



CITY OF LONG BEACH

R-15

DEPARTMENT OF FINANCIAL MANAGEMENT, TREASURY BUREAU

333 WEST OCEAN BOULEVARD 6TH FLOOR • LONG BEACH, CALIFORNIA 90802
562-570-6845

July 7, 2009

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION

Adopt the attached Resolution authorizing the City Manager to execute amendments to certain documents restructuring the 2007 Natural Gas Purchase Revenue Bonds issued by the Long Beach Bond Finance Authority to acquire a 30-year supply of natural gas for ratepayers of Long Beach Gas and Oil. (Citywide)

DISCUSSION

The Long Beach Gas and Oil Department (LBGO) operates the City-owned natural gas utility, serving about 150,000 ratepayers primarily in the cities of Long Beach and Signal Hill. In 2007, the Long Beach Bond Finance Authority (Authority) issued Natural Gas Purchase Revenue Bonds Series 2007A \$635,665,000 (Fixed Rate) and Series 2007B \$251,695,000 (LIBOR Index Rate Bonds) to finance the prepayment to Merrill Lynch Commodities, Inc., for a 30-year supply of natural gas for LBGO. This resulted in annual savings to the Gas Fund of \$7.2 million for ongoing funding of LBGO's long-term infrastructure and pipeline replacement projects.

Since the bonds were originally issued, financial market conditions have changed considerably, providing an opportunity for the City to achieve significant upfront savings from this deal. The LIBOR floating rate bonds are currently trading at a significant discount to par value, as are to a lesser extent the fixed rate bonds. This is primarily due to investors' perceptions regarding the stability of financial institutions. Under current market conditions, the City's financial advisor and investment banker advise that a number of investors would be willing to sell (tender) their bonds back to the City and Merrill Lynch at a significant discount, providing savings to the City. The tendered bonds would reduce, by approximately 30 percent, Merrill Lynch's contracted natural gas supply commitment to LBGO, which LBGO will replace with like volumes purchased at market prices. In exchange, the Long Beach Bond Finance Authority would receive upfront the present value of the future 28 years of annual savings on the remaining natural gas volumes.

The financial benefit received from this tender offer is directly related to the number of bonds offered back to the City and Merrill Lynch. If the bond tender maximum is achieved, the present value of the savings from the Natural Gas Purchase Revenue Bonds is estimated to be approximately \$25 million in one-time monies, and would be used to fund critical gas infrastructure projects. LBGO has several upcoming large capital expenditures. These expenditures include the need to relocate two portions of LBGO pipeline due to the widening of the 22 freeway and the 605 freeway (estimated cost of \$7 million), LBGO's share of the

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City's new utility billing system (\$6.5 million), as well as LBGO's initiation of payment of its outstanding commercial paper principal balance (\$17 million). Without these present value savings, these capital expenditures would negatively impact the Gas Fund's liquidity.

In addition, the City has been attempting to find a suitable location for the relocation of the Public Works' Public Service operations currently located at the San Francisco Yard. LBGO's location at 2400 E. Spring Street is centrally located and has a large amount of underutilized space that would be suitable for Public Service operations. Some of the services provided by both LBGO and Public Service are similar in nature such as surveying, carpentry, welding and facility maintenance. Therefore, a co-location may allow for synergetic efficiencies to be achieved over time. A portion of these funds will be utilized for this relocation.

This matter was reviewed by Deputy City Attorney Richard Anthony on June 22, 2009 and Budget and Performance Management Bureau Manager David Wodynski on June 18, 2009.

TIMING CONSIDERATIONS

This opportunity is afforded by current financial market conditions and securities pricing. Given the continually changing financial markets, City Council action is requested on July 7, 2009.

FISCAL IMPACT

The proposed tender offer exchanges a one-time upfront present value payment of the going-forward savings that would otherwise have been received over the remainder of the 30-year term of the prepay agreement with Merrill Lynch. In essence, LBGO would receive about \$25 million up-front rather than \$2.4 million annually that would have been generated over the next 28 years.

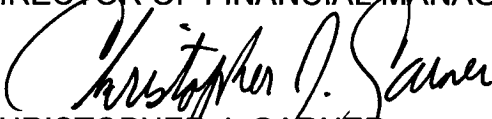
SUGGESTED ACTION

Approve recommendation.

Respectfully submitted,



LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO



CHRISTOPHER J. GARNER
DIRECTOR OF GAS AND OIL DEPARTMENT

APPROVED:



PATRICK H. WEST
CITY MANAGER

LAF:CJG:DN
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ATTACHMENT

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RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LONG BEACH AUTHORIZING AND APPROVING THE PURCHASE AND RESTRUCTURING OF BONDS ISSUED BY THE LONG BEACH BOND FINANCE AUTHORITY, AUTHORIZING AND APPROVING CERTAIN DOCUMENTS AND ACTIONS RELATING THERETO, AND DELEGATING AUTHORITY TO OFFICERS IN CONNECTION THEREWITH

WHEREAS, the City of Long Beach (the "City") is a municipal corporation and charter city duly organized and existing under its charter (the "Charter") and the Constitution of the State of California (the "State"); and

