

Agenda Report

September 13, 2021

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Finance Department

SUBJECT: ADOPTION OF A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA, CALIFORNIA, AUTHORIZING THE INVITATION OF BIDS FOR THE PURCHASE OF WATER REVENUE/REFUNDING BONDS, 2021A SERIES, OF SAID CITY; APPROVING A NOTICE OF INTENTION TO SELL BONDS, A PRELIMINARY OFFICIAL STATEMENT, A NOTICE INVITING BIDS; AUTHORIZING THE PUBLICATION OF A NOTICE OF INTENTION TO SELL BONDS AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH; FIRST READING OF AN ORDINANCE OF THE CITY OF PASADENA AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$27,645,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA WATER REVENUE/REFUNDING BONDS, 2021A SERIES, PAYABLE OUT OF THE WATER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF A SEVENTH SUPPLEMENT TO WATER REVENUE BOND INDENTURE AND A CONTINUING DISCLOSURE AGREEMENT 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 of the City of Pasadena authorizing the invitation of bids for the purchase of Water Revenue Refunding Bonds, 2021A 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 \$27,645,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA WATER REVENUE/REFUNDING BONDS, 2021A SERIES, PAYABLE OUT OF THE WATER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF A SEVENTH SUPPLEMENT TO WATER REVENUE BOND INDENTURE AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH.”**

BACKGROUND:

In August 2003, the City issued \$47,425,000 aggregate principal amount of its Water Revenue and Refunding Bonds, 2003 Series for the purpose of providing moneys to finance the costs of acquisition and construction of certain improvements to the water system, to refund outstanding debt of the water system, to fund a parity reserve fund, and to pay the costs of issuance of the 2003 Bonds. In 2011, the City refunded a portion of the then outstanding 2003 Series Bonds in the amount of \$30,560,000 and generated significant debt service savings.

The current outstanding amount of 2011A Series Bonds is \$13,855,000 with interest rates ranging from 4.0% to 3.0% for maturities beginning in 2022 and ending in 2033. The 2022 maturity is non-callable; therefore, the City can only refund the 2023 through 2033 maturities in the total outstanding amount of \$12,645,000. In today's interest rate environment, it is economical to refund the 2023 through 2033 maturities. Current market yields for water system bonds for the same maturities are estimated to range from approximately 0.06% to 0.98%. Staff is recommending to refund the \$12,645,000 outstanding 2011A Bonds without an extension of the June 1, 2033 final maturity and borrow an additional \$15,000,000 to finance certain capital projects related to the water system with maturities from June 1, 2022 through June 1, 2051.

The Refunding Portion:

The refunding portion of the proposed Water Revenue Refunding Bonds, 2021A Series will produce significant debt service savings, which can be obtained over the term of the new bonds. The 2021A Bonds will be issued with fixed interest rates and sold on a competitive basis with the same maturities as the existing 2011A Bonds to be refunded. The bidders will compete to purchase the 2021A Bonds from the City based on the lowest true interest cost on the 2021A Bonds. Based on market conditions as of August 11, 2021 and the proposed bond structure, the anticipated savings on the refunding portion of the 2021A Series are estimated at an average of \$200,000 per year or \$2.06 million on a net present value basis representing a net present value savings of 16.3% of the refunded principal.

The New Money Portion:

In addition to refunding the 2011A Series Bonds, it is staff's recommendation to raise an additional \$15,000,000 of new bond proceeds to finance the following capital projects related to the Pasadena water system:

Distribution Mains	Installation of new and replacement water mains at various locations, including installation of new gate valves, water service connections, fire hydrants and other improvements to water flows for fire protection.
Reservoir Improvements	Major renovation/seismic upgrade of Sunset Reservoir units, including roof replacement, relining the floors, replacement of inlet and outlet valves and improvement of structural supports.
Well Improvements	Replacement/improvement of existing wells and design/construction of new wells to improve local water supply and sustainability.
Meters and Services	Replacement of meters and equipment, including vaults, boxes, and steel plates to upgrade efficiency of the water delivery system.

The amount of the New Money Portion is determined by a number of factors, including overall projected cash flow requirements for the Water System Capital Improvement Program projects (3-5 years), available cash reserves, projected "pay-go" funding from rates and available debt capacity. Pay-go funding from rates can vary significantly year over year because much of the current water rate structure is volumetric, so revenues are based on the units of water sold. To ensure sufficient funding from all resources, the cash flow analysis and revenue requirements projections are updated frequently.

The attached Resolution and Ordinance authorize the issuance of, and approve the various documents in connection with, the issuance of the 2021A Bonds, with a principal amount not to exceed \$27.645 million and at a true interest cost not to exceed 4.0%. The resolution also appoints Nixon Peabody, LLP as bond and disclosure counsel, and Public Resources Advisory Group as municipal advisor.

Consequently, staff is requesting issue authorization of up to \$27.645 million to provide the maximum flexibility to take advantage of market conditions.

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 2021A Bonds are: (1) the "true interest cost" is currently estimated to be 2.33%; (2) the "finance charge" is estimated to be \$300,863; (3) the "amount of proceeds" received is estimated to be \$28,431,967; and (4) the "total payment amount" is estimated to be \$37,014,375 to the final maturity.

FISCAL IMPACT:

In today's interest rate environment, it is anticipated that the Water Fund could realize up to \$2.06 million in net present value savings from the refunding of the 2011A bonds representing an estimated annual savings of \$200,000 through June 30, 2033. Under current market conditions, the true interest cost of the 2021A Bonds is estimated at 2.33%. The average annual debt service on the new money portion is estimated at \$786,600 for a period of 30-years. The average annual debt service on the refunding portion is estimated at \$1,112,000 for the remaining 12-years. Debt service payments will be addressed by the utilization of existing and future budgeted appropriations made from the Water Fund and funds are available from current rates. Attachment A, represents the estimated sources and uses of funds based on market interest rates, which are subject to change, as of August 11, 2021.


Respectfully submitted,


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Attachments: (2)

Attachment A: Estimated Sources and Uses of Funds

Attachment B: Preliminary Official Statement