Agenda Report

March 12, 2018

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: **REDEMPTION AND PAYOFF OF THE OUTSTANDING BALANCE OF THE 2006 LEASE REVENUE BONDS RELATED TO CITY HALL FINANCING**

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;

2. Recognize revenue of $2,215,208 in the Redevelopment Property Tax Trust Fund and transfer the same to the Off-Street Parking Facilities Fund;

3. Authorize the transfer of $4,518,864 from the Off-Street Parking Facilities Fund to the General Fund and authorize the use of this revenue for the early redemption and payoff of the outstanding debt related to the 2006 Lease Revenue Bonds which totals $3,940,000; and

4. Authorize the allocation of the remaining balance of $578,864 (after payoff of outstanding debt) to the Section 115 Trust in order to continue pre-funding the City's pension contributions and Other Post-Employment Benefit (OPEB) liabilities.

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"), to provide additional funding for improvements at the Rose Bowl stadium, and to provide $9.4 million of new bond proceeds to finish the seismic improvement and renovation of Pasadena City Hall. The $9.4 million represented approximately 20% of the bond issuance and the General Fund has been paying the debt service on that portion of the bonds. 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.

As a result of the credit crisis in the financial markets, in 2011, the City privately placed the bonds with MUFG Union Bank, and in January 2013, the City restructured and partially refunded the bonds by issuing the 2013A (Tax-Exempt) Series in the amount of $34.9 million, and 2013B (Taxable) Series in the amount of $19.065 million. The 2013A and 2013B Bonds were also privately placed with MUFG Union Bank. The 2013A 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. However, the General Fund's portion of the Bonds in the outstanding amount of $3.94 million remained intact with its original term, principal amortization. These bonds have a mandatory tender in May 2018 which means the City has to pay off the outstanding balance or refinance and remarket the debt.

Given the relatively small amount of the outstanding debt and the costs associated with remarketing and replacing such debt, it is staff's recommendation to pay off this General Fund debt for economic and budgetary reasons.

There are two Sources of one-time revenues which make up the transfer of $4,518,864 from the Off-Street Parking Facilities Fund to the General Fund to pay off the outstanding debt. First, there is a $1,979,903 transfer from the Off-Street Parking Facilities Fund to the General Fund representing the repayment of debt service paid by the General Fund on behalf of the Off-Street Parking Fund for the Old Pasadena garages. This item was not included in the Fiscal Year 2018 operating budget. Second, as a result of the full redemption of the bonds issued by the City related to the original 1986 financing of garages, the City received $2,538,961 which, in accordance with the bond indenture, should be transferred from the Off-Street Parking Facilities Fund to the General Fund, the issuer, representing the return of excess funds held by the trustee.

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 will transfer $4,518,864 from the Off-Street Parking Facilities Fund to the General Fund for the early redemption and payoff of its outstanding debt related to the 2006 Lease Revenue Bonds. More specifically, this will reduce the General Fund's outstanding debt by $3,940,000 and reduce the General Fund's annual debt service payment by an average $730,000 annually from FY 2019-2024 for a total debt service savings of $4,380,000.

The staff recommendation includes transferring residual funds remaining to the Section 115 Pension Trust. As presented to the City Council when the trust was established, the City's pension costs are projected to double by 2031 with sharp increases between 2019 and 2024. Additionally, the CalPERS Board approved a new amortization policy a couple of weeks ago that reduced the amortization of all gains and losses going forward from a 30 year term to a 20 year term. As such, any gains or losses will have a greater and more profound effect on future rates. Based on these factors, staff is recommending the placement of these one-time funds to add to the initial deposit of $10 million in the trust fund and continue to safeguard the City's financial position in regards to the more than $500 million in unfunded accrued liability for pension.

Respectfully submitted,

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