

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

R-25

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802 • (562) 570-6845 • Fax (562) 570-5836

July 6, 2010

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Adopt the attached Resolution authorizing the City Manager to execute documents for the renewal of the Letter of Credit enhancement for the City of Long Beach Gas and Oil (LBGO) Department's Subordinate Revenue Commercial Paper Notes Series A and Series B (Taxable) at an annual cost not to exceed \$125,000 (Citywide)

DISCUSSION

On July 12, 2005, the City Council adopted a resolution authorizing the issuance of the Gas Utility commercial paper program up to \$35,000,000 and authorizing the City Manager to execute all necessary documents (attached). The Letter of Credit is a credit guarantee that supports the commercial paper program.

The purpose of the commercial paper program is to provide LBGO financing for certain capital improvements. These improvements include selective removal and replacement of aging gas pipeline, meters, and valves; upgrade from six pressure districts to one uniform pressure district; upgrade or removal of district regulating stations; and upgrades to the cathodic protection system. Upgrading the overall gas infrastructure system will increase safety and lower operating costs.

Improvement costs are proposed to be partially financed utilizing the short-term commercial paper program. Currently, \$5,504,000 of commercial paper is outstanding. It is common industry practice to use short-term commercial paper financing, followed by longer term financing, to fund ongoing utility infrastructure programs. To meet its current short-term infrastructure funding needs, LBGO plans to renew the expiring letter of credit at a level sufficient to guarantee \$15,000,000 of outstanding commercial paper. As projected short-term infrastructure needs evolve, the letter of credit guarantee may be adjusted accordingly.

This item was reviewed by Chief Assistant City Attorney Heather A. Mahood on June 24, 2010 and Budget Management Officer Victoria Bell on June 14, 2010.

HONORABLE MAYOR AND CITY COUNCIL
July 6, 2010
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TIMING CONSIDERATIONS

City Council action is requested on July 6, 2010 in order to have a new Letter of Credit in place, as the current Letter of Credit expires July 27, 2010.

FISCAL IMPACT

There is no General Fund impact. The letter of credit relates to the Gas Fund (EF301) and will be paid from the commercial paper program proceeds that will be secured by a pledge of the Gas Utility Enterprise. The annual cost to the Gas Fund will not exceed \$125,000. There are no local jobs impacted by this action.

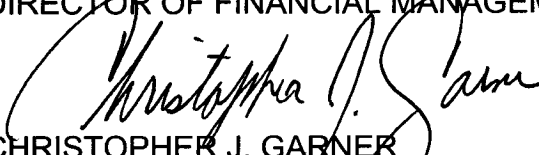
SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

LAF:DN:EF
K:\EXEC\COUNCIL LETTERS\TREASURY\07-06-10 CCL - 2010 GAS UTILITY REVENUE COMMERCIAL PAPER LETTER OF CREDIT RENEWAL.DOC

ATTACHMENTS: A – JULY 12, 2005 CITY COUNCIL LETTER
RESOLUTION
B – JUNE 25, 2010 JPMORGAN CHASE LETTER

APPROVED:



PATRICK H. WEST
CITY MANAGER



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802 • (562) 570-6169 • Fax (562) 570-5836

~~R-24~~

July 12, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Adopt the attached Resolution authorizing the issuance of gas utility commercial paper in an amount not to exceed \$35 million and authorize the City Manager to execute all necessary documents. (Citywide)

DISCUSSION

The Long Beach Energy Department (LBE) has thoroughly updated its Natural Gas Utility's long-term infrastructure improvement plan. The natural gas infrastructure consists of over 1,800 miles of underground pipelines and nearly 150,000 meters. This pipeline system is, and must continue to be, maintained in compliance with U.S. Department of Transportation (DOT) guidelines and standards. *The DOT standards require regular maintenance and replacement.*

Industry practices suggest gas infrastructure replacement is required every 50 to 70 years to maintain system integrity, ensure its safe operation and minimize capital costs. An increasingly large segment of LBE's Gas Utility pipeline is approaching this replacement threshold as the majority of the pipeline was installed during Long Beach's peak growth period during the 1940s, 50s and 60s.

