

Agenda Report

January 25, 2010

TO: Honorable Mayor and City Council
FROM: Finance Department
SUBJECT: PLAN OF ISSUANCE REQUIREMENT AND GUIDELINES FOR RECOVERY ZONE BONDS

RECOMMENDATION:

This report is for information only

EXECUTIVE SUMMARY:

A requirement in the use of the Recovery Zone Bond allocations authorized under the American Recovery and Reinvestment Act is to report information on potential projects to the California Debt Limit Allocation Committee (CDLAC) before January 31, 2010. The projects listed are not binding on the entity. Project additions, deletions, or changes to timing, scope or other details are allowed in a follow up report that must be presented to the CDLAC no later than August 15, 2010. Consequently, staff has included eligible projects which exceed Pasadena's current allocation of \$7.4 million (Recovery Zone Economic Development Bonds) and \$11.1 million (Recovery Zone Economic Development Facilities Bonds). This will, hopefully, allow Pasadena to take advantage of additional allocations that may not be used by other entities.

BACKGROUND:

On August 10, 2009, City Council adopted a Resolution pursuant to Section 1401 of Title I of Division B of the American Recovery and Reinvestment Act (ARRA) of 2009 of the Internal Revenue Code of 1986 authorizing the entire geographic area of the city as a Recovery Zone for the purpose of issuing Recovery Zone Economic Development bonds. The ARRA created two types of Recovery Zone Bonds: 1) Recovery Zone Economic Development Bonds and 2) Recovery Zone Economic Development Facility Bonds, capped at \$10 billion and \$15 billion respectively. Pasadena's allocation is \$7.4 million of Recovery Zone Economic Development Bonds and \$11.1 million of Recovery Zone Facility Bonds

In order for the City to use its allocation, the California Debt Limit Allocation Committee (CDLAC) requires submittal of a Plan of Issuance no later than January 31, 2010. The Plan must include:

1. A brief description of the project(s) to be funded utilizing RZB's, including the proposed qualifying project type, sponsor contact information, and anticipated bond amounts
2. A copy of the locally approved Designation of Recovery Zone resolution
3. A proposed timeline for all local actions and approvals and eventual issuance
4. An identification of local approvals obtained to date
5. The anticipated construction start date

Following its submission, cities must provide CDLAC with any and all updates to their Plan as necessary (ie. new or deleted projects, significant changes to the projects(s) schedule, etc) no later than August 15, 2010. Allocation accounted for in a Plan of Issuance but not supported by documentation received by the August 15, 2010 deadline will automatically be deemed waived to CDLAC.

Staff is proposing the following Plan of Issuance:

Recovery Zone Economic Development Bonds ("RZEDBs") total allocation of \$7.4 Million

Eligible Projects Criteria:

New money governmental purpose projects or programs (including various types of capital expenditures, expenditures for job training and educational programs), but not available for 501(c)(3) nonprofit or private activity purposes.

Key Elements:

- A taxable bond that provides issuers a direct federal subsidy of 45% of interest.
- Federal Davis-Bacon prevailing wage rules apply to projects.

RZEDBs are taxable government bonds issued before January 1, 2011 and 100% of the available project proceeds must be used for one or more qualified economic development purposes. A qualified economic development purpose means expenditures promoting development or other economic activity in a recovery zone, including capital expenditures paid or incurred with respect to property located in such zone, expenditures for public infrastructure and construction of public facilities, and expenditures for job training and educational programs. RZEDBs are at once both a new species of taxable governmental (non-private activity) bonds and a subspecies of Build America Bonds ("BABs"). As a species of taxable government bonds, holders of bonds receive taxable interest. As a subspecies of BABs, issuers are entitled to receive a cash subsidy from the federal government equal to 45% of the interest payable on the RZEDBs.

Proposed projects (not in priority order):

- 1- Rose Bowl public improvements and renovation project. The current total of \$7.4 million allocation is scheduled to be used for this project. A total of \$188 million RZEDBs could be used for this project if additional allocation was available. The supplemental Environmental Impact Report was certified in June 2008. On April 27, 2009, the City Council approved \$1.5 million funding for a feasibility study and for the design and architectural work. A financing team has already been assembled and it is anticipated that by October 2010, revenue studies will be completed and final agreements will be signed by the tenants. It is estimated that final bond documents will be finalized in November for Council approval and the bonds will be priced in November 2010 with an estimated closing date of the financing in December 2010.
- 2- City owned parking structures seismic retrofitting/ADA improvements project. It is estimated that the cost will range between \$8-10 million. The total cost of the project could be financed with RZDBs if Pasadena secures additional allocation. There has been no formal Council action taken on this project. Transportation Department is seeking responses to a conditions appraisal and seismic analysis RFP which will define the scope of work and cost associated with the retrofit. It is anticipated that this will be completed by second quarter of 2010. Bonds could be issued the fourth quarter of 2010 with construction start in 2011.
- 3- Streetcar System linking Pasadena's Business Improvement Districts. The cost of the project is estimated at \$50 million of which the entire amount could be financed with RZEDBs. A feasibility study and a financial analysis is under way to determine the best route. If adequate financing is secured, it is estimated that bonds could be issued by end of 2010 and construction could start in 2011. There has been no formal Council action to date on this project.

