CITY OF PASADENA * INCORPORATED JUNE 1886 *

Agenda Report

February 9, 2015

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: ADOPTION OF A RESOLUTION AUTHORIZING THE ISSUANCE OF ONE OR MORE SERIES OR SUBSERIES OF CITY OF PASADENA PENSION OBLIGATION REFUNDING BONDS, APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION OF TRUST AGREEMENT SUPPLEMENTS PROVIDING FOR SUCH ISSUANCE, AND AUTHORIZING CERTAIN OTHER MATTERS RELATED THERETO

RECOMMENDATION:

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 authorizing the issuance of one or more series or subseries of City of Pasadena Pension Obligation Refunding Bonds; and approving the form of and authorizing the execution of Trust Agreement Supplements by the Director of Finance with The Bank of New York Mellon Trust Company, N.A. providing for such issuance, and authorizing certain other matters relating hereto;

C) Grant the proposed Trust Agreement Supplements an exemption from the competitive selection process pursuant to Pasadena Municipal Code Section 4.08.049B. Competitive bidding is not required pursuant to City Charter Section 1002(F), contracts for professional or unique services;

D) Approve a contract with Urban Futures as Financial Advisor in an amount of $50,000 and authorize the Director of Finance to execute the agreement; Competitive bidding is not required pursuant to City Charter Section 1002(F), contracts for professional or unique services;

E) Approve contracts with Bank of America Merrill Lynch and Raymond James as underwriters, remarketing agents and/or placement agents for the proposed refunding bonds at a discount rate (fee) not to exceed 0.30% of the bonds. Competitive bidding is not required pursuant to City Charter Section 1002 (F), contracts for professional or unique services.

BACKROUND:

The City has had an obligation to fund the Fire and Police Retirement System under the terms of the Contribution Agreement entered into by the City and the System. In 1999, 2004, and 2012 the City issued $101.9 million, $40.7 million, and $47.44 million of pension obligation bonds (POBs), respectively, in order to fund the City's obligations in respect to the Contribution Agreement. The Contribution Agreement requires the City to fund the System and maintain it at an agreed upon funding ratio that increases annually until it reaches an 80% ratio of actuarial assets to liabilities. Combined debt service on these bonds is approximately $14 million annually. The primary source of funds to pay the debt service on the bonds, was tax increment revenue from the former Downtown Project Area pursuant to Senate Bill 481. However, the provisions of SB 481 sunsetted in December 2014. Moreover approximately $41 million is currently being sequestered by court order while the City and the State Department of Finance work to resolve a dispute regarding the status of these funds as a result of the dissolution of Redevelopment law in california. Approximately $123 million of the bonds are maturing (in the case of the 2004 bonds) or are subject to mandatory tender on on May 15, 2015.

Despite the issuance of the pension bonds, supplemental contributions from the City to the System are still required from time to time to fund it in accordance with the Contribution Agreement. Per the actuarial report dated 06/30/2014, the System was funded at 81.6% and therefore no supplemental contribution is required in fiscal year 2015. Furthermore, the System's actuary has projected the System's funding ratio at above 80% until 2026, and therefore, zero supplemental contributions from the General Fund are anticipated until that time. The current Contribution Agreement between the City and the System established investment earnings and inflation rate assumptions, which in part drive asset and liability projections under the System, and future funding ratios depend on future actual earnings rates and future actual inflation rates. The System's actuary has projected that benefit payments will continue beyond the year 2050.

As mentioned above, there are $123 million outstanding POBs that mature, or are subject to mandatory tender on May 15, 2015.

Current outstanding POBs	Outstanding balance	Due date
Series 1999	$51.20 million	Mandatory tender May 15, 2015
Series 2004	$23.66 million	Matures on May 15, 2015
Series 2012	$47.44 million	Mandatory tender May 15, 2015
Total	$122.30 million	

The City is obligated to restructure or refund these bonds prior to such date. The proposed refunding was planned and anticipated and approved by City Council in 2012 when City Council aproved the amended Contribution Agreement and the issuance of the 2012 POBs. All, or a portion of the proposed refunding bonds may be issued at a fixed interest rate with a term of not more than thirty years and some portion may be issued as variable rate bonds or subject to prepayment on a date earlier than the authorized final maturity date. The early prepayment option incorporated in the bond structure will allow the City to prepay a portion of the POBs in the event the City prevails in its lawsuit related to Senate Bill 481 and receives a lump sum payment of the sequestered funds by the County of Los Angeles. SB481 allowed the City to use the tax increment revenues generated from its Downtown Redevelopment Project area to fund the System. With the demise of redevelopment in 2012, the State denied the provisions of SB481 and directed the Los Angeles County Auditor-Controller to stop remitting tax increment revenues from the Downtown Redevelopment Project area. As a result, the City is presently challenging the State's actions regarding SB481 and currently the Court directed the County to sequester the tax increment revenues owed to the City.