Age alone is not the deciding factor relative to replacement. Pipeline replacement also takes other factors into consideration such as the results of annual leakage and corrosion control surveys. LBE coordinates planned pipeline upgrades with roadwork planned by other City departments to the greatest extent possible.

Over the past 15 years, investments in the system have been sufficient to maintain a safe system, including approximately \$8.5 million from Gas Utility revenues on critical capital improvements between 2002 and 2004. However, the investment strategy for the Gas Utility's infrastructure needs must change to implement a long-term plan for upgrading the gas infrastructure for the upcoming decade and beyond.

LBE expects to spend approximately \$56 million on capital improvements to the Gas Utility Enterprise between 2005 and 2011. These improvements consist primarily of selective removal of aging pipeline; removal or replacement of 300 gate valves; upgrade from six pressure districts to one uniform pressure district; upgrade or removal of approximately 40 district regulating stations; upgrades to the cathodic protection system; and, significant improvements to the geographic information system (GIS). Upgrading the overall system will increase safety and lower operating costs. Improvement costs are proposed to be financed utilizing the short-term commercial paper program requested through this Council action, which will subsequently be refinanced with a long-term bond. LBE ongoing revenues will pay for the annual debt.

HONORABLE MAYOR AND CITY COUNCIL
July 12, 2005
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The Department believes this updated infrastructure improvement plan is critical to ensuring that LBE accomplishes its Strategic Plan goal to provide safe, reliable and cost effective energy to the citizens and businesses of Long Beach. It is common industry practice to use short-term commercial paper, followed by longer term financing, to fund utility infrastructure programs.

This item was reviewed by Chief Assistant City Attorney Heather A. Mahood and Budget Management Officer David Wodynski on June 27, 2005.

TIMING CONSIDERATIONS

City Council action on this item is requested on July 12, 2005, so funding can be in place in the next few weeks. Construction progress on various capital improvement projects may be delayed until this funding is in place.

FISCAL IMPACT

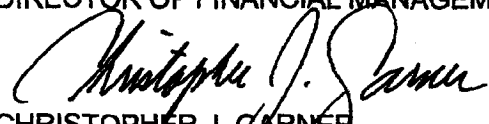
There is no General Fund impact as the capital improvement projects relate to the Gas Fund (EF301) and will be paid from the commercial paper program proceeds that will be secured by a pledge of the Gas Utility Enterprise.

SUGGESTED ACTION:

Approve Recommendation.

Respectfully submitted,


MICHAEL A. KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT


CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH ENERGY AND OIL PROPERTIES

APPROVED:


GERALD R. MILLER
CITY MANAGER

Attachment:

- Resolution
 - Master Subordinate Trust Indenture
 - First Supplemental Subordinate Trust Indenture
 - Issuing and Paying Agent Agreement
 - Reimbursement Agreement
 - Bank Note
 - Commercial Paper Dealer Agreement
 - Offering Memorandum



June 25, 2010

Mr. David Nakamoto
 City Treasurer
 City of Long Beach
 333 West Ocean Blvd, 6th Floor
 Long Beach, CA 90802

Dear David:

JPMorgan Chase Bank, N.A. ("Bank") respectfully submits the following Commitment for the renewal of the Reimbursement Agreement supporting the City's Subordinate Gas Utility Revenue Commercial Paper Notes Series A and Series B (Taxable). Bank Officers holding credit and business authority have approved this transaction, subject to the execution of satisfactory documentation.

Our commitment is conditioned on (i) the negotiation, preparation, execution and delivery of appropriate amendments to the existing Reimbursement Agreement in form and substance satisfactory to the Bank and to the Bank's counsel, (ii) the Bank not becoming aware of any information affecting either the City of Long Beach or this transaction which is inconsistent in a material manner with what has been disclosed to us as of the date hereof and (iii) the absence of any situation occurring which would, in the opinion of the Bank, materially adversely affect the City of Long Beach or this transaction.

Summary of Key Terms and Conditions:

Facility Support

Amount: \$16,350,000 (\$15,000,000 principal and \$1,350,000 interest).

