



CITY OF MODESTO
COUNCIL AGENDA REPORT

COUNCIL MEETING:

March 13, 2012

February 29, 2012

TO: Mayor and City Council

FROM: Garrad Marsh, Mayor

SUBJECT: AB2131- Local Government Investments in Property Assessed Clean Energy (PACE) Bonds

CONTACT: Greg Nyhoff, City Manager, 577-5224, gnyhoff@modestogov.com

DESCRIPTION:

Consider recommending City Council support of Assembly Bill 2131 (Olsen/Cannella).

BACKGROUND:

Existing law (GC 53601) authorizes the legislative body of a local agency, as defined, that has a sinking fund or moneys in its treasury that is not required for immediate needs to invest in specific investments, including, among other things, United States Treasury notes, bonds, bills, or certificates of indebtedness, and bonds issued by the local agency.

This bill would authorize the legislative body of a city, county, or city and county to invest up to five percent (5%) of the city, county, or city and county's aggregate investment funds in Property Assessed Clean Energy (PACE) bonds or local PACE eligible projects.

FISCAL IMPACTS AND ANALYSIS:

For the purposes of analyzing the effects of this bill, Finance staff consulted with Peter Miller and PFM Asset Management to provide a general opinion as to any fiscal impacts from such a proposed bill to the City. They concluded that while there is a potential for a higher yield on investment returns it is also possible that the securities will be illiquid.

In summary, their analysis provided that as it pertains to the potential risks associated with investments in PACE bonds, a higher potential for return in these types of bonds does exist, but any such advantage comes about as a result of added risk due to a smaller, potentially less transparent market base. Investors buying these would be made aware that liquidity is diminished and risk is increased for the following reasons:

- There is no likely no secondary market for these securities, making these illiquid—there are currently no institutional buyers such as municipal bond fund managers, corporations, or insurance companies that provide liquidity. Currently, the only category of buyers showing any interest are a limited number of mortgage bankers who are familiar with complex mortgage pass-through structures, which PACE funds resemble.

- The financing structures for these types of bonds is similar to private placement issues, a type of investment which is familiar to sophisticated buyers (e.g. hedge funds and other large institutional investors) purchase. Per current industry standards, any investor purchasing this investment may be required to acknowledge that they are a qualified institutional investor (QIB), which the City may not be.
- Issuance for PACE bonds has been limited to a few entities most issues are very small in size. It could be difficult to find enough issues to build a worthwhile position in the City's portfolio while maintaining any diversification necessary for prudent management.
- This type of investment would differ from the typical objectives of a public agency portfolio that focuses on stability and liquidity.

COMMITTEE RECOMMENDATION:

No committee recommendation was sought.

STRATEGIC PLAN ELEMENT:

Strategic Commitment: Provide an innovative and accountable city government that embraces a standard of service excellence through adaptive leadership and responsive public service.

RECOMMENDED COUNCIL ACTION:

Resolution supporting Assembly Bill 2131 (Olsen/Cannella)

Approved by:

Greg Nyhoff, City Manager

Attachments: A) Resolution
 B) Fact Sheet
 C) PACE Eligible Projects