Validated bonds protect the City from future legal challenges. The proposed refunding bonds could be validated by either a validation proceeding, or by waiting 60 days following the adoption of the resolution. It is recommended that tonight's proposed refunding bonds be issued, following the expiration of the 60-day waiting period. Tonight's approval will initiate the start of the 60 day period.

Pursuant to a December 2014 Request for Proposal (RFP), Urban Futures, Inc. was selected as Financial Advisor on the proposed refinancing and pursuant to a January 2015 RFP for an underwriter, Bank of America Merrill Lynch and Raymond James were selected as underwriters for the proposed refinancing. Due to the bond size and taxable nature, staff recommends that the City engage two underwriters in order to increase the distribution network and marketing of the bonds. The increased demand for the bonds will likely reduce the interest rate and the overall financing cost. Bank of America Merrill Lynch is the City's main relationship bank and the City is currently engaged in other financings with the bank. This would be the first time the City engages Urban Futures as Financial Advisor, and Raymond James as co-underwriter on a bond financing.

Bank of New York Mellon Co. is the current Trustee on the 1999, 2004 and 2012 POBs. It is in the City's best interest to maintain Bank of New York Mellon as trustee on the proposed 2015 refunding bonds due to the trustee's familiarity with the bond indentures and the financings.

At a future date, and prior to issuing the refunding bonds, staff will return to the City Council to recommend approval of an Official Statement or other offering document, as well as a Bond Purchase Agreement that describes the final bond structure consistent with the attached resolution. Staff will analyze various financing structures for the issuance of a $123 million POBs which will accomodate a prepayment option for approximately $40 million bonds. The following are some of the options that will be analyzed:

1- Issuance of $83 million fixed rate bonds and $40 million variable rate bonds supported by a letter of credit;

2- Issuance of $83 million fixed rate bonds and $40 million mandatory tender bonds;

3- Issuance of $123 million fixed rate bonds with a call option on $40 million bonds;

4- Issuance of $123 million fixed rate bonds with an extraordinary optional redemption provision on $40 million bonds;

Staff will evaluate the cost and benefit of each of the above options along with other alternative options that may be recommended by the City's Financial Advisor and proposed by the Underwriters.

The attached resolution authorizes the issuance of Pension Obligation Bonds in an amount not to exceed $130 million at a true interst cost not to exceed 7.5% for fixed rate bonds. Staff estimates that the issue size will be approximately $123.5 million, the true interest cost for a fixed rate bond will be approximately 4.75% rate and the total borrowing cost for a variable rate bond will be at less than 1% in today's interest rate environment.

COUNCIL POLICY CONSIDERATION

As part of its Strategic Plan Goal to maintain Fiscal Responsibility and Stability, the City Council established as an objective development of a plan to address the challenges associated with funding the Fire and Police Retirement System. This report and the recommendation contained herein are intended to fulfill that objective.

FISCAL IMPACT:

The recommended action initiates the 60 day waiting period prior to issuing the bonds. Staff will return to City Council at the conclusion of the 60 day period from the adoption of the resolution and request that the City Council approve the Official Statement, the Bond Purchase Agreement and other related bond documents prior to issuing the POBs. At that time, staff will recommed the best financing structure for the proposed POBs and present the City's bond profile and a full fiscal impact analysis. The $50,000 advisory fee along with all other cost associated with this refunding will be paid out of the bond proceeds.

SB 481, which provided the necessary funds to pay the debt service on the current outstanding POBs, sunseted in Decemebr 2014. The Genearl Fund will pay all future debt service payments on the proposed 2015 POBs. The total annual debt service for a $123.5 million fixed rate bond with a term of thirty years is estimated at $7.5 million, as opposed to $5 million annual debt service for an $83 million bond issue.

Respectfully submitted,

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Interim Director of Finance
Department of Finance

Prepared by:

Vic Erganian
City Treasurer/Deputy Finance Director

Approved by:

MICHAEL J. BECK
City Manager

Attachments: (2)

Attachment 1 – First Supplemental Trust Agreement
Attachment 2 – Second Supplemental Trust Agreement