

# Agenda Report

**TO:** CITY COUNCIL **DATE:** November 06, 2006  
**FROM:** CITY MANAGER  
**THROUGH:** FINANCE COMMITTEE  
**SUBJECT:** TERMINATION OF INTEREST RATE SWAP WITH CITIGROUP FINANCIAL PRODUCTS INC. (FORMERLY SALOMON BROTHERS HOLDING COMPANY, INC.)

## **RECOMMENDATION:**

It is recommended that the City Council authorize the City Manager to terminate the current existing fixed to floating interest rate SWAP with Citigroup Financial Products, Inc. at the prevailing swap market value.

## **BACKGROUND:**

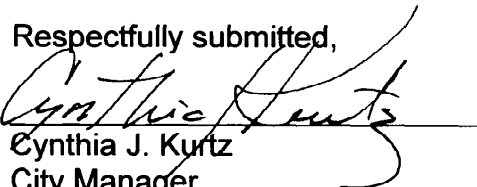
On March 17, 2000, the City of Pasadena entered into a fixed-to-floating Bond Market Association Municipal Swap Index (BMA Swap) agreement with Salomon Brothers Holding, Inc., now Citigroup Financial Products, Inc. whereby the City agreed to receive a fixed interest rate of 5.473% and pay a variable rate which is the Municipal Swap Index rate. The underlying notional amount was \$69 million amortizing in accordance with the Series 1998 Electric Revenue Bonds currently at \$51.36 million.


In 2001, the City reversed the swap for the period beginning February 27, 2001 through August 1, 2006. This in effect froze the transaction for a period of five and a half years, and in return, the counterparty paid \$4.1 million to the City. The swap became effective again on August 1, 2006. The current interest rate environment and the shape of the yield curve provide an opportunity for the City to terminate the swap agreement at a gain.

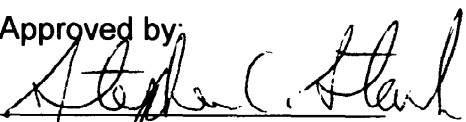
The stated termination date of the swap is in 2018. The swap counterparty, Citigroup, has the option to terminate the swap at par, regardless of the market value of the swap, on August 1, 2009. If rates stay the same or decline, Citigroup will terminate the swap in 2009 at par without paying any market value gain on the instrument. If rates go up and the City becomes the party to pay under the swap agreement, then Citigroup will not terminate the agreement.

**FISCAL IMPACT:**

Terminating the swap agreement in the current interest rate environment will generate estimated revenues of \$2 million to \$2.5 million to the power fund depending on the actual interest rates at the time of the trade.

Respectfully submitted,  
  
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