

Agenda Report

TO: City Council **DATE:** July 31, 2006

FROM: City Manager

SUBJECT: RESOLUTION AUTHORIZING THE ENTRY INTO AN INTEREST RATE SWAP TRANSACTION RELATED TO THE CONFERENCE CENTER FINANCING AND CERTAIN ACTIONS RELATING THERETO.

RECOMMENDATION

It is recommended that the City Council take the following actions:

- 1- Adopt a Resolution authorizing the City to enter into an interest rate SWAP transaction and certain actions relating thereto; and
- 2- Adopt a Resolution declaring the City's intention to reimburse itself from the proceeds of one or more tax-exempt financings for certain expenditures made and/or to be made in connection with the Conference Center expansion project.

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 8 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 7 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 Lease Revenue Bonds or Certificates of Participation (COPs). It is estimated that the issue size will be approximately \$165 million. Rather than issuing conventional fixed rate COPs, the City will issue Capital Appreciation Bonds for \$30 million and create a "synthetic" fixed rate obligation for the remaining \$135 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.

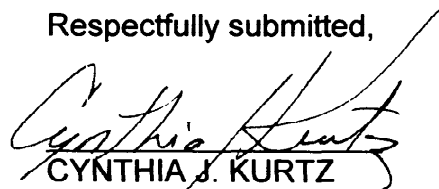
The City Council is currently being asked to only approve the interest rate swap portion of the financing at this time. This will lock in an interest rate today and protect the City against rising rates. Staff expects to return to the City Council in mid-August to seek approval of the various bond documents in order to complete the balance of the financing transaction. The interest rate swap will not actually take effect until the close of the COP transaction.

The City Council is also being asked to adopt a reimbursement resolution. The requested resolution allows the City to reimburse itself for certain expenditures made for capital improvements and other expenses related to the Conference Center expansion project. The Reimbursement Resolution provides the City the ability to reimburse itself for expenditures made 60 days prior to this resolution and up to 18 months from the date of the expenditures are made.

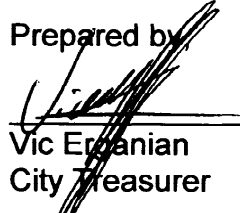
FISCAL IMPACT

The total amount of the interest rate swap will be approximately \$135 million which is the size of the variable rate portion of the total issue size of approximately \$165 million. The term of the transaction shall not exceed beyond January 1, 2040. The notional amount of the interest rate swap shall not exceed \$150 million and the fixed rate payable by the City under the transaction shall not exceed 4.50% per annum.

Respectfully submitted,


CYNTHIA J. KURTZ
City Manager

Prepared by


Vic Ermanian
City Treasurer

Approved by,


Steve Mermell
Acting Director of Finance

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA
AUTHORIZING THE ENTRY INTO AN INTEREST RATE SWAP
TRANSACTION AND CERTAIN ACTIONS RELATING THERETO

WHEREAS, the City of Pasadena (the "City") is a municipal corporation and a chartered city of the State of California (the "State"), organized and existing under its Charter, the Constitution and the laws of the State; and

WHEREAS, pursuant to its Charter, the City has the power to exercise any rights, powers and privileges granted or prescribed by the general laws of the State; and

WHEREAS, the City has previously entered into a lease and lease-back transaction with the Pasadena Public Financing Authority (the "Authority") for various property within the City under which the City is obligated to make base rental payments ("Base Rental Payments"), consisting of a principal component (the "Principal Component") and an interest component (the "Interest Component"); and

WHEREAS, the City has previously executed and delivered certificates of participation evidencing and representing interests in such Base Rental Payments; and

WHEREAS, the City anticipates executing and delivering additional certificates of participation (the "Certificates") for the purpose, *inter alia*, of financing the construction, expansion and renovation of the Pasadena Conference Center and for certain other improvements; and

WHEREAS, the City anticipates adding additional property to the existing above-described lease and lease-back transaction, consisting of the property on which the Pasadena Conference Center and related facilities are located, the Principal Component of the Base Rental Payments relating to which shall be in a fixed amount and the Interest Component of the Base Rental Payments relating to a portion of which shall consist of variable amounts; and

WHEREAS, a portion of the Certificates are expected to be executed and delivered as variable auction rate certificates, the interest with respect to which shall be adjusted periodically as provided in the Trust Agreement relating to the Certificates among the Authority, the City and The Bank of New York Trust Company, N.A., as trustee, as amended, and a portion of each installment of the Interest Component of the City's Base Rental Payments shall be equal to the corresponding installment of interest with respect to the variable rate Certificates; and

