RELATED ACTIONS IN CONNECTION THEREWITH.

RECOMMENDATION

It is recommended that the City Council adopt a Resolution approving the execution and delivery of a not to exceed \$165,000,000 aggregate principal amount of Certificates of Participation (Conference Center Project), Series 2006A and Series 2006B, approving the form of and authorizing the execution and delivery of a second supplemental trust agreement, a supplemental No. 2 to lease, a supplemental No.2 to sublease, purchase agreements, a continuing disclosure agreement, an auction agency agreement, an interest rate swap agreement and other related documents, authorizing the distribution of one or more official statements and approving other related actions in connection therewith.

BACKGROUND

On July 17, 2006, the City Council approved the Pasadena Conference Center expansion project and the financing plan and directed staff to take the necessary actions and proceed with the documentation related to the issuance of the financing of the project.

Project Outline

The planned expansion includes a 60,000 sq. ft. exhibit hall divisible into two sections and a 25,000 sq. ft. ballroom divisible into eight sections at street level on the west side of the Civic Auditorium. The spaces are adjacent to each other and can be combined to create a single space of 85,000 sq. ft. The exhibit hall and ballroom are wrapped by pre-function and lobby area in order to accommodate registration and other necessary services. The exhibit hall and ballroom will be supported by a new subterranean loading/parking area that includes seven dock slips and space for the largest trucks to maneuver. A new 7,500 sq. ft. kitchen will also be constructed on the lower level. The loading and kitchen area will be connected to the exhibit hall and ballroom by five service elevators. The existing conference building on the east side of the Civic Auditorium will be retained and a suite of administrative offices will be added to the building along the Green St. and Euclid Ave. frontage. The exterior design, which was developed through an inclusive community based process, is historically referenced and is complimentary to the existing Civic Auditorium by using similar materials and colors. The plaza area in front of the Civic Auditorium will be restored to its original 1931 configuration and will be flanked by prominent entry lobbies to the exhibit hall/ballroom building on the west and the conference building on the east. One level of parking added to the east side of the project south of the conference building, by using the existing plaza level slab.

The Financing

Staff proposes to finance the project through issuance of Certificates of Participation (COPs). It is estimated that the issue size will be approximately \$163.5 million. Rather than issuing conventional fixed rate COPs, the City will issue Capital Appreciation Bonds for \$28 million and create a "synthetic" fixed rate obligation for the remaining \$135.5 million of the bond issue by issuing variable rate COPs and then entering into a SWAP transaction. The swap will have the net effect of converting the City's variable rate debt service obligation to a fixed rate debt obligation at an interest rate that is more favorable than if the City had issued traditional fixed rate debt from the outset. While the savings from

the SWAP cannot be projected with complete accuracy, in today's market, the City can expect to lower its borrowing cost by 50 basis points (0.5%) or more by structuring synthetic fixed rate debt compared to issuing traditional fixed rate bonds.

The floating-to-fix rate swap agreement can be negotiated with a single provider (usually the underwriter of the associated variable rate bonds) or the swap can be competitively bid to a broader group of potential counterparties. The proposed plan of finance for the Pasadena Conference Center expansion project calls for the competitive bidding of the swap. On July 31, 2006, the City Council adopted a Resolution authorizing the entry into an interest rate swap transaction related to the Conference Center financing.

On August 4, 2006, the City entered into the Swap with Depfa Bank plc (the "Counterparty") and locked in the fixed interest rate on the COPs. The Swap was entered into in anticipation of the execution and delivery of the City of Pasadena COPs Series 2006B on September 7, 2006. Under the Swap, the City will make payments to the Counterparty based on application of a fixed rate of 3.536% and the Counterparty will make payments to the City based on 64% of LIBOR index. The Swap is to be effective on September 18, 2006, and will terminate on February 1, 2034.

The City Council is currently being asked to approve the bond documents to complete the financing.

