

# Agenda Report

September 8, 2014

**TO:** Honorable Mayor and City Council  
Pasadena Public Financing Authority

**THROUGH:** Finance Committee

**FROM:** Department of Finance

**SUBJECT:** **JOINT ACTION: A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA AND A RESOLUTION OF THE PASADENA PUBLIC FINANCING AUTHORITY (PPFA) APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A STANDBY BOND PURCHASE AGREEMENT WITH BANK OF THE WEST; APPROVING THE FORM OF AND AUTHORIZING THE DISTRIBUTION OF A REOFFERING MEMORANDUM; AND AUTHORIZING THE EXECUTION AND DELIVERY OF OTHER RELATED DOCUMENTS AND APPROVAL OF OTHER DOCUMENTS AND ACTIONS IN CONNECTION THEREWITH**

**RECOMMENDATION:**

- 1) It is recommended that the City Council:
  - a) Find that the proposed action is not a project subject to the California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project;
  - b) Adopt a resolution of the City of Pasadena approving the form of and authorizing the execution and delivery of a standby bond purchase agreement (SBPA), same as the substantially final draft form attached hereto, with Bank of the West related to Paseo Colorado bonds for a period not to exceed five years; approving the form of and authorizing the distribution of a reoffering memorandum; and authorizing the execution and delivery of other related documents and approval of other documents and actions in connection therewith. Competitive bidding is not required pursuant to City Charter Section 1002 (F) Contracts for professional or Unique Services

- 2) It is recommended that the Pasadena Public Financing Authority adopt a resolution approving the form of and authorizing the execution and delivery of a standby bond purchase agreement related to Paseo Colorado bonds; approving the form of and authorizing the distribution of a reoffering memorandum; and authorizing the execution and delivery of other related documents and approval of other documents and actions in connection therewith

### **BACKGROUND:**

In 2000, the City sold \$32.385 million bonds to finance certain improvements to the parking facilities and public property adjacent to or beneath the then Plaza Pasadena shopping center and to finance the acquisition of the right, title and interest of the developer under a prior lease between the developer and Pasadena Community Development Commission. The 2000 Paseo Colorado bonds were initially issued with an insurance policy from MBIA. In 2008, the City refunded the bonds and reissued them with no insurance.

The bonds are taxable and structured as variable rate demand lease revenue bonds supported by a standby bond purchase agreement, the liquidity facility, with KBC Bank.

Variable Rate Demand Bonds or VRDBs are long-term bonds that carry a short-term interest rate that is reset every seven days. VRDBs have a "put" feature and are legally required to be backed by a liquidity facility in the form of a standby bond purchase agreement or a bank letter of credit. VRDBs are qualified investments for Rule 2a-7 money market funds and are typically sold to money market funds which are required by the Securities and Exchange Commission (SEC) regulation to purchase securities rated in the AA category or higher.

The existing SBPA has an expiration date of September 2014. KBC Bank informed the City that due to its decision to exit from the municipal finance market it will not be able to renew the SBPA for another three or five year term. Due to uncertainty of how long a replacement SBPA RFP process would take and how soon the financing transaction will close, staff negotiated with KBC Bank to extend the current expiration date of the SBPA to March 2015 and concurrently in July 2014, the City issued an RFP to 28 banks including several banks located within the City of Pasadena for a new liquidity facility. The RFP specifically requested bids for a SBPA. Only a few banking institutions were interested in providing a credit facility for this particular financing. The proposers included Bank of the West and Mitsubishi UFJ Financial Group (MUFG) which both have a presence in Pasadena. After carefully reviewing the proposals based on the lower overall price, it is staff's recommendation to enter into the attached SBPA with Bank of The West for a term of five years at an annual fee of 0.30%. The City currently pays 0.58% annual fee on the existing SBPA. Given the current conditions in the credit market and the proposals received, Bank of the West's proposed 0.30% fee is the most competitive rate and will save approximately \$48,000 in fees in fiscal year 2015, and \$292,500 for the remaining term of the five year agreement.

**COUNCIL POLICY CONSIDERATION:**

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability by meeting the legal requirement for outstanding variable rate demand bonds.

**ENVIRONMENTAL ANALYSIS:**

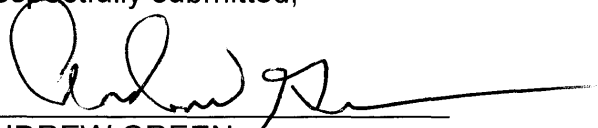
The proposed approval of the form of and authorization of the execution and delivery of a standby bond purchase agreement is an administrative action that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project subject to CEQA, no environmental document is required.

**FISCAL IMPACT:**

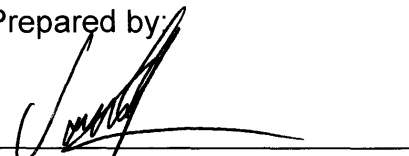
The recent taxable interest rate on the bonds has been resetting at an average 0.35% annual rate. Adding the recommended liquidity fee of 0.30% for the five year term and the remarketing fee of 0.08%, the total current financing cost adds up to an annual 0.73% rate. This rate has been historically the lowest rate since the issuance of the bonds and is expected to stay low as long as taxable short term rates remain unchanged in the near future. However, as the Fed begins raising the short term rates in the near future, the cost of this financing will also increase. The proposed fee of 0.30% by Bank of the West is also 0.28% lower than the current fee paid to KBC Bank. This represents an estimated savings of \$48,000 in fiscal year 2015 and \$292,500 for the remaining term of the five year agreement for a total savings of \$340,500.

The one-time cost of reissuing the bonds with a new liquidity bank will be approximately 0.60% of the bonds or \$164,000. Funding for this action will be addressed by the utilization of existing budgeted appropriations in account 8677-409-774612. No additional indirect or support costs will be required.

Respectfully submitted,

  
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ANDREW GREEN  
Director of Finance  
PPFA Treasurer

Prepared by:

  
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Vic Erganian  
Deputy Director of Finance/City Treasurer

Approved by:

  
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MICHAEL J. BECK  
City Manager  
PPFA Executive Director

Attachments: Offering Memorandum, Standby Bond Purchase Agreement and Fee Agreement