WHEREAS, Section 5922 of the California Government Code provides that in connection with, or incidental to, the issuance or carrying of bonds (defined to include lease agreements) any public entity may enter into any contracts which the public entity determines to be necessary or appropriate to place the obligations represented by the bonds, in whole or in part, on the interest rate, currency, cash flow or other basis desired by the public entity, including without limitation contracts commonly known as interest rate swap agreements or contracts providing for payments based on levels of, or changes in, interest rates or stock or other indices,

or contracts to exchange cash flows or a series of payments, in each case to hedge payment, rate, spread or similar exposure; and

WHEREAS, the City desires to authorize certain officers of the City to enter into an interest rate swap transaction as authorized by Section 5922 of the California Government Code in connection with its obligation to pay the portion of the Base Rental Payments relating to the variable auction rate Certificates with a view to economically provide for fixed payments in connection with the related portion of the Interest Component of the Base Rental Payments and to achieve savings by paying a lower fixed swap amount compared to using a fixed rate Interest Component for such portion of the Base Rental Payments; and

WHEREAS, the terms and conditions of such interest rate swap transaction shall be as set forth in the ISDA Master Agreement, as amended and supplemented by the U.S. Municipal Counterparty Schedule to the Master Agreement and the Credit Support Annex to such Schedule, each in the form submitted to this meeting (such ISDA Master Agreement, as so amended and supplemented, as the same may be modified and completed in accordance with this Resolution being referred to as the "Swap Agreement"); and

WHEREAS, the interest rate swap transaction authorized hereby shall constitute a Transaction under the Swap Agreement (a "Transaction"), the specific terms of which shall be contained in a Confirmation (a "Confirmation") to be delivered on or about the date such Transaction is agreed upon by the parties;

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

Section 1. The form of Swap Agreement presented to this meeting, and on file with the City Clerk, is hereby approved. Each of the City Manager and the Acting Director of Finance, acting singly, is hereby authorized and directed for, on behalf of, and in the name of the City, to execute and deliver the Swap Agreement in substantially said form with such counterparty meeting the criteria described below as shall be selected by the officer executing the Swap Agreement and with such changes, insertions and deletions to the Swap Agreement (including such changes, insertions and deletions as may be undertaken in connection with arranging for the regularly scheduled swap payments to be made by the City thereunder to be insured through a municipal bond insurance company, if, upon the advice of the City's financial advisors, such insurance shall be beneficial to the City) as may be consistent with this Resolution and the determinations made pursuant hereto and as may be approved by the officer executing the Swap Agreement, such approval to be conclusively evidenced by the execution and delivery thereof.

The counterparty to the Swap Agreement shall be an entity the senior long-term debt obligations, other senior unsecured long-term obligations or claims or paying ability of which are rated at least as high as the "Aa" rating category (without regard to any modifier within such category) by Moody's Investors Service, Inc. ("Moody's") and the "AA" rating category (without regard to any modifier within such category) by Standard & Poor's Rating Services ("S&P") at the time of execution of the Swap Agreement and the trade date of the Confirmation or the payment obligations of which under the Swap Agreement, including the Credit Support Annex, are unconditionally guaranteed by an entity the senior long-term debt obligations, other

senior unsecured long-term obligations or claims or paying ability of which are rated at least as high as the “Aa” rating category (without regard to any modifier within such category) by Moody’s and the “AA” rating category (without regard to any modifier within such category) by S&P at the time of execution of the Swap Agreement and the trade date of the Confirmation selected in the manner directed and approved by the officer executing the Swap Agreement.

Section 2. Each of the City Manager and the Acting Director of Finance, acting singly, is hereby authorized to enter into a Transaction in connection with the related portion of the Base Rental Payments and accept and execute the Confirmation describing the Transaction; provided, however, that the following limitations shall be applicable to the Confirmation and Transaction: (i) the term of the Transaction shall not extend beyond January 1, 2040; (ii) the initial notional amount of the Transaction shall not exceed \$150 million, and after the Certificates are executed and delivered shall not at any time exceed the unpaid amount of the Principal Component of the Base Rental Payments; (iii) the fixed rate payable by the City under the Transaction shall not exceed 4.50% per annum; and the variable rate to be received under the Transaction shall not be less than 60% of the one-month London Interbank Offering Rate (LIBOR).

Section 3. The City Council of the City hereby finds and determines that the Transaction authorized hereby is designed to reduce the amount of rate risk and result in a lower cost of borrowing when used in combination with the execution and delivery of the Certificates.

Section 4. The City Manager, the Acting Director of Finance, the City Clerk and the other appropriate officers of the City are hereby authorized and directed, acting singly, 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 by this Resolution and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the Swap Agreement and the Confirmation. Any actions heretofore taken by such officers in connection therewith are hereby ratified, confirmed and approved.

Section 5. 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 of the Swap Agreement, the Confirmation or any related document or instrument .

Section 6. This Resolution shall take effect immediately upon its adoption.

