



# CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

# R-24

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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.

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

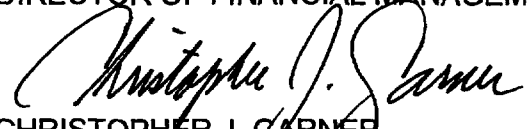
There is no General Fund impact as the capital improvement projects relate to the Gas Fund (EF301) and will be paid from the commercial paper program proceeds that will be secured by a pledge of the Gas Utility Enterprise.

SUGGESTED ACTION:

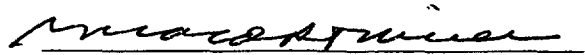
Approve Recommendation.

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