Facility

Fee: Section 2.5 (a) of the Reimbursement Agreement will be amended in its entirety, and as amended shall be restated to read as follows:

(a) *Facility Fees.* Quarterly in arrears on the first day of each October, January, April and July (commencing on October 1, 2010 for the period from and including July 28, 2010, to and including September 30, 2010) occurring prior to the Termination Date, and on the Termination Date (each a "Fee Payment Date"), the City agrees to pay to the Bank a nonrefundable letter of credit fee in an amount equal to the rate per annum (the "Letter of Credit Fee Rate") associated with the Rating (as defined below) of the Maximum Stated Amount (without any temporary reductions thereof) during each related period:

	MOODY'S RATING	FITCH RATING	S&P RATING	LETTER OF CREDIT FEE RATE
Level 1:	A1	A+	A+	0.70%
Level 2:	A2	A	A	0.90%
Level 3:	A3	A-	A-	1.10%
Level 4:	Baa1	BBB+	BBB+	1.30%
Level 5:	Baa2	BBB	BBB	1.50%
Level 6:	Baa3	BBB-	BBB-	1.70%
Level 7:	Below Baa3	Below BBB-	Below BBB-	2.70%

Upon the occurrence and during the continuance of an Event of Default the Letter of Credit Fee Rate shall increase to that specified in Level 7. Upon the occurrence of a Failed Refinancing, the Letter of Credit Fee Rate in effect on the date of such Failed Refinancing shall increase by an additional 1.00% per annum. The term "*Rating*" as used above shall mean the Rating assigned to the Subordinate Lien Obligations (without giving effect to any bond insurance policy or other credit enhancement securing such Subordinate Lien Obligations) by each of Moody's, S&P and Fitch. In the event of a split Rating (*i.e.*, one of the foregoing Rating Agencies' Ratings is at a different level than the Rating of the other Rating Agencies), the Letter of Credit Fee Rate shall be based upon the level in which the lowest Rating appears. Any change in the Letter of Credit Fee Rate resulting from a change in a Rating shall be and become effective as of and on the date of the announcement by any such Rating Agency of the change in such Rating.

References to Ratings above are references to rating categories as presently determined by the Rating Agencies and in the event of adoption of any new or changed rating system by any such Rating Agency, each of the Ratings from the Rating Agency in question referred to above shall be deemed to refer to the rating category under the new or changed rating system which most closely approximates the applicable rating category as currently in effect. The City and the Bank acknowledge that as of the Closing Date the Letter of Credit Fee Rate is that specified above for Level 1.

Commitment

Expiration Date: Section 1.1 of the Reimbursement Agreement, "Commitment Expiration Date" will be amended to reflect: July 27, 2012 (2-year extension).

Base Rate: Section 1.1 of the Reimbursement Agreement, "Base Rate" will be amended and restated to reflect: the higher of (i) the Prime Rate, (ii) the Adjusted One Month LIBOR Rate, and (iii) 7.5%.

Additional Definitions:

Article One of the Agreement shall be amended by adding the following definitions in the correct alphabetical order:

"*Adjusted LIBOR Rate*" means a rate per annum determined by the Bank in accordance with the following formula:

$$\text{Adjusted LIBOR} = \frac{\text{LIBOR}}{100\% - \text{Reserve Percentage}}$$

"*Reserve Percentage*" means, for the purpose of computing Adjusted LIBOR, the maximum rate of all reserve requirements (including, without limitation, any marginal, emergency, supplemental or other special reserves) imposed by the Board of Governors of the Federal Reserve System (or any successor) under Regulation D on Eurocurrency

liabilities (as such term is defined in Regulation D) for a one month period as of the first day of such interest period, but subject to any amendments to such reserve requirement by such Board or its successor, and taking into account any transitional adjustments thereto becoming effective during such interest period. For purposes of this definition, Liquidity Advances shall be deemed to be Eurocurrency liabilities as defined in Regulation D without benefit of or credit for prorations, exemptions or offsets under Regulation D. "**LIBOR**" means, for each interest period, the rate appearing on the Reuter's Screen LIBOR01 Page (or on such other page as may replace the LIBOR01 Page on that service or such other service as may be nominated by the British Bankers' Association as the information vendor for the purpose displaying the British Bankers' Association Interest Settlement Rates for U.S. Dollar Deposits) at 11:00 a.m. London time on such day (without any rounding.)

