



City of Long Beach
Working Together to Serve

ATTACHMENT D
Memorandum

Date: August 14, 2009
To: Patrick H. West, City Manager
From: Lori Ann Farrell, Director of Financial Management/CFO
For: Mayor and Members of the City Council
Subject: Long Beach Museum of Art Bond Maturing September 1, 2009 for \$3.1 million

The 1999 Museum of Art Bond will be maturing September 1, 2009, for a total amount of \$3,060,000.

Background

In 1985, the City owned the Long Beach Museum of Art (LBMA) and contracted with the Foundation to operate and maintain the LBMA facilities. In 1990, the City and Foundation revised the Operation and Maintenance Agreement to state that all fixtures, furnishings, equipment and art acquired after January 29, 1985 shall become the property of the Foundation, and set annual City support to manage the City's collection at \$360,000 (now \$569,000 annually).

In 1995, the Foundation decided to expand the LBMA to improve and modernize the facility. The project budget was approximately \$6.5 million. To fund the proposal, the Foundation secured \$5.4 million in capital campaign contributions from individuals, corporations and foundations. In 1999, the City Council authorized the issuance of ten-year \$3.06 million of variable rate bonds to support the LBMA's expansion.

The bonds were issued as Variable Rate Demand Notes whose rates reset weekly. The monthly payments are interest only, and the entire principal is due at maturity. Since 1999, the weekly interest rate has ranged from 0.20 percent to 8.00 percent. The City pays the interest expense and professional fees and the Foundation is invoiced for reimbursement. Through September 2006, the Foundation had been generally current in reimbursing the City. Since October 2006, however, reimbursement payments have been in arrears as much as seven months. As of June 1, 2009, the Foundation was four months in arrears, totaling \$15,752.35 (\$6,168.29 in interest payments and \$9,584.06 in professional fees). On June 3, 2009, the Foundation submitted payment of the \$15,752.35 and is now current.

In consultation with the City's financial advisor and investment banker, a number of financing alternatives were identified and reviewed, including refinancing the debt for a longer period of time. However, as previously reported, refinancing the bonds at this time would result in increased costs to the City, hence, the debt will be paid upon maturity.

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As the issuer of the bonds, the Long Beach Bond Financing Authority is legally obligated to pay off the bond obligation.

The City and Foundation are currently in discussions to determine whether a repayment plan is feasible and/or whether the Foundation should continue financial support. Staff will be informing the City Council shortly about the progress of the discussions.

If you have any questions regarding this matter, please do not hesitate to call me at extension 8-6427.

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