

Agenda Report

January 23, 2023

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):

1. 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; and
2. Adopt a Resolution approving the form of and authorizing the execution and delivery of a Sixth Amendment to the Reimbursement Agreement; and authorizing the execution and delivery of other related documents and approval of other documents and actions in connection therewith.

BACKGROUND:

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

Series A: \$28 million Capital Appreciation Bonds (CAB's); 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 that reset every seven days.

The City simultaneously entered into an interest rate swap agreement with Depfa Bank when it issued the series 2006B COP's. 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 lowest cost of financing rate and enabled the project financing to meet its objectives. The City later replaced Depfa Bank with Royal Bank of Canada as swap counterparty.

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 COP's. Variable Rate Demand Bonds or VRDB's are long-term bonds that carry a short-term interest rate that is reset every seven days. VRDB's, unlike auction rate bonds, have a seven-day put feature and are required to be backed by a liquidity facility and/or bank letter of credit (LOC).

The current LOC from Bank of America related to the 2008A COP's expires on March 31, 2023 and needs to be extended or replaced in order for the bonds to be remarketed. Before recommending the extension, Finance staff along with Mr. John Phan of Companile Group, Inc., the City's Municipal Advisor, reviewed the financial market for standby letters of credits and solicited providers. Most LOC providers are selectively authorizing LOC's and in such cases often prefer essential credits (i.e., water, sewer, or General Obligation credits). Most issuers have the best chance to obtain a LOC at a competitive rate from their primary banking relationship. Bank of America is the City's primary banking relationship.

Prior to recommending the extension of the LOC, Finance staff has also reviewed other options including the refunding of the VRDB's. After careful review of the analysis of the refunding cost, which would require the liquidation of the existing swap, it is staff's recommendation to proceed with the extension of Bank of America's LOC for a term of two-years at a rate of 0.30%. This item will be presented to the Pasadena Center Operating Company (PCOC) Board's Executive Committee on January 19, 2023.

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 30 basis points or 0.30% annual fee represents an annual decrease of 9 basis points or 0.09% from the current 0.39% annual LOC fee. This represents a \$121,230 savings per year in the LOC fees for the next two-years for a total savings of \$242,460. The cost of the City's bond counsel, Norton Rose Fulbright US LLP, will be capped at \$7,500 plus expenses capped at \$500, 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:	0.300%
Remarketing fees:	<u>0.070%</u>
Total:	3.906 %

Funding for this action will be addressed by the utilization of existing budgeted appropriations in PCOC's Fiscal Year 2023 Operating Budget.

Respectfully submitted,



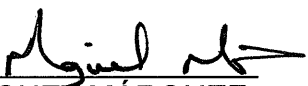
MATTHEW E. HAWKESWORTH
Director of Finance
PPFA Treasurer

Prepared by:



Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:



MIGUEL MÁRQUEZ
City Manager
PPFA Executive Director

Attachments: (2)

Attachment A - Fee Agreement
Attachment B - Sixth Amendment to Reimbursement Agreement