"Adjusted One Month LIBOR" - means an interest rate per annum equal to the sum of (i) 2.50% per annum plus (ii) the Adjusted LIBOR Rate for an interest period of one month on such day (or if such day is not a Business Day, the immediately preceding Business Day).

"Drawing Document" - means any draft, demand or claim for payment under the Letter of Credit or other document presented for purposes of drawing under the Letter of Credit.

Waiver of Jury Trial: Article Eight of the Reimbursement Agreement shall be amended by adding the following as Section 8.20 at the end thereof:

The City and the Bank, to the extent permitted by law, waive any right to have a jury participate in resolving any dispute arising from this transaction. To the extent such waiver is unenforceable, the City and the Bank hereby consent to the adjudication of any and all claims pursuant to Judicial References as provided in California Code of Civil Procedure Section 638, and the judicial referee shall be empowered to hear and determine any and all issues in such Reference whether fact or law.

Unutilized Amount: The term "Unutilized Amount" appearing in Article One of the Letter of Credit will be deleted.

Legal Fees: Carol Thompson of Chapman and Cutler will prepare the amendment to the existing Reimbursement Agreement. Chapman and Cutler estimates fees at approximately \$5,000 to \$7,000.

Amendment Fee: An amendment fee in an amount equal to \$2,500.00 shall be paid to the Bank on the effective day of the amendment per Section 2.5(c) of the Reimbursement Agreement.

Reaffirmation: The City of Long Beach will be expected to reaffirm its Representations and Warranties contained in Article Five of the Reimbursement Agreement as part of this amendment.

Contact

Information: Lori Becker
Senior Vice President
JP Morgan Chase Bank, N.A.
300 S. Grand Ave. 4th Floor
Los Angeles, CA 90071
(213) 621-8153 voice
(213) 608- 3762 fax

Bradley A. Schroeder
Vice President
JP Morgan Chase Bank, N.A.
17875 Von Karman Ave. 1st Floor
Irvine, CA 92614
(949) 833- 4747 voice
(949) 833- 4737 fax

THE KEY TERMS AND CONDITIONS ABOVE ARE INTENDED TO BE AN OUTLINE OF THE TRANSACTION RATHER THAN A FULL AND COMPLETE DESCRIPTION OF ALL TERMS OF THE DOCUMENTS, WHICH SHALL CONTAIN SUCH REPRESENTATIONS, WARRANTIES, COVENANTS, EVENTS OF DEFAULT, AND OTHER PROVISIONS AS JPMORGAN CHASE BANK DEEMS NECESSARY.

THE TERMS OF THIS LETTER ARE FOR THE CITY OF LONG BEACH'S CONFIDENTIAL USE ONLY AND MAY NOT BE DISCLOSED TO ANY OTHER PERSON OTHER THAN ITS EMPLOYEES, ATTORNEYS AND FINANCIAL ADVISORS (BUT NOT OTHER BANK LENDERS), AND THEN ONLY IN CONNECTION WITH THE PROPOSED TRANSACTION AND ON A CONFIDENTIAL BASIS, EXCEPT WHERE DISCLOSURE IS REQUIRED BY LAW OR WHERE JPMORGAN CHASE BANK CONSENTS TO THE PROPOSED DISCLOSURE, WHICH CONSENT SHALL NOT BE UNREASONABLY WITHHELD.

We appreciate the opportunity to provide this facility for the City of Long Beach. If you have any questions regarding this proposal, please don't hesitate to call.

Sincerely,

Lori Becker
Senior Vice President
JP Morgan Chase Bank, N.A.

