

Agenda Report

September 14, 2020

TO: Honorable Mayor and City Council

THROUGH: Finance Committee on (September 10, 2020)

FROM: Finance Department

SUBJECT: **ADOPTION OF A RESOLUTION AND THE FIRST READING OF AN ORDINANCE AUTHORIZING THE INVITATION OF BIDS FOR THE PURCHASE OF WATER REVENUE/REFUNDING BONDS, 2020A SERIES OF SAID CITY; APPROVING A NOTICE OF INTENTION TO SELL BONDS, A PRELIMINARY OFFICIAL STATEMENT, AND A NOTICE INVITING BIDS; AUTHORIZING THE PUBLICATION OF A NOTICE OF INTENTION TO SELL BONDS; AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$50,425,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA WATER REVENUE/REFUNDING BONDS, 2020A SERIES, PAYABLE OUT OF THE WATER FUND; APPROVING THE EXECUTION AND DELIVERY OF A SIXTH SUPPLEMENT TO WATER REVENUE BOND INDENTURE, A CONTINUING DISCLOSURE AGREEMENT, AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION THEREWITH**

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. Adopt a resolution authorizing the invitation of bids for the purchase of water revenue refunding bonds, 2020A series of said city, approving a notice of intention to sell bonds, a preliminary official statement, and a notice inviting bids, authorizing the publication of a notice of intention to sell bonds, and authorizing certain other actions in connection therewith; and,

3. Conduct the first reading of **“AN ORDINANCE OF THE CITY OF PASADENA AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$50,425,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA WATER REVENUE/REFUNDING BONDS, 2020A SERIES, PAYABLE OUT OF THE WATER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF A SIXTH SUPPLEMENT TO WATER REVENUE BOND INDENTURE, AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH.”**

BACKGROUND:

In 2010, The City issued its 2010A Water Revenue Bonds pursuant to the City Council's adopted Water System Master Plan (Master Plan) as an 18-year plan for capital improvements to the water system. The 2010A bonds included funding for capital projects both inside and outside of the Master Plan. Some of the projects funded by proceeds of the 2010A bonds included the installation of water mains, meters, and services and upgrade of facilities in accordance with the Water Distribution System Master Plan; the design and installation of chloramine disinfection facilities to replace existing chlorine stations, and the design and preparation of environmental review documents for improvements to the water intake and spreading basin infrastructure in the Arroyo Seco.

The 2010A Water Revenue Bonds were issued as Build America Bonds (BABs). The BABs were issued with a “call” feature that provides the option to refund the bonds in December 2020, prior to their stated maturity. The proposed action today is for the refinancing of the outstanding 2010A bonds without an extension of the June 1, 2040 final maturity (Debt Service Schedule Comparison attachment) and the borrowing of up to \$25 million in new proceeds to finance capital improvement projects to the Water System with maturities from June 1, 2021 through June 1, 2050. The new proceeds of the 2020A Water Revenue/Refunding Bonds will be used to finance the following projects:

- a- Installation of new and replacement water mains at various locations, including installation of new valves, water service connections, fire hydrants and other improvements to water flows for fire protection and water quality.
- b- Replacement of Sunset Reservoirs, including replacement of disinfection facility, upgrade of the Glorrieta Booster Station, and treatment to address water quality deficiencies for wells in the area and improvements to the appearance of the site.

- c- Replacement/improvement of existing wells and design/construction of new wells to manage local water supplies, improve water quality and promote a sustainable groundwater basin.
- d- Replacement of meters and equipment, including vaults, boxes and lids upgrading efficacy of the planned water delivery system improvements.

Currently, the Water Fund pays an average taxable rate of 7.19% on the outstanding 2010A bonds with an equivalent tax-exempt rate of 4.67% after receiving the BABs subsidy from the Internal Revenue Service. At today's market rates as of August 25, 2020, the City could refund these bonds at an estimated true interest cost of 2.43% and realize a net present value savings of \$7.66 million or 30% of the refunded bonds. However, the competitive bidding of the proposed refunding bonds is not scheduled until November 16, 2020. Given the risk of changes in interest rates, there is no guarantee that the same economic savings from the refunding could be achieved in November 2020 when the competitive bidding occurs; therefore it is staff's recommendation to proceed with the refunding and the competitive sale of the 2020A Water Revenue Refunding Bonds as long as the City anticipates a net present value savings of a minimum \$1.27 million or 5.0% of the refunded bonds.

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

COUNCIL POLICY CONSIDERATION:

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

GOOD FAITH ESTIMATES:

Pursuant to Senate Bill 450, the following good faith estimates with respect to the 2020A Water Revenue /Refunding Bonds are: (1) the "true interest cost" is currently estimated to be 2.43%; (2) the "finance charge" is estimated to be \$350,438; (3) the "amount of proceeds" received is estimated to be \$49,690,733; and (4) the "total payment amount" is estimated to be \$66,594,063 to the final maturity.

FISCAL IMPACT:

The 2020A Water Revenue/Refunding Bonds will be sold on a competitive basis with a maximum term of 30 years and will bear fixed interest rates. It is estimated that the bonds will have an average life of 14.71 years with final maturity in fiscal year 2050. The true interest cost is currently estimated at 2.43% based on current market rates, which is subject to change until the actual bidding is complete on the scheduled November 16, 2020 date. Debt service payments will be made from the Water Fund and will be addressed by utilization of existing budgeted appropriations in Account #42008300-867700. Funds for the debt service payments are available from currently approved water rates.


Respectfully submitted,


MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:


Vic Erganian
City Treasurer/Deputy Director of Finance

Concurred by:


Bawa Gurcharan
General Manager
Water & Power Department

Approved by:


STEVE MERMELL
City Manager

Attachments:

- 1- Preliminary Official Statement
- 2- Notice Inviting Bids
- 3- Sixth Supplement to Bond indenture
- 4- Continuing Disclosure Agreement
- 5- Notice of Intention to Sell bonds
- 6- Debt Service Schedule Comparison