

Council Meeting of
October 20, 2009

Honorable Mayor and Members
Of the City Council
City Hall
Torrance, California

Members of the Council:

Subject: Finance – Explore refunding of the City of Torrance 1998 Certificates of Participation

RECOMMENDATION

Recommendation of the Finance Director that the City Council direct staff to explore refunding the City of Torrance 1998 Certificates of Participation concurrently with the PPG land acquisition financing.

BACKGROUND

The City of Torrance (the “City”) issued refunding certificates of participation in December 1998 (the “1998 COP”) which combined the two related COP’s for the police and fire projects of 1991. At the time of the 1998 COP, the City recognized present value savings from the consolidation of the two 1991 transactions as well as generating additional proceeds to improvements.

The 1998 COP currently has \$6,985,000 outstanding with a final maturity in December 2028. The average interest rate for the remaining balance is 4.74%. The 1998 COP is eligible for redemption or call on any date with no call premium due.

Refunding Plan

The 1998 COP, if refunded, would produce present value savings of roughly 2% about \$133,000 or \$17,000 annually in reduced debt service, a reduction of about 50 basis points (0.5%)

Given the relatively small size of the 1998 COP, the refunding of these COP’s by itself would not be cost effective.

The City is moving forward with its PPG land acquisition financing and anticipates issuing new certificates of participation to fund the purchase. As part of this financing, certain fixed financing costs are already programmed into the financing plan. The incremental costs associated with incorporating the refinancing of the 1998 COP are relatively low. Based on this scenario, the City can take advantage of the low interest rate market and refinance the 1998 COP without the need of incurring the entire financing cost load. The savings (present value) would increase to about 4%, about \$213,000 in present value savings or \$20,000 annually in reduced debt service.

Another benefit of refunding the 1998 COP concurrently with the PPG land acquisition financing is the release of the police building as collateral for any financing. The refunding

of the 1998 COP would be secured with the same property as the PPG land acquisition financing (Civic Center). This would allow the police building to be unencumbered and available for any future COP's the City might consider.

Staff did explore extending the maturity date of the 1998 COP's to match the proposed land acquisition financing of September 2039. The extension would benefit the City in the initial 18 years of about \$120,000 but require additional cash flow in the later 12 years when the old obligation would have matured. By extending 12 years, the average interest cost for the 1998 COP's would increase to about 4.89%. At this time, staff is not recommending to extend the maturity date.

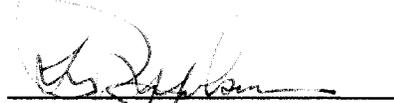
Staff is recommending that the City Council direct staff to explore refunding the City of Torrance 1998 COP's concurrently with the PPG land acquisition financing.

Respectfully submitted,



Eric E. Tsao
Finance Director

CONCUR:



LeRoy J. Jackson
City Manager