

Agenda Report

APRIL 26, 1999

THROUGH: City Council Finance Committee
TO: CITY COUNCIL
FROM: CITY MANAGER
SUBJECT: RESOLUTION OF THE CITY COUNCIL AUTHORIZING THE
ISSUANCE OF ONE OR MORE CITY OF PASADENA PENSION
OBLIGATION BONDS, APPROVING THE FORM OF AND
AUTHORIZING THE EXECUTION AND DELIVERY OF A TRUST
AGREEMENT, A REIMBURSEMENT AGREEMENT, AN ISDA MASTER
AGREEMENT AND A VALIDATION ACTION AND AUTHORIZING
OTHER MATTERS RELATING THERETO

RECOMMENDATION

It is recommended that the City Council approve a Resolution authorizing the issuance of one or more City of Pasadena Pension Obligation Bonds, approving the form of and authorizing the execution and delivery of a Trust Agreement, a Reimbursement Agreement, an International Swap Delivery Master Agreement (ISDA), and a Validation Action and other related matters.

BACKGROUND

The City Charter established the Fire and Police Retirement System and prescribed certain benefits to police and fire employees who are members of the System. In 1977, the Charter was amended and the FPRS was closed to all new members. New public safety employees of the Police and Fire Departments were then covered under the State's Public Employee Retirement System. In 1977, the Charter was also amended to provide for a cost-of-living adjustment (COLA) for FPRS beneficiaries comparable to changes in the regional consumer price index.

Due to the uncapped COLA provision, System costs grew at a faster pace than the annual City's contribution and in 1991, the City and the System entered into a

Contribution Agreement which called for the City to make annual supplemental financial contributions to the FPRS. These contributions included the annual net proceeds of tax increment received by the City from the Downtown Redevelopment Project Area and an annual fixed amount from the City's General Fund, beginning with \$3,118,343 and growing to \$4,786,458. Payments from the Downtown tax increment will cease in 2014, while the General Fund contributions are scheduled to be reduced by \$3 million per year in 2024.

DISCUSSION

On March 15, 1999 the City Council approved a new Contribution Agreement. This Agreement was also approved by the FPRS Board on March 18, 1999. Among other things, the Contribution Agreement calls for the City to issue Pension Obligation Bonds. The net proceeds (expected to be approximately \$100 million) will be paid to the System by the City. In exchange for this, the FPRS will conditionally assign to the City all cashflow specified under the previous contribution agreement. This cashflow will be used to cover the City's Pension Obligation Bond debt service.

The action before the City Council will authorize the City to proceed with the Pension Obligation Bonds, approve in substantially final form all bond documents (with the exception of the Official Statement), and authorizes the filing of a validation action with the courts. This validation action will ask the courts to validate:

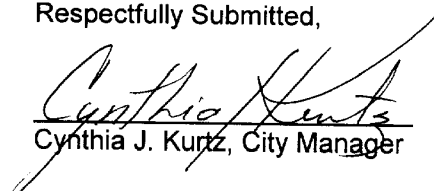
1. the current level of unfunded actuarially accrued liability owed to the System,
2. the City's rights to use SB481 funds to pay debt service on the Pension Obligation Bonds,
3. the City rights to use SB481 funds to pay any supplemental payment, if any, to the System, and
4. the City's rights to bank any surplus SB481 funds to pay any subsequent year's Pension Obligation Bond debt service or supplemental payment.

Under normal circumstances, the validation action usually takes approximately 60 days from the date of filing until the court renders its final ruling. Once validated by the courts, the City will proceed with the actual issuance of the bonds. The final maturity of the bonds is expected to be in 2022.

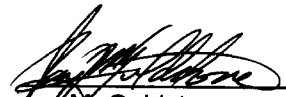
FISCAL IMPACT

It is projected that the annual debt service on the bonds will be approximately \$8 to \$9 million annually. The projected cashflow being conditionally reassigned to the City by the FPRS is projected to be adequate to cover this expense.

Respectfully Submitted,


Cynthia J. Kurtz, City Manager

Approved:


Jay M. Goldstone
Director of Finance