ADOPTED at the regular meeting of the City Council of the City of Pasadena on the 31st day of July, 2006, by the following vote:

AYES:

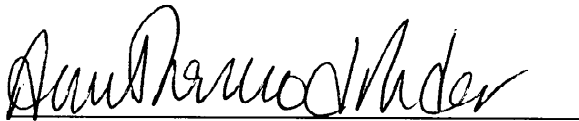
NOES:

ABSENT:

ABSTAIN:

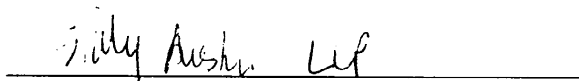
Jane L. Rodriguez, CMC
City Clerk

APPROVED AS TO FORM:



Ann Sherwood Rider
Assistant City Attorney

APPROVED AS TO FORM:



Sidley Austin LLP

RESOLUTION NO. ____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA
DECLARING ITS INTENTION TO REIMBURSE ITSELF FROM THE
PROCEEDS OF ONE OR MORE TAX-EXEMPT FINANCINGS FOR
CERTAIN EXPENDITURES MADE AND/OR TO BE MADE IN
CONNECTION WITH THE ACQUISITION, CONSTRUCTION AND
EQUIPPING OF CERTAIN CAPITAL IMPROVEMENTS**

WHEREAS, the City of Pasadena (the “City”) is a political subdivision organized and existing under the laws of the State of California; and

WHEREAS, the City has paid, beginning no earlier than 60 days prior to the date hereof, and will pay, on and after the date hereof, certain expenditures (the “Expenditures”) in connection with the construction, expansion, renovation and/or equipping of the Pasadena Conference Center (the “Project”), as more fully described in Exhibit A attached hereto; and

WHEREAS, the City Council of the City (the “City Council”) has determined that those moneys previously advanced no more than 60 days prior to the date hereof and to be advanced on and after the date hereof to pay the Expenditures are available only for a temporary period and it is necessary to reimburse the City for the Expenditures from the proceeds of one or more issues of tax-exempt obligations (the “Bonds”);

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL AS FOLLOWS:

Section 1. The City Council hereby declares the City’s intent to reimburse the City with the proceeds of the Bonds for the Expenditures with respect to the Project made prior to the issuance of the Bonds but no more than 60 days prior to the date hereof. The City reasonably expects on the date hereof that it will reimburse the Expenditures with the proceeds of the Bonds.

Section 2. Each Expenditure was and will be either (a) of a type properly chargeable to a capital account under general federal income tax principles (determined in each case as of the date of the Expenditure), (b) a cost of issuance with respect to the Bonds, (c) a nonrecurring item that is not customarily payable from current revenues, or (d) a grant to a party that is not related to or an agent of the City so long as such grant does not impose any obligation or condition (directly or indirectly) to repay any amount to or for the benefit of the City.

Section 3. The maximum principal amount of the Bonds expected to be issued for the Project is \$175 million.

Section 4. The City will make a reimbursement allocation, which is a written allocation by the City that evidences the City’s use of proceeds of the Bonds to reimburse an Expenditure, no later than 18 months after the later of the date on which the Expenditure is paid or the Project

is placed in service or abandoned, but in no event more than three years after the date on which the Expenditure is paid. The City recognizes that exceptions are available for certain "preliminary expenditures," costs of issuance, certain *de minimis* amounts, expenditures by "small issuers" (based on the year of issuance and not the year of expenditure) and expenditures for construction projects of at least 5 years.

Section 5. This resolution shall take effect immediately upon its passage.

ADOPTED at the regular meeting of the City Council of the City of Pasadena on the 31st day of July, 2006, by the following vote:

AYES:

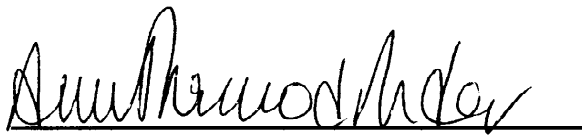
NOES:

ABSENT:

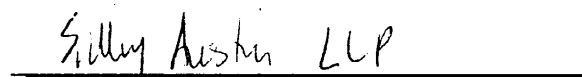
ABSTAIN:

Jane L. Rodriguez, CMC
City Clerk

APPROVED AS TO FORM:


Ann Sherwood Rider
Assistant City Attorney

APPROVED AS TO FORM:


Sidley Austin LLP

DESCRIPTION OF PROJECT

The Project involves the construction, expansion and renovation of the Pasadena Conference Center located adjacent to the Pasadena Civic Auditorium, 300 East Green Street, Pasadena, California. The Project will consist of the construction of an approximately 186,500 square foot exhibit/ballroom building, which will be supported by a kitchen, loading dock, public restrooms and support/circulation areas; installation and dismantling of a temporary exhibition hall; renovation of the existing Conference Center and Civic Auditorium plaza, theatre and surrounding areas; the relocation of the existing ice rink on the site; the resurfacing and improvement of related parking facilities; and costs related to the foregoing.