

CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

January 18, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Hearing and Resolution Authorizing the Issuance of Bonds by the Long Beach Bond Finance Authority and Approving the Issuance and Sale of Tax Allocation Revenue Bonds by the City of Long Beach and the Redevelopment Agency of the City of Long Beach to the Long Beach Bond Finance Authority in an Amount not to Exceed \$199,982,000, Approving Documents and Authorizing Other Related Actions (Citywide)

DISCUSSION

The strong growth of tax increment revenue has created an opportunity for the Long Beach Redevelopment Agency to issue bonds for the North, Central and Los Altos Redevelopment Project Areas. Also, a proposed extension of West Beach and Poly High Redevelopment Project Area time limits to receive tax increment, and the increase of Poly High's tax increment limit, provides the ability for those areas to issue additional debt. The Redevelopment Agency, at its January 10, 2005 meeting, approved the issuance of bonds for each of the areas listed above.

The City Council approved the Housing Action Plan (HAP) for the creation of affordable housing in key neighborhoods. At its January 10, 2005 meeting, the Redevelopment Agency also approved the issuance of bonds secured by its 20 percent housing set-aside to provide additional funds to more expeditiously implement the HAP. Given the current low interest rate environment and the ability to share in debt issuance costs with each of the bond issues mentioned above, the Redevelopment Agency and the City also have the opportunity to refinance the Gas Utility Bonds, thereby reducing existing debt service costs to the West Long Beach Industrial Project Area and the Tidelands Operations Fund, each of which pay half of the debt service for the City's Gas Utility Bonds. By combining all of the bonds listed above into one financing, the City and the Redevelopment Agency will realize substantial financing savings due to the size of the debt issuance and the enhanced credit quality the combined bond issue has over each individual bond if issued separately. The financing structure that allows for this approach is explained later in this letter in the section entitled Joint Powers Authority.

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It is important to note that the Federal Reserve Bank has, on several recent occasions, increased interest rates charged to member banks. Rising interest rates would increase the cost of bond issues and would reduce the amount of bond proceeds available for projects. Considering the recent trend of interest rate hikes, this could be a favorable time to issue bonds. A delay in the approval of the issuance could result in the bonds being issued at higher interest rates, resulting in some of the bonds producing less proceeds and the loss of the economic benefit of refunding the Gas Utility Bonds.

The Redevelopment Agency and City Council are not being asked at this time to approve the projects that will be funded with the bond proceeds. The Redevelopment Agency's Fiscal Year 2005 (FY 05) budget has been approved and does not contain appropriation to spend the proceeds of the proposed bond issues. The Redevelopment Agency and the City Council will be asked to approve amendments to the Redevelopment Agency's FY 05 budget as each specific project is identified and brought to the Redevelopment Agency and, in some cases, the City Council for approval. As projects are brought forward, the City's legal advisors will be consulted to ensure the projects qualify as an allowable use of bond proceeds.

The total size of the anticipated bond issue is estimated to be \$193,286,000; however, authority for a larger amount is requested to cover additional costs that could result from increases in interest rates between the date of authorization and the date of the eventual sale of bonds. This estimated bond issue amount consists of \$8,761,000 for refinancing the Gas Utility Bonds, \$56,050,000 for affordable housing, \$66,710,000 for new projects in North Long Beach, \$53,970,000 for new projects in Central Long Beach, \$2,445,000 for new projects in the Poly High Project Area, \$806,000 for new projects in the West Beach Project Area and \$4,544,000 to refund a portion of the Los Altos Project Area debt to the West Long Beach Industrial Project Area (WLBI).

Included in these estimates is approximately \$13.2 million for bond reserves, \$5.2 for bond insurance, a \$1.1 million underwriter's discount and under \$700,000 for the cost of issuance (e.g. attorneys, financial advisors, fiscal consultants, rating agencies).

Use of Bond Proceeds by Redevelopment Project Area

The proposed bond issuance includes funding for the North Long Beach, Poly High, West Beach, Los Altos and Central Long Beach Redevelopment Project Areas. Each of the five redevelopment project areas would receive proceeds and would be responsible only for the debt service on its respective bond issue. An initial list of projects and programs has been developed for each redevelopment project area. Exhibit A shows estimates of the net funds that could be raised through the sale of bonds based on current interest rates. Changing market conditions could alter the amount of funds received from the sale of the proposed bonds.

Affordable Housing

The Redevelopment Agency would deposit the approximately \$50 million of net proceeds of the housing set-aside bonds into the City's Housing Development Fund. The City Council would be asked to approve amendments to the FY 05 budget to allow for the expenditure of these funds as projects are identified and brought forward; these funds would then be used primarily to implement the Housing Action Plan that was recently adopted by the City Council.

North Long Beach Redevelopment Project Area

Net bond proceeds for the North Long Beach Redevelopment Project Area of approximately \$60 million would be available for new projects. The Redevelopment Agency and North