

Agenda Report

August 6, 2012

TO: Honorable Mayor and City Council

FROM: Finance Department

SUBJECT: ADOPTION OF A RESOLUTION AND CONDUCT THE FIRST READING OF AN ORDINANCE AUTHORIZING THE INVITATION OF BIDS FOR THE PURCHASE OF ELECTRIC REVENUE REFUNDING BONDS, 2012A SERIES OF SAID CITY; APPROVING A NOTICE OF INTENTION TO SELL BONDS, A PRELIMINARY OFFICIAL STATEMENT, A NOTICE INVITING BIDS; AUTHORIZING THE PUBLICATION OF A NOTICE OF INTENTION TO SELL BONDS; AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$15,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA ELECTRIC REVENUE REFUNDING BONDS, 2012A SERIES, PAYABLE OUT OF THE LIGHT AND POWER FUND, APPROVING THE EXECUTION AND DELIVERY OF A SEVENTH SUPPLEMENTAL TO ELECTRIC REVENUE BOND FISCAL AGENT AGREEMENT, AN ESCROW AGREEMENT, A CONTINUING DISCLOSURE AGREEMENT, AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH

RECOMMENDATION:

It is recommended that the City Council adopt:

1. A resolution authorizing the invitation of bids for the purchase of Electric Revenue Refunding Bonds, 2012A Series of said city, approving a notice of intention to sell bonds, a preliminary official statement, a notice inviting bids, authorizing the publication of a notice of intention to sell bonds, and authorizing certain other actions in connection therewith; and

2. Conduct first reading of **“AN ORDINANCE OF THE CITY OF PASADENA AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$15,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA ELECTRIC REVENUE REFUNDING BONDS, 2012A SERIES, PAYABLE OUT OF THE LIGHT AND POWER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF A SEVENTH SUPPLEMENT TO ELECTRIC REVENUE BOND FISCAL AGENT AGREEMENT, AN ESCROW AGREEMENT AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH.”**

BACKGROUND:

In 2002, the City issued \$82,320,000 of its Electric Revenue Bonds, 2002 Series, for the purpose of financing the costs of acquisition and construction of certain improvements to the Electric System, funding a parity reserve fund, and paying the costs of issuance of the 2002 bonds. More specifically, proceeds from the 2002 bonds were used to finance the “Repowering Project” which included the replacement of then existing steam generators Broadway Unit 1 and Broadway Unit 2 with two new 45 MW simple-cycle combustion turbines. These units are located on the Glenarm property and designated as Gas Turbine Unit 3 and Unit 4.

In August 2010, the City refunded \$35,665,000 of the 2002 bonds producing \$3.12 million of net present value savings (8.91% of refunded principal). The outstanding amount of the remaining two unrefunded maturities of the 2002 bonds is \$9,155,000 with interest rates of 4.0% and 4.75%. Current market yields for electric system bonds for the two maturities are approximately 0.30% and 2.45%. Since the 2002 bonds can currently be optionally redeemed at 100% of par upon 30 days notice, the City can establish a short escrow to defease and repay some of the 2002 bonds while simultaneously issuing new refunding bonds at lower yields to generate debt service savings. In today’s interest rate environment, the expectation is to refund approximately \$5,350,000 of the outstanding \$9.155 million.

The City issued \$9,905,000 of its Electric Revenue Bonds, 2003 Series, for the purpose of financing the costs of acquisition and construction of certain improvements to the Electric System, funding a parity reserve fund, and paying the costs of issuance of the 2003 bonds. More specifically, proceeds from the 2003 bonds were used to finance the Repowering Project and to upgrade the Sylmar Converter Station which was damaged in the 1994 Northridge earthquake. The current outstanding amount of the 2003 bonds is \$6,010,000 with interest rates ranging from 4.0% to 4.875%. Current market yields for electric system bonds for the same maturities range from approximately 0.30% to 2.45%. Since the 2003 bonds can be optionally redeemed at 100% of par beginning June 1, 2013, the City can establish an escrow of US Treasury

securities to defease and repay the 2003 bonds while simultaneously issuing new refunding bonds at lower yields to generate debt service savings. In today's interest rate environment, the expectation is to refund all of the outstanding \$6.01million.

Staff is requesting authorization to issue up to \$15 million of Electric Revenue Refunding Bonds to refund higher coupon debt and to take advantage of the current low interest rates. Staff, along with the Financial Advisor, will reevaluate the economics of the refunding and determine the most economical amount of the outstanding bonds to refund depending on market conditions at the time of the bond sale.

The issuance of the proposed 2012A bonds will produce attractive debt service savings which can be structured over the term of the new bonds. The 2012A bonds will be issued with fixed interest rates and sold on a competitive basis with the same maturities as the existing 2002 and 2003 bonds to be refunded without any extension of debt service payments. The bidders will compete to purchase the 2012A bonds from the City based on the lowest true interest cost. Based on current market conditions and the proposed bond structure, the anticipated net present value savings are approximately \$900,000 (8.25% of refunded principal) or about \$100,000 per year. The resolution and ordinance authorize the issuance of, and approve the various documents in connection with the issuance of the Electric Revenue Refunding Bonds, 2012A Series, with a principal amount not to exceed \$15 million and at a true interest cost not to exceed 4.0%. The resolution also appoints Fulbright & Jaworski, LLP as bond and disclosure counsel, and Public Resources Advisory Group as financial advisor.


COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

FISCAL IMPACT:

In the current interest rate environment, it is anticipated that the Electric Fund could realize approximately \$900,000 in net present value savings. The actual savings will depend on the market conditions at the time of the actual bidding scheduled for October 15, 2012. It is also expected that the bonds will have a term of 10 years with final maturity in FY 2021-22. The all-in true interest cost is estimated to be 2.10% based on current market conditions. Debt service payments will be addressed by the utilization of existing budgeted appropriations in account #8677-401-84910-0427 made from the Light and Power Fund and funds are available from currently approved rates. The attached Exhibit A is the estimated sources and uses of funds based on today's market interest rates.

Respectfully submitted,



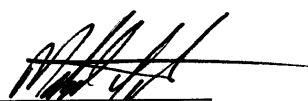
ANDREW GREEN
Director of Finance

Prepared by:



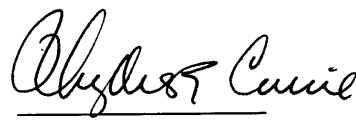
Vic Erganian
City Treasurer/Deputy Director of Finance

Approved by:



MICHAEL J. BECK
City Manager

Concurred by:



PHYLLIS CURRIE
General Manager
Water and Power

Attachment: (1)

Exhibit A – Estimated Sources and Uses of Funds

SOURCES AND USES OF FUNDS

City of Pasadena, California
Electric Revenue Refunding Bonds, 2012 Series
Scenario 2: Partial Refunding of 2022 Maturity (Series 2002)
(Interest Rates as of July 24, 2012)

Dated Date 11/01/2012
Delivery Date 11/01/2012

Sources:

Bond Proceeds:	
Par Amount	11,430,000.00
Premium	1,456,996.75
	<u>12,886,996.75</u>

Uses:

Refunding Escrow Deposits:	
Cash Deposit	0.47
SLGS Purchases	<u>11,317,986.00</u>
	11,317,986.47
Other Fund Deposits:	
Debt Service Reserve Fund	1,284,937.38
Delivery Date Expenses:	
Cost of Issuance	225,000.00
Underwriter's Discount	<u>57,150.00</u>
	282,150.00
Other Uses of Funds:	
Additional Proceeds	1,922.90
	<u>12,886,996.75</u>