City of Long Beach
Working Together to Serve

Memorandum

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Date: August 18, 2015

To: Patrick H. West, City Manager

From: John Gross, Director of Financial Management

For: Members of the Budget Oversight Committee

Subject: **Courthouse Demolition Funding**

Background

The old Los Angeles County (County) Courthouse building and site, located at 415 West Ocean Boulevard, was acquired by the Redevelopment Agency of Long Beach in 2009 in exchange for land for the new County Courthouse at 275 Magnolia Avenue. The exchange was instrumental in allowing the new County Courthouse to be built in Long Beach and also allowed the City to control the superblock of land now owned by the City. The superblock is the location for the proposed new Civic Center. Immediate action to demolish the old County Courthouse is necessary in order to maintain the current Civic Center construction schedule and to minimize any potential costs increases associated with timeframe delays.

Until recently, it was anticipated that the Successor Agency to the Redevelopment Agency would be funding the demolition of the old County Courthouse and that the demolition would cost $2 to $3 million. Over the last year, the State has denied allowing the Successor Agency to fund the demolition. In addition, in the last few months, it was found that the old County Courthouse contains substantial asbestos and remediation is necessary. The most current cost estimate for remediation and demolition is $14.5 million. The remediation and demolition is currently being put out to bid and actual cost is expected to be known no later than October 2015. The City is also supporting legislation that would require the State to pay for demolition. In the event the State funding is not successful, a funding solution is needed and must be available at the time of the proposed October 2015 award to remediate and demolish the old County Courthouse.

Proposed funding

The proposed funding for the remediation and demolition of the old County Courthouse is a "down payment" from the FY 15 General Fund surplus. The remaining funding will come from debt service, an estimated ten-year lease-purchase bond to be issued in the first half of 2016 (voter approval is not required). The debt service would be paid by new General Fund property tax revenue expected to be received as a result of the winding down of the activities of the Successor Agency.

The most conservative funding mechanism would be to pay for the remediation and demolition, as much as possible, from General Fund FY 15 surplus and borrow as little as possible. However, the City has many one-time needs and only a portion of the surplus is recommended for remediation and demolition. A minimum of $3.055 million from General

Fund FY 15 surplus is recommended, with the balance being borrowed over ten years at an estimated interest rate of 3 percent. The down payment is a little over 25 percent of the amount of FY 15 surplus currently expected to be available. Use of any less of the surplus may raise to the Rating Agencies the issue of the City not showing sufficiently strong financial and budget management practices by borrowing when cash funding could have been used. This may put the City's bond/financial rating at risk.

Due to the need for full funding this fall, too soon for a bond issue, the recommended funding is as follows:

- $3.055 million from General Fund FY 15 surplus (about 26 percent).
- Temporarily borrowing the balance from the City's reserves.
- Subsequent replenishment of the Operating Reserve from a 2016 bond issue for a 10-year term, debt service to begin in FY 17, and to be paid from RDA loan repayment or, if those funds are not allowed by the State, from the resulting increase to Successor Agency-related property taxes.

Based on the current estimated cost of $14.5 million, and a $3.055 million down payment, the estimated annual cost would be approximately $1.3 million beginning in FY 17. Because the source of the debt service payment is new revenue, no budget reductions would be required; however, this new revenue would not be available to assist with other budget needs. To the extent that additional monies would be available for the down payment from FY 15 surplus, less funding would be needed for debt service.

There may also be a need to borrow an additional $1.5 million to fund the 3rd and Pacific Storm Drain relocation, which is a financing component for the construction of the new Civic Center. This would add approximately $176,000 to the debt service.

Implementation

Funding for the remediation and demolition contract of the old County Courthouse needs to be available at the time of contract award in October 2015. The funding source at that time would be cash from the General Fund FY 15 surplus, with any additional funding temporarily taken from the City's reserves. The monies from the reserves would be replenished in FY 16 from proceeds from the bond issue. A Reimbursement Resolution would be adopted by the City Council at the time of awarding remediation and demolition contract. The Resolution would indicate the intent of the City Council to reimburse the Operating Reserve from bond proceeds.

JG BUREAU MANAGER SECRETARY
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