CITY OF LONG BEACH

R-48

DEPARTMENT OF FINANCIAL MANAGEMENT

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December 13, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Adopt the attached Resolution authorizing the conversion of the 2002 Taxable Pension Obligation Bonds to fixed rate from variable rate, in an amount not to exceed $79,000,000, and authorize the City Manager to execute all necessary documents. (Citywide)

DISCUSSION

Staff recommends that the City Council adopt the attached resolution to authorize the remarketing conversion of the 2002 Taxable Pension Obligation Bonds (2002 POBs) from variable rates to fixed rates on the December 30, 2005 remarketing date. This conversion will not extend the current final 2021 maturity of the 2002 POBs. This conversion to fixed rates is intended to capture the still low fixed interest rates available in the market while eliminating the risk associated with variable rate debt.

On July 23, 2002, the City Council authorized the issuance of $82 million of the variable auction rate 2002 POBs to refund a large portion of the City's outstanding 1995 POBs (copy of letter attached). The 1995 POBs financed an existing obligation to the California Public Employees' Retirement System (CalPERS). The 2002 POBs were issued for cash flow purposes, both by taking advantage of historically low variable interests rates and extending the term of the principal repayments. The result was a substantial short-term reduction to what would have been quickly escalating debt payments for the 1995 POBs. The variable rate structure provided substantial cash flow relief for the past nearly four years.

Over the past year plus, however, interest rates have risen substantially and are expected to continue to climb in the near future. The average POB auction interest rate has risen from a low of just over 1 percent on up to the most recent reset on November 3, 2005 at just over 4 percent. A conversion on December 30, 2005 is estimated to garner an overall fixed rate of approximately 5.3 percent. The City has benefited tremendously these past few years from the lower variable rate mode, but staff is recommending locking in a fixed interest rate to limit future interest rate risk, while providing a level and predictable debt service schedule.

This item was reviewed by Assistant City Attorney Heather A. Mahood on November 28, 2005 and Budget Management Officer David Wodynski on November 30, 2005.

TIMING CONSIDERATIONS

Interest rates continue on their upward trend. City Council action on this item is requested on December 13, 2005, as a delay is expected to result in higher fixed interest rates than currently projected.

FISCAL IMPACT

It is anticipated that the debt service payment after the remarketing conversion of the 2002 POBs will be slightly above the FY 06 budgeted payment. However, in the coming year if interest rates rise as expected, the amount paid under fixed interest rates would likely be less than under variable interest rates. Actual cost or savings will be dependent on rates captured at the conversion.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

MICHAEL A. KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

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ATTACHMENT

APPROVED:

GERALD R. MILLER
CITY MANAGER