



Agenda Report

May 13, 2024

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: City Manager

SUBJECT: **ADOPTION OF A RESOLUTION AND THE FIRST READING OF AN ORDINANCE AUTHORIZING THE ISSUANCE OF THE ELECTRIC REVENUE/REFUNDING BONDS 2024A SERIES IN AN AMOUNT NOT TO EXCEED \$125,000,000 AGGREGATE PRINCIPAL AMOUNT**

RECOMMENDATION:

It is recommended that the City Council:

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;
2. Adopt a Resolution authorizing the invitation of bids for the purchase of Electric Revenue/Refunding Bonds, 2024A 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; and
3. Conduct the first reading of "AN ORDINANCE OF THE CITY OF PASADENA AUTHORIZING THE ISSUANCE BY THE CITY OF NOT TO EXCEED \$125,000,000 AGGREGATE PRINCIPAL AMOUNT OF CITY OF PASADENA ELECTRIC REVENUE/REFUNDING BONDS, 2024A SERIES, PAYABLE OUT OF THE LIGHT AND POWER FUND, AND APPROVING THE EXECUTION AND DELIVERY OF AN ELEVENTH SUPPLEMENT TO ELECTRIC REVENUE BOND FISCAL AGENT AGREEMENT, AND A CONTINUING DISCLOSURE AGREEMENT IN CONNECTION THEREWITH".

BACKGROUND:

In 2013, the City of Pasadena issued its Electric Revenue Refunding Bonds, Series 2013A in the aggregate amount of \$80,485,000. Along with the net premiums, the bonds generated net proceeds of \$85,164,822. The proceeds of the bonds were used to replace the existing Glenarm Power Plant steam generating Unit B3 with a new natural gas-fired combined-cycle unit known as the Gas Turbine Unit 5 ("GT5 Repowering Project") in the amount of \$60,000,000, to fund a portion of the capital improvement program of the electric distribution system in the amount of \$12,915,000, refinance the then outstanding 2002 bonds in the amount of \$3,535,000, fund a parity reserve fund deposit in the amount of \$7,906,583, and finance the cost of issuance of the 2013A bonds in the amount of \$790,578.

The proposed Revenue Bonds will be issued in compliance with Article XIV of Pasadena's City Charter. The revenue bonds shall not constitute an indebtedness of the City, but shall constitute obligations, which shall be payable only from the Light and Power Fund.

The Refunding:

The current outstanding balance of the 2013A Bonds is \$65,445,000 with coupon interest rates ranging from 4.25% to 5.0%. Current market yields for Electric System bonds for the same maturities are approximately 3.37%. Since the 2013A Bonds can be optionally redeemed at 100% anytime on or after June 1, 2023, by the City, the difference in the fixed interest rates being paid on the 2013A Bonds and the current market yields presents an opportunity to generate savings by way of refunding the entire balance of the 2013A Bonds.

The 2024A Bonds will be issued with fixed interest rates and sold on a competitive basis. The refunding portion of the bonds will have a term of eighteen-years with the final maturity on August 1, 2042. Through the competitive sale process, the bonds will be sold to the bidder who will compete based on the lowest true interest cost (TIC). Based on current market conditions and the proposed bond structure, the anticipated net present value savings are expected to be approximately \$6,369,000 or 10.04% of the refunded bonds. The estimated average annual debt service savings will be \$465,000 for Fiscal Years (FY) 2025 through 2043.

The New Money Portion:

It is also being recommended that the Water and Power Department borrow an additional net \$50,000,000, through this transaction to finance various capital projects of the power system. The funds will support the capital improvement plan as outlined in the Power Delivery Master Plan for the ongoing modernization and reliability of the power system. The projects to be funded by the bonds include:

- Distribution voltage conversion projects
- Multiple substation modernization and upgrades to meet reliability needs
- Sub-transmission system upgrades
- Distribution system expansion and replacements
- Pole and transformer replacements

The new money portion of the bonds will be structured as thirty-year bonds with a level debt service and a final maturity in year 2054. The attached Exhibit A represents the estimated sources and uses of funds of the Electric Revenue/Refunding Bonds, 2024A Series.

The Resolution and Ordinance authorize the issuance of and approve the various documents in connection with the issuance of the Electric Revenue/Refunding Bonds, 2024A Series, with a principal amount not to exceed \$125,000,000 and at a true interest cost not to exceed 5.5%. The resolution also appoints Best Best & Krieger LLP as bond and disclosure counsel and the firm PFM Financial Advisors as municipal advisor.

COUNCIL POLICY CONSIDERATION:

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

FISCAL IMPACT:

In today's interest rate environment, it is anticipated that the Electric Fund will realize an estimated \$6,369,000 in net present value savings with an average annual debt service savings of \$465,000 from FY 2025 through 2043. The actual savings will be dependent on the market conditions at the time the actual bidding is completed, currently scheduled for July 15, 2024. There will be no extension of the current term on the refunding bonds, which have a final maturity on June 1, 2043. The new money portion of the bonds will have a term of thirty-years with the final maturity in 2054. The 2024A bonds will be issued with fixed interest rates and sold on a competitive basis. The TIC is estimated at 3.71% based on current market rates. Debt service payments will be made from the Light and Power Fund and funds are available from currently approved rates. The attached Exhibit A lists the estimated sources and uses of funds based on today's market interest rates.

Pursuant to Senate Bill 450, the true interest cost of this financing is currently estimated to be 3.71%. The amount of proceeds to be received by the City is estimated to be \$113,293,163. The total principal and interest payment amount is estimated to be \$171,874,823 to the final maturity of the 2024A Bonds. The finance charge associated with this transaction is estimated to be \$800,000.

Respectfully submitted,


MATTHEW E. HAWKESWORTH
Director of Finance

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Deputy Director of Finance/City Treasurer

Approved by:


MIGUEL MARQUEZ
City Manager

Concurred by:


DAVID REYES
Acting General Manager, Water and
Power

Attachments: (2)

- (1) Attachment A - Exhibit A – Sources and Uses of Funds
- (2) Attachment B - Preliminary Official Statement