OFFICE OF THE CITY ATTORNEY
ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

1 RESOLUTION NO.

2
3 A RESOLUTION OF THE CITY COUNCIL OF THE
4 CITY OF LONG BEACH APPROVING AMENDMENTS TO
5 THE EXISTING REIMBURSEMENT AGREEMENT
6 RELATING TO THE CITY OF LONG BEACH, CALIFORNIA
7 SUBORDINATE GAS UTILITY REVENUE COMMERCIAL
8 PAPER NOTES, SERIES A AND SERIES B (TAXABLE),
9 AND AUTHORIZING ACTIONS RELATED THERETO
10

11 WHEREAS, the City of Long Beach (the "City") is a city organized and
12 existing under a charter duly and regularly adopted pursuant to the provisions of the
13 Constitution of the State of California; and

14 WHEREAS, the City, by and through the Long Beach Energy Department
15 (the "Department") owns and operates the Gas Utility Enterprise (the "Enterprise"); and

16 WHEREAS, Section 1725(a) of Article XVII of the Charter of the City (the
17 "Charter") provides a procedure for the issuance of short-term revenue certificates by the
18 City; and

19 WHEREAS, Section 1725(b) of Article XVII of the Charter authorizes the
20 City to arrange for bank credit as additional security for short-term revenue certificates
21 issued pursuant to said Section and in connection with the execution and delivery of
22 promissory notes to evidence advances made under such bank credit facilities; and

23 WHEREAS, the City has previously entered into that certain Indenture of
24 Trust, dated as of February 1, 2005, (the "Second Lien Trust Indenture"), by and between
25 the City and The Bank of New York Trust Company, N.A. (the "Second Lien Trustee"), for
26 the purpose of refinancing certain improvements to the City's gas utility system, including
27 a gas heating, ventilation and cooling system and related cooling towers, equipment and
28 control systems; and

1 WHEREAS, pursuant to the Second Lien Trust Indenture the City has
2 granted to the Second Lien Trustee a lien on and pledge of the "Revenues" which are
3 defined in the Second Lien Trust Indenture, plus any additional sources of revenue which
4 may be pledged from time to time under the Second Lien Trust Indenture; and

5 WHEREAS, under the terms of the Second Lien Trust Indenture, the City
6 may issue or incur obligations payable from Revenues, on a basis subordinate to its
7 obligations incurred under the Second Lien Trust Indenture, in such amounts as the City
8 Council may determine; and

9 WHEREAS, the City previously determined that public interest and
10 necessity required the City to authorize the creation of an issue of short-term revenue
11 certificates, which revenue certificates are secured by and payable from Subordinate
12 Revenues (as defined in the hereinafter defined Master Subordinate Indenture) on a
13 subordinate basis to the pledge of Revenues granted to the Second Lien Trustee; and

14 WHEREAS, pursuant to the Master Subordinate Trust Indenture, dated as
15 of July 1, 2005 (the "Master Subordinate Indenture"), by and between the City and
16 Deutsche Bank National Trust Company, as trustee (the "Trustee") and the First
17 Supplemental Subordinate Trust Indenture, dated as of July 1, 2005 (the "First
18 Supplemental Subordinate Indenture"), by and between the City and the Trustee, the City
19 implemented a commercial paper program through the issuance, from time to time, of
20 Subordinate Gas Utility Revenue Commercial Paper Notes, Series A and Series B
21 (Taxable) (the "Commercial Paper Notes") in an aggregate principal amount not to
22 exceed \$35,000,000; and

23 WHEREAS, in connection with the issuance of the Commercial Paper
24 Notes, the City determined that it was appropriate and to the benefit of the City to arrange
25 for credit enhancement in the form of an irrevocable direct-pay letter of credit issued by
26 JPMorgan Chase Bank, National Association (the "Bank"), pursuant to a Reimbursement
27 Agreement, dated as of July 1, 2005 (the "Reimbursement Agreement") between the City
28 and the Bank; and

1 WHEREAS, the City has determined that it is in the best interests of the
2 City to extend the Letter of Credit Expiration Date (as defined in the Reimbursement
3 Agreement), and to make certain other amendments and modifications to the
4 Reimbursement Agreement by entering into the First Amendment to Reimbursement
5 Agreement (the "First Amendment to Reimbursement Agreement") between the City and
6 the Bank; and