Tax-Exempt Recovery Zone Facility Bonds ("RZFBs") total allocation of \$11.1 million

Permitted Borrowers:

For profit companies.

Eligible Projects Criteria:

Private use depreciable property (i.e. equipment, buildings) the original use of which in the Recovery Zone commences with the taxpayer.

Key Elements:

- Issued on a tax-exempt basis.
- The bond financed property may be privately owned and operated for purposes not limited to those of traditional exempt facility or small issue private activity tax-exempt bonds.

- The property must be constructed, reconstructed, renovated or acquired after the area is designated a Recovery Zone.
- Land may NOT be financed because it is not depreciable.

Typically, the bonds would be issued by the city to a for-profit company which would be the true borrower and assume the risk. RZFBs mean any bonds issued before January 1, 2011 if (1) 95% or more of the net proceeds are used for recovery zone property and (2) the issuer designates such bonds as counting against the issuer's volume limitation for such bonds. Generally, with some exceptions, any capital asset used in business will qualify for financing.

Proposed Projects:

- 1- 880 E. Colorado Boulevard Renovation project (Phase I of III) proposed by Singpoli Pacifica LLC. This includes renovation of the existing eight-story building (originally constructed in 1926 as a hotel, now vacant) at E. Colorado Blvd and S. Mentor Ave for use as a boutique hotel. This will return the existing historic resource, the Constance Hotel, to its original hotel use. After renovation, the hotel would be operated with 114 guest rooms and five residential units. This project requires a total of \$18 million allocation. In March 2009, staff presented to the City Council details of the project as information only. It is estimated that the draft EIR will be completed by February 2010 and the final project approval by June 2010. It is estimated that the Bonds will be issued during the third quarter of 2010 with the anticipated construction start date shortly after securing the financing.
- 2- Rose Bowl Public improvement and renovation project. Total potential use of \$14.1 million of RZFBs.
- 3- SunEdison project proposal. SunEdison is proposing the installation of solar systems on its customer's, Developers Diversified Realty (DDR), property in Pasadena. The Pasadena systems will be built, owned and operated by SunEdison and the electricity produced will be sold to DDR for its local use. SunEdison has requested an allocation of approximately \$700,000 of the RZFBs for this project. SunEdison anticipates the Recovery Zone Facility Bonds will finance at least 50% of the project costs. The remaining financing will be provided through SunEdison's existing network of investors. It is estimated that bonds will be issued during the third quarter of 2010. Construction will begin shortly after close of the financing. The City has not taken any action on this project.

COUNCIL POLICY CONSIDERATION

Depending on which projects move forward, the City Council's Strategic Planning Goals will be advanced.

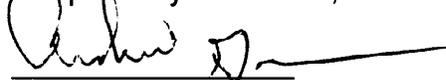
ENVIRONMENTAL ANALYSIS:

No environmental analysis is required at this stage

FISCAL IMPACT:

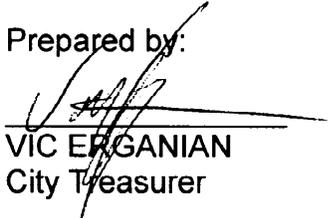
In order to comply with CDLAC's requirement and deadline of January 31, 2010, and secure Pasadena's allocation of \$7.4 million of RZDB's and \$11.1 million of RZFB's, staff proposes to submit the above list of projects. As new projects develop or changes occur to the existing list of projects, staff will return back to Council prior to August 15, 2010 to seek approval of the final revised list of projects. The debt service will be based on which projects advance. The sources will vary based on the final financing plan ultimately developed.

Respectfully submitted,

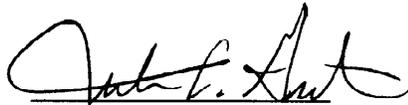


ANDREW GREEN
Director of Finance
Finance Department

Prepared by:


VIC ERGANIAN
City Treasurer

Approved by:


MICHAEL J. BECK
City Manager