Agenda Report

January 22, 2018

TO: Honorable Mayor and City Council
Pasadena Public Financing Authority

THROUGH: Finance Committee

FROM: Director of Finance
PPFA Treasurer

SUBJECT: JOINT ACTION: EXTENSION OF THE MANDATORY TENDER OF THE OUTSTANDING 2006, 2013A AND 2013B ROSE BOWL LEASE REVENUE BONDS, TO 2019

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to 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; and

2. Adopt a resolution of the City Council of the City of Pasadena authorizing execution and delivery of supplemental bond indentures and one or more continuing covenant amendments with MUFG Union Bank N.A., relating to the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Refinancing and Improvement Projects) Series 2006, the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Renovation Project) Series 2013A (Tax-Exempt), and the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Renovation Project) Series 2013B (Taxable), and authorizing certain other actions relating thereto;

It is recommended that the Pasadena Public Financing Authority:

1. Adopt a resolution of the Board of the Pasadena Public Financing Authority authorizing execution and delivery of supplemental bond indentures and one or more continuing covenant amendments with MUFG Union Bank N.A., relating to the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Refinancing and Improvement Projects) Series 2006, the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Renovation Project) Series 2013A (Tax-Exempt), and the Pasadena Public Financing Authority Variable Rate Demand Lease Revenue Bonds (Rose Bowl Renovation Project) Series 2013B (Taxable), and authorizing certain other actions relating thereto;

BACKGROUND:

In February 2006, the Pasadena Public Financing Authority issued $47.3 million Variable Rate Demand Lease Revenue Bonds (Rose Bowl Refinancing and Improvement Project), to refinance the then outstanding 1991 and 1996 Rose Bowl Certificates of Participation ("COPs") and provide additional funds to complete improvements to the Rose Bowl stadium and other facilities. The improvements at that time consisted, primarily, of new locker room and press room facilities as well as a portion of the City Hall seismic retrofitting project. The 2006 Lease Revenue Bonds were issued as weekly variable rate demand bonds ("VRDBs"). Concurrently with the original issuance of the bonds, the City synthetically fixed the rate on the bonds by entering into an interest rate swap agreement which requires the City to pay a fixed rate of 3.285% on the notional amount of the swap and receive 65% of London Interchange Bank Offering Rate ("LIBOR") on a like amount.

The liquidity crisis that began in late 2007 had intensified in 2008 and placed severe pressure on banks and other financial institutions. As a result, the credit capacity of many banks that were able to continue to participate in the municipal credit market was reduced. As a result, in April 2011, the City Council approved a direct purchase of the City's outstanding Lease Revenue Bonds by MUFG Union Bank, pursuant to a negotiated deal by the Director of Finance of an initial term sheet which expires in 2018.

As a result of the incremental increase in the Rose Bowl project cost, in January 2013, the City restructured and partially refunded the 2006 Bonds by issuing the 2013A (Tax-Exempt) Series in the amount of $34.9 million, and 2013B (Taxable) Series Bonds in the amount of $19.065 million. The 2013A and 2013B Bonds were also privately placed with MUFG Union Bank. The 2013A Bonds and 2013B Bonds structure extended the Rose Bowl portion of the 2006 debt to 2043 and raised an additional $30 million of new money to complete the Rose Bowl project. The 2013A Bonds and 2013B Bonds had a mandatory tender date of January 2, 2018, which requires a remarketing of such bonds.

The 2017 Tax Cuts and Jobs Act greatly affected the timing and pricing of the City's remarketing of its Rose Bowl Bonds. The Act was signed into law on December 22, 2017 by President Trump but speculation of tax reform began in early January by Congress and the Trump Administration. In early September 2017, speculation of an imminent tax reform bill began to cause many banks to halt their pricing of new issuances until there was more clarity on the impact of the tax reform bill on tax-exempt bonds. Since the cutting the corporate tax would reduce the value of tax-exemption, banks had a "wait-and-see" approach to extend credit for new issues.

The City worked with Urban Futures, Inc., its municipal advisor, to help remarket the bonds, solicit new banks, and verify the pricing for the remarketing of the City's Rose Bowl Bonds. Urban Futures, Inc. contacted numerous banks including regional banks, national banks, and large Wall Street banks to verify the pricing. Due to the timing issue discussed and the upcoming expiration of the City's current remarketing bonds with MUFG Union Bank, only two banks were able to provide a pricing indication with non-identical and different terms. As a result, staff negotiated an extension of the current remarketing term with MUFG Union Bank subject to the City Council and the Pasadena Financing Authority's approval. The Bank agreed to hold the bonds past the mandatory tender date at the same negotiated price until the City Council and the Pasadena Public Financing Authority adopt the attached resolutions and extend the placement of the bonds with the MUFG Union Bank with the new revised remarketing date of January 2, 2019.

Extension of the mandatory tender/remarketing date of the bonds

The proposed action simply remarkets the bonds and privately places the remaining Series 2006, the Series 2013A and the Series 2013B Lease Revenue Bonds with MUFG Union Bank for a one year term with a new mandatory tender and remarketing date of January 2, 2019. The new rate for Series 2013A (Tax-Exempt) Bonds will be 67% of the one month London Interbank Offered Rate ("LIBOR") rate plus 0.80%, which equates to 1.83% interest rate in today's market. The Series 2013B (Taxable) Bonds will bear a fixed interest rate of 2.70%.

ENVIRONMENTAL ANALYSIS:

The proposed actions are governmental fiscal activities 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 to CEQA, no environmental document is required.

FISCAL IMPACT:

The proposed action is a remarketing of the Series 2006, 2013A and 2013B Lease Revenue Bonds and privately placing them with MUFG Union Bank for a period expiring on January 2, 2019. The proposed transaction does not extend the term of the bonds nor borrows additional funds.

The new pricing on the Series 2013A Bonds, which is the tax-exempt portion, will be 67% of one month LIBOR plus 0.80% compared to the prior 65% of LIBOR plus 0.75%. This equates to 1.83% interest rate in today's financial market and 0.08% higher than the prior pricing. The Series 2013B Bonds, which is the taxable portion, will bear a fixed interest rate of 2.70%, 0.80% higher than the prior fixed rate of 1.9%. As comparison, the one year Treasury rate has increased 1.60% from the last pricing date of the 2013B Bonds. The weighted average cost of funds or interest rate on the Series 2006, 2013A and 2013B will be 2.04% in today's interest market. Including the hedged portion of the bonds with the interest rate swap, the current weighted average cost of this financing to the Rose Bowl will be 2.63%. The one-time cost which includes bond counsel fees, bank counsel fees, and financial advisory fees is estimated to be 0.08% or $47,500.

Respectfully submitted,

MATTHEW E. HAWKESWORTH
Director of Finance
PPFA Treasurer

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Approved by:

STEVE MERMELL
City Manager
PPFA Executive Director