WHEREAS, the Long Beach Bond Finance Authority (the "Authority") has heretofore issued its Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds Series 2007A (the "Series 2007A Bonds") and the Long Beach Bond Finance Authority Natural Gas Purchase Revenue Bonds Series 2007B (the "Series 2007B Bonds" and, together with the Series 2007A Bonds, the "Bonds") in order to finance the acquisition of a long-term supply of natural gas, for sale to the City over a period of years; and

WHEREAS, the City and the Authority have heretofore entered into a Natural Gas Supply Agreement dated September 13, 2007 (the "Supply Agreement"), in order to provide for the sale and delivery of such supply of natural gas; and

WHEREAS, the Authority has sold the Bonds to Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill") and has used the proceeds to prepay for a natural gas supply from Merrill Lynch Commodities, Inc. (the "Seller"); and

WHEREAS, the Authority and the City have been advised that the Bonds

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

1 are currently trading at a discount to par, primarily due to investors' perceptions regarding
2 the stability of financial institutions; that under current market conditions a number of
3 these investors would be willing to tender their Bonds at a discount to par; and that upon
4 the tender of Bonds, the Seller would reduce its future obligation to deliver gas by the
5 proportion of Bonds tendered, and would pay the Authority the tender price for the Bonds
6 and a negotiated portion of the present value of unearned savings based on the par
7 amount and maturities of Bonds tendered; and

8 WHEREAS, the City has determined that such tender would result in
9 substantial savings to the Authority and the City; and

10 WHEREAS, the City has determined that such tender would require the
11 amendment of the Supply Agreement to reflect lower daily contract quantities; and

12 WHEREAS, there have been presented to this meeting a proposed form of
13 Amendment to Natural Gas Supply Agreement (the "Amendment to Supply Agreement")
14 between the Authority and the City, as well as proposed forms of various other
15 documents to be entered into by the Authority or to be distributed on its behalf in
16 connection with the solicitation of tenders of the Bonds (the "Authority Documents"); and

17 WHEREAS, the City has determined that it is to the City's advantage and in
18 the public interest of the inhabitants of the City, to enter into the Amendment to Supply
19 Agreement and for the Authority to enter into the other Authority Documents;

20 NOW, THEREFORE, the City Council of the City of Long Beach resolves as
21 follows:

22 Section 1. Findings and Determinations. The City Council hereby finds
23 and determines that the foregoing recitals are true and correct.

24 Section 2. Approval of Authority Transaction. The City Council hereby
25 approves the purchase by the Authority of a portion of the Bonds, to the extent tendered
26 by the owners thereof, and the execution and delivery by the Authority of the Authority
27 Documents, each in substantially the form presented to this meeting with such changes
28 therein as the City Attorney shall deem appropriate. The City Council hereby further

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1 approves the use of the information about the City's Gas and Oil Department contained in
2 the Information Statement to accompany the invitation to tender the Bonds for purchase,
3 in the form presented to this meeting with such changes therein as the City Attorney shall
4 deem appropriate.

5 Section 3. Approval of Amendment to Supply Agreement. The
6 Amendment to Supply Agreement, in substantially the form presented to the City Council,
7 is hereby approved. The Mayor, City Manager, Director of Financial Management, and
8 Treasurer, and any Acting Director of Financial Management or Acting Treasurer (the
9 "Designated Officers"), each acting singly, is hereby authorized to execute and deliver to
10 the Authority, the Amendment to Supply Agreement in the name of and on behalf of the
11 City, in substantially the form presented to the City Council, with such changes, insertions
12 and deletions as may be approved by the Designated Officers executing the Amendment
13 to Supply Agreement, with advice of the City Attorney, said execution being conclusive
14 evidence of such approval, and the City Clerk is hereby authorized to attest thereto.

15 Section 4. Official Actions. The Designated Officers, the City Clerk and
16 any and all other officers of the City are hereby authorized and directed, for and in the
17 name and on behalf of the City, to do any and all things and take any and all actions,
18 including execution and delivery of any and all documents and certificates which they, or
19 any of them, may deem necessary or advisable in order to consummate the transactions
20 contemplated herein and perform the obligations of the City under any of the documents
21 authorized herein. In addition, to the extent the Supply Agreement requires additional
22 amendment to reflect the reduction of various amounts in the event of any future
23 purchase or redemption of Bonds, the Designated Officers are hereby authorized and
24 directed to execute and deliver any such additional amendments without further action by
25 this City Council.

26 Section 5. Capitalized terms used herein and not otherwise defined shall
27 have the meanings given such terms in the Supply Agreement.

28 Section 6. This resolution shall take effect immediately upon its adoption

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1 by the City Council, and the City Clerk shall certify the vote adopting this resolution.

2 I hereby certify that the foregoing resolution was adopted by the City
3 Council of the City of Long Beach at its meeting of _____, 20__ by the
4 following vote:

5
6 Ayes: Councilmembers: _____
7 _____
8 _____
9 _____

10 Noes: Councilmembers: _____
11 _____

12 Absent: Councilmembers: _____
13 _____

14
15
16 _____
17 City Clerk

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