

# Agenda Report

February 9, 2015

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

**THROUGH:** Finance Committee

**FROM:** Department of Finance

**SUBJECT:** Joint Action: Extension of Bank of America Letter of Credit related to the Variable Rate Demand Refunding Certificates of Participation, Series 2008A (Conference Center Project)

## **RECOMMENDATION:**

It is recommended that the City Council and Pasadena Public Financing Authority (PPFA):

- 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) Approve the extension of the existing Bank of America Letter of Credit related to the City's Variable Rate Demand Refunding Certificates of Participation, Series 2008A (COPs) at a 0.34% annual fee for a term of three years and authorize the PPFA Executive Director/City Manager or the PPFA Treasurer/Director of Finance or any duly authorized designee thereof to execute and deliver an amendment to the Reimbursement Agreement, the Fee Letter and any and all such other documents, certificates and agreements necessary or desirable, including if applicable, any amendments to the Remarketing Agreement and the Official Statement relating to the COPs that may be required by the bank or the remarketing agent in connection therewith, in order to effect the extension of the letter of Credit on substantially the terms set forth in the attached Exhibit A "Summary of Terms and Conditions" with such additions and changes thereto as shall be approved by the officer executing such amendment to the Reimbursement Agreement.

**BACKGROUND:**

In 2006, the City sold \$162.64 million in Certificates of Participation (COPs) to finance the expansion of the Pasadena Conference Center. The COPs were issued with a AAA municipal bond insurance policy and in two series:

**Series A:** \$28 million Capital Appreciation Bonds (CABs); these are zero coupon bonds that effectively have a fixed interest rate and were not impacted by the financial crisis in the financial market in 2008.

**Series B:** \$135.5 million Auction Rate Certificates which carried a variable interest rate reset every seven days.

The City simultaneously entered into an interest rate swap agreement with Depfa Bank when it issued the series 2006B COPs. The swap requires the City to pay the bank a fixed rate equal to 3.536% and in return the City receives a variable rate equal to 64% of the London Interbank Offered Rate (LIBOR index), which effectively created a "synthetic fixed rate" of 3.536%. This synthetic fixed rate structure has provided the least cost of financing rate and enabled the project financing to meet its objectives.

As a result of the failure of the auction rate market in early 2008, the City's auction rate certificates were no longer generating the expected low financing cost. In April 2008, the City refunded its 2006B Auction Rate securities by issuing its 2008A Variable Rate Demand Refunding COPs. Variable Rate Demand Bonds or VRDBs are long-term bonds that carry a short-term interest rate that is reset every seven days. VRDBs, unlike auction rate bonds, have a seven day put feature and are backed by a liquidity facility and/or bank letter of credit (LOC).

The existing LOC from Bank of America related to the 2008A COPs expires on March 31, 2015 and needs to be extended or replaced in order for the bonds to be remarketed. Before recommending the extension, Finance staff solicited several banks, including many located in the City of Pasadena, to submit bids and a pricing for a three year term letter of credit. Only two banks responded, Bank of America and MUFG (Mitsubishi/Union Bank). The number of active participants in the LOC is limited. Most LOC providers are selectively authorizing LOCs, and in such cases often prefer essential credits (i.e., water and sewer and General Obligation credits). Most issuers have the best chance to obtain an LOC at a competitive rate from their primary banking relationship.

Prior to recommending the extension of the LOC, Finance staff has also reviewed other options including the refunding of the VRDBs with floating rate indexed Notes. After careful review of the proposals and an analysis of the cost, it is staff's recommendation to proceed with the extension of Bank of America LOC for a term of three years. This item has been presented to PCOC Board Finance Committee on February 4, 2015.

**COUNCIL POLICY CONSIDERATION:**

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

**FISCAL IMPACT:**

The recommended extension of the LOC at 34 basis points or 0.34% annual fee represents a reduction of 8.5 basis points or 20% from the current 0.425% or 42.5 basis point annual fee. This represents a reduction or savings of \$114,750 per year for the next three years to the cost of the borrowing. The cost of the City's bond counsel, Sidley Austin, will be capped at \$5,000 and the Bank Counsel fee will be capped at \$7,500. The following represents the total borrowing cost of the PCOC bonds:

Synthetic fixed rate	3.536%
Letter of credit fees:	0.34 %
Remarketing fees:	<u>0.07 %</u>
Total:	3.946 %

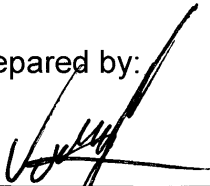
Funding for this action will be addressed by the utilization of existing budgeted appropriations in PCOC's fiscal year 2016 budget account number 8149-691-952300.

Respectfully submitted,



JULIE A. GUTIERREZ  
Interim Director of Finance  
Interim PPFA Treasurer

Prepared by:



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Deputy Director of Finance/City Treasurer

Approved by:



MICHAEL J. BECK  
City Manager  
PPFA Executive Director

Attachments: (1)  
Attachment A – Term Sheet