FISCAL IMPACT

The total amount of the Certificates of Participation will be approximately \$163.5 million. The COPs will be issued in two series. The 2006A Series will be approximately \$28 million and will be sold as Capital Appreciation Certificates. The 2006B Series will be approximately \$135.5 million and will be sold as Auction Rate Certificates. It is estimated that the proceeds of the bonds will be used in the following manner:

Deposit to project Construction Fund	\$135,865,028
Deposit to Capitalized Interest Fund	11,421,352
Deposit to Debt Service Reserve Fund	13,608,801
Bond Insurance premium	1,371,767
Underwriter's Discount and Fees	854,212
Cost of Issuance	<u>375,000</u>
Total	163,496,160

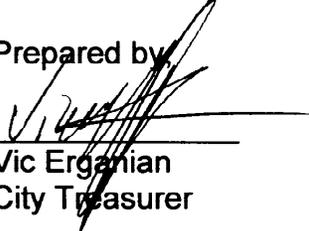
It is estimated that in today's interest rate environment, the True Interest Cost of the financing will be approximately 4.06%. The annual debt service on the COPs is estimated at \$5.4 million in year 2010 and will gradually increase to \$16 million

in year 2035. The debt service is structured so that the projected net operating income of the Conference Center provides at all times a debt service coverage ratio of 120%.

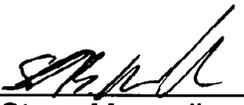
Respectfully submitted,


CYNTHIA J. KURTZ
City Manager

Prepared by


Vic Erganian
City Treasurer

Approved by,


Steve Mermell
Acting Director of Finance

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA APPROVING THE EXECUTION AND DELIVERY OF NOT TO EXCEED \$165,000,000 AGGREGATE INITIAL PRINCIPAL AMOUNT OF CERTIFICATES OF PARTICIPATION (CONFERENCE CENTER PROJECT), SERIES 2006A AND SERIES 2006B, APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A SECOND SUPPLEMENTAL TRUST AGREEMENT, A SUPPLEMENT NO.2 TO LEASE, A SUPPLEMENT NO.2 TO SUBLEASE, PURCHASE AGREEMENTS, A CONTINUING DISCLOSURE AGREEMENT, AN AUCTION AGENCY AGREEMENT, A BROKER-DEALER AGREEMENT AND OTHER RELATED DOCUMENTS, AUTHORIZING THE DISTRIBUTION OF ONE OR MORE OFFICIAL STATEMENTS AND APPROVING OTHER RELATED ACTIONS IN CONNECTION THEREWITH

WHEREAS, in 1993, the City of Pasadena (the "City") financed and refinanced the acquisition and construction of certain public facilities and capital improvements through the sale and delivery of City of Pasadena 1993 Certificates of Participation (Refunding and Capital Projects) (the "1993 Certificates"), executed and delivered pursuant to a Trust Agreement, dated as of January 1, 1994 (the "1993 Trust Agreement"), by and among The Bank of New York Trust Company, N.A., as successor trustee (the "Trustee"), the Pasadena Civic Improvement Corporation (the "Corporation"), the obligations of which have been assumed by the Pasadena Public Financing Authority (the "Authority") as described below, and the City;

WHEREAS, the City leased certain real property, and the improvements thereto (the "1993 Property") to the Corporation pursuant to an Amended and Restated Lease, dated as of January 1, 1994 (the "1993 Lease"), and the City subleased the 1993 Property back from the Corporation pursuant to an Amended and Restated Sublease, dated as of January 1, 1994 (the "1993 Sublease");

WHEREAS, all rights to receive base rental payments payable by the City under the 1993 Sublease were assigned without recourse by the Corporation to the Trustee, pursuant to an Assignment Agreement, dated as of January 1, 1994 (the "1993 Assignment Agreement");

WHEREAS, in 1996, the City financed the acquisition and construction of certain public facilities and capital improvements (the "1996 Project") through the sale and delivery of City of Pasadena 1996 Certificates of Participation (Multi-Purpose Projects) (the "1996 Certificates") executed and delivered pursuant to a Trust Agreement, dated as of March 1, 1996 (the "1996 Trust Agreement"), by and among the Trustee, the Corporation and the City;

WHEREAS, in connection with the financing of the 1996 Project, the City and the Corporation added to the property leased under the 1993 Lease and 1993 Sublease certain real property and the improvements thereto pursuant to a Lease, dated as of March 1, 1996, constituting an amendment to the 1993 Lease (as amended, the "1996 Lease"), and a Sublease, dated as of March 1, 1996, constituting an amendment to the 1993 Sublease (as amended, the "1996 Sublease");

WHEREAS, all rights to receive base rental payments payable by the City under the 1996 Sublease were assigned without recourse by the Corporation to the Trustee, pursuant to an Assignment Agreement, dated as of March 1, 1996 (the "1996 Assignment Agreement");

WHEREAS, the City, the Corporation and the Authority have entered into an Assignment, Assumption and Consent Agreement, whereby the Corporation assigned to the Authority, with the consent of the City, all of its right, title and interest in, and its obligations under, and with respect to, the 1993 Lease, the 1993 Sublease, the 1993 Trust Agreement, the 1993 Assignment Agreement, the 1996 Lease, the 1996 Sublease, the 1996 Trust Agreement and the 1996 Assignment Agreement, and all other agreements and instruments executed by the Corporation, and property leased, in connection with the execution and delivery of the 1993 Certificates and the 1996 Certificates;

WHEREAS, in 2003, the City financed a portion of the costs of renovation of Pasadena City Hall and certain other public improvements (the "2003 Project") through the sale and delivery of City of Pasadena 2003 Variable Rate Demand Certificates of Participation (City Hall and Park Improvement Projects) (the "2003 Certificates"), executed and delivered pursuant to the Amended and Restated Trust Agreement, dated as of January 1, 2003 (the "Trust Agreement"), by and among the Trustee, the Authority and the City, and consented to by Ambac Assurance Corporation (the "Insurer");

WHEREAS, in connection with the financing of the 2003 Project, the Authority and the City entered into an Amended and Restated Lease, dated as of January 1, 2003 (the "Lease"), in order to amend and restate the 1993 Lease and the 1996 Lease, and entered into an Amended and Restated Sublease, dated as of January 1, 2003 (the "Sublease"), in order to amend and restate the 1993 Sublease and the 1996 Sublease, so as to increase the amount of base rental payments payable thereunder, and, in both cases, to make the provisions thereof applicable to the 2003 Project and to make certain other modifications in order to provide for the execution and delivery of Additional Certificates in accordance with the provisions of the 1996 Trust Agreement;

WHEREAS, the Authority and the Trustee entered into an Amended and Restated Assignment Agreement, dated as January 1, 2003 (the "Assignment Agreement"), in order to amend and restate the 1993 Assignment Agreement and the 1996 Assignment Agreement so as to expressly provide that all rights to receive the base rental payments payable by the City under the Sublease, including the increased amounts thereof provided for in the Sublease, were assigned without recourse by the Authority to the Trustee;

WHEREAS, in 2004, the City refunded a portion of the 1993 Certificates and a portion of the 1996 Certificates through the sale and delivery of City of Pasadena Refunding Certificates of Participation, Series 2004A (the "2004A Certificates") and City of Pasadena Refunding Certificates of Participation, Series 2004B (the "2004B Certificates" and together with the 2004A Certificates, the "2004 Certificates"), executed and delivered pursuant to a First Supplemental Trust Agreement, dated as of March 1, 2004 (the "First Supplemental Trust Agreement"), by and among the Trustee, the Authority and the City;

WHEREAS, the City and the Authority entered into a Supplement No. 1 to Lease and a Supplement No. 1 to Sublease in order to supplement the Lease and the Sublease, respectively, and so as to make the provisions thereof applicable to the 2004 Certificates;

WHEREAS, the Trust Agreement provides that the City may at any time cause the execution and delivery of additional certificates payable on a parity with the outstanding 1993 Certificates, 2003 Certificates and 2004 Certificates, pursuant to a supplemental trust agreement;

WHEREAS, the City now desires to cause to be executed and delivered additional series of certificates in an aggregate initial principal amount not to exceed \$165,000,000 and designated as City of Pasadena Certificates of Participation (Conference Center Project), Series 2006A (the "2006A Certificates") and City of Pasadena Certificates of Participation (Conference Center Project), Series 2006B (the "2006B Certificates" and together with the 2006A Certificates, the "2006 Certificates") for the purpose of financing the construction, expansion and renovation of the Pasadena Conference Center and certain other improvements, funding capitalized interest with respect to the 2006 Certificates, funding a deposit to a reserve fund and financing the costs of execution and delivery of the 2006 Certificates;

WHEREAS, the Trustee, the Authority and the City will enter into a Second Supplemental Trust Agreement (the "Supplemental Trust Agreement"), consented to by the Insurer, in order to provide for the execution and delivery of the 2006 Certificates;

WHEREAS, the City has determined to sell the 2006A Certificates as capital appreciation certificates and to sell the 2006B Certificates initially as auction rate certificates;

WHEREAS, the Trustee, an auction agent (the "Auction Agent") and the City will enter into an Auction Agency Agreement (the "Auction Agency Agreement"), relating to the performance of the Auction Agent's duties in connection with the 2006B Certificates while auction rate certificates;

WHEREAS, the Auction Agent, UBS Securities LLC, as broker-dealer (the "Broker-Dealer") and the City will enter into a Broker-Dealer Agreement (the "Broker-Dealer Agreement"), relating to the performance of certain duties with respect to the Broker-Dealer and the Auction Agent in connection with the 2006B Certificates while auction rate certificates;

WHEREAS, the Authority and the City will enter into a Supplement No. 2 to Amended and Restated Lease (the "Lease Supplement") and a Supplement No. 2 to Amended and Restated Sublease (the "Sublease Supplement") in order to supplement the Lease and the Sublease, respectively, to provide for the addition of certain Additional Property (as defined in the Sublease), to increase the amount of base rental payments payable by the City under the Sublease by an aggregate amount equal to the principal and interest represented by the 2006 Certificates and payments required to be made by the City under a Swap Agreement heretofore authorized to be entered into by the City in connection therewith, and to make the provisions thereof applicable to the 2006 Certificates;

WHEREAS, the City will enter into one or more purchase agreements for the 2006 Certificates (each, a "Purchase Agreement") pursuant to which UBS Securities LLC (the

“Underwriter”) will purchase the 2006 Certificates and the City will cause the execution and delivery of the 2006 Certificates to the Underwriter upon certain conditions; and

WHEREAS, the Underwriter will distribute one or more official statements (each, an “Official Statement”) relating to the 2006 Certificates to prospective purchasers of the 2006 Certificates; and

WHEREAS, the City will execute and deliver a continuing disclosure agreement (the “Continuing Disclosure Agreement”) for the benefit of the Owners (as defined in the Trust Agreement) of the 2006 Certificates and in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5); and

WHEREAS, all acts, conditions and things required by the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided.

NOW, THEREFORE, BE IT RESOLVED, ORDERED AND FOUND, by the City Council of the City that:

Section 1. Declaration and Findings of City Council. The City Council hereby specifically finds and declares that the actions authorized hereby constitute and are with respect to public affairs of the City, and that the statements, findings and determinations of the City set forth herein, in the preambles above and in the documents approved herein are true and correct.

The City Council hereby finds and determines that the maximum annual fair rental value of the Leased Property (as described in the Sublease Supplement) is not less than \$35,000,000. In making such determination, the City has given consideration to variety of factors, including the replacement costs of existing improvements on the Leased Property, other obligations of the parties under the Sublease, the use of the proceeds of the 2006 Certificates for the construction, expansion and renovation of the Pasadena Conference Center, the uses and purposes which may be served by the improvements on the Leased Property and the benefits therefrom which will accrue to the City and the general public.

Section 2. Approval of Financing. The execution and delivery by the Trustee of the 2006 Certificates in an aggregate initial principal amount not to exceed \$165,000,000, comprised of the 2006A Certificates as capital appreciation certificates and the 2006B Certificates initially as auction rate certificates, is hereby approved.

Section 3. Supplemental Trust Agreement. The form of Supplemental Trust Agreement presented to this meeting and on file with the City Clerk is hereby approved. The City Manager or the Acting Director of Finance is hereby authorized and directed for and on behalf of the City, to execute and deliver said Supplemental Trust Agreement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. Lease Supplement. The form of Lease Supplement presented to this meeting and on file with the City Clerk is hereby approved. The City Manager or the Acting Director of Finance is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver said Lease Supplement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. Sublease Supplement. The form of Sublease Supplement presented to this meeting and on file with the City Clerk is hereby approved. The City Manager or the Acting Director of Finance is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver said Sublease Supplement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. Continuing Disclosure Agreement. The form of the Continuing Disclosure Agreement presented to this meeting and on file with the City Clerk is hereby approved. The City Manager or the Acting Director of Finance is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver said Continuing Disclosure Agreement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the acknowledgement and delivery thereof.

Section 7. Auction Agency Agreement. The form of the Auction Agency Agreement presented to this meeting and on file with the City Clerk is hereby approved. The City Manager or the Acting Director of Finance is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver said Auction Agency Agreement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the acknowledgement and delivery thereof.

Section 8. Broker-Dealer Agreement. The form of the Broker-Dealer Agreement presented to this meeting and on file with the City Clerk is hereby approved. The City Manager or the Acting Director of Finance is hereby authorized and directed, for and in the name and on behalf of the City, to execute said Broker-Dealer Agreement in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the acknowledgement and delivery thereof.

Section 9. Purchase Agreement. The form of Purchase Agreement presented to this meeting and on file with the City Clerk is hereby approved. The City Manager or the Acting Director of Finance is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver one or more Purchase Agreements in substantially said form, with such changes therein as such officer may require or approve, such approval to be conclusively evidenced by the acknowledgement and delivery thereof; provided, however, the Underwriter's discount provided therein shall not exceed 0.85% of the par amount of the related series of 2006 Certificates.

Section 10. Official Statement. The form of the preliminary Official Statements of the City relating to the 2006 Certificates presented to this meeting and on file with the City Clerk are hereby approved in substantially said forms, with such changes therein as the City Manager or

the Acting Director of Finance may require or approve. The City Manager or the Acting Director of Finance is hereby authorized to certify that the preliminary Official Statements, with such changes therein as the officer so certifying shall approve, are, as of their respective dates "deemed final" for purposes of Rule 15c2-12 of the Securities and Exchange Commission. The City Manager or the Acting Director of Finance is hereby authorized to execute for and on behalf of the City one or more final Official Statements, in substantially the form of the preliminary Official Statements, with such changes therein (and additions thereto to reflect the terms of the sale of the 2006 Certificates) as the City Manager or the Acting Director of Finance shall approve, such approval to be evidenced by the execution and delivery thereof. The Underwriter is authorized to distribute copies of the preliminary Official Statements to persons who may be interested in the purchase of the 2006 Certificates, and the Underwriter is directed to deliver copies of any final Official Statement to all actual purchasers of the 2006 Certificates.

Section 11. Attestations. The City Clerk is hereby authorized and directed to attest the signature of the City Manager, the Acting Director of Finance or such other City officers, as may be required or appropriate in connection with the execution and delivery or acknowledgement of said Supplemental Trust Agreement, Lease Supplement, Sublease Supplement, Purchase Agreement, Continuing Disclosure Agreement, Auction Agency Agreement, Broker-Dealer Agreement, Official Statement or related documents.

Section 12. Other Actions. The City Manager, the Acting Director of Finance, the City Clerk and the other officers of the City are hereby authorized and directed jointly and severally to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the transactions contemplated and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, including, without limitation, any actions or the execution of any documents in connection with the securing by the City of a policy of municipal bond insurance for the 2006 Certificates or a surety bond for any reserve fund deposit in connection with the 2006 Certificates. Such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 13. Effective Date. This Resolution shall take effect from and after its date of passage and adoption.

ADOPTED at the regular meeting of the City Council of the City of Pasadena on the 14th day of August, 2006, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

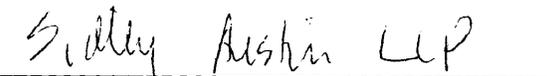
Jane L. Rodriguez, CMC
City Clerk

APPROVED AS TO FORM:



Ann Sherwood Rider
Assistant City Attorney

APPROVED AS TO FORM:



Sidley Austin LLP