7 WHEREAS, there has been presented to the City Council a Commitment
8 for the renewal of the Reimbursement Agreement (the "Commitment"), prepared by the
9 Bank and setting forth the changes to be made to the Reimbursement Agreement in the
10 First Amendment to Reimbursement Agreement;

11 NOW, THEREFORE, the City Council of the City of Long Beach resolves as
12 follows:

13 Section 1. That the above recitals are true and correct and are
14 incorporated herein by reference.

15 Section 2. Approval of Amendments to the Reimbursement Agreement.
16 The Commitment is on file with the City Clerk, and the City Council hereby approves the
17 execution of the First Amendment to Reimbursement Agreement on behalf of the City by
18 either the City Manager, the Director of Financial Management, the City Treasurer or any
19 other Authorized City Representative (as defined in the Master Subordinate Indenture)
20 designated by the City Manager (each a "Designated Officer"), so long as the First
21 Amendment to Reimbursement Agreement is consistent with the summary of key terms
22 and conditions set forth in the Commitment. The City Council hereby authorizes the
23 delivery and performance of the First Amendment to Reimbursement Agreement and
24 from and after the execution and delivery of the First Amendment to Reimbursement
25 Agreement, the officers, agents and employees of the City are hereby authorized,
26 empowered and directed to do all such acts and things and to execute all such
27 documents as may be necessary to carry out and comply with the provisions of the First
28 Amendment to Reimbursement Agreement.

1 Additional Authorization. The City Manager, the Director of Financial
2 Management, the City Treasurer, and all officers, agents and employees of the City, for
3 and on behalf of the City, be and they hereby are authorized and directed to do any and
4 all things necessary to effect the execution and delivery of the First Amendment to
5 Reimbursement Agreement and to carry out the terms thereof. The Designated Officers
6 are further authorized and directed, for and on behalf of the City, to execute all papers,
7 documents, certificates and other instruments that may be required in order to carry out
8 the authority conferred by this Resolution or to evidence the same authority and its
9 exercise, including but not limited to, executing and delivering one or more amendments
10 to the First Supplemental Subordinate Indenture, the Issuing and Paying Agent
11 Agreement (as defined in the First Supplemental Subordinate Indenture) or the Dealer
12 Agreement (as defined in the First Supplemental Subordinate Indenture) necessitated by
13 executing the First Amendment to Reimbursement Agreement. The foregoing
14 authorization includes, but is in no way limited to, authorizing City staff to pay costs
15 associated with the execution and delivery of the First Amendment to Reimbursement
16 Agreement, including, but not limited to, the fees and costs of the Bank and their counsel,
17 the fees of Kutak Rock LLP, counsel to the City, and the fees and costs of Public
18 Financial Management Inc., financial advisor to the City.

19 Section 3. Severability of Invalid Provisions. If any one or more of the
20 provisions contained in this Resolution shall for any reason be held to be invalid, illegal or
21 unenforceable in any respect, then such provision or provisions shall be deemed
22 severable from the remaining provisions contained in this Resolution and such invalidity,
23 illegality or unenforceability shall not affect any other provision of this Resolution, and this
24 Resolution shall be construed as if such invalid or illegal or unenforceable provision had
25 never been contained herein. The City Council hereby declares that it would have
26 adopted this Resolution and each and every Section, paragraph, sentence, clause or
27 phrase hereof irrespective of the fact that any one or more Sections, paragraphs,
28 sentences, clauses or phrases of this Resolution may be held illegal, invalid or

OFFICE OF THE CITY ATTORNEY
ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

1 unenforceable.

2 Section 4. Governing Law. This Resolution shall be construed and
3 governed in accordance with the laws of the State of California.

4 Section 5. This resolution shall take effect immediately upon its adoption
5 by the City Council, and the City Clerk shall certify the vote adopting this resolution.

6 I hereby certify that the foregoing resolution was adopted by the City
7 Council of the City of Long Beach at its meeting of July 6, 2010, by the following vote:

8

9 Ayes: Councilmembers: _____

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Noes: Councilmembers: _____

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Absent: Councilmembers: _____

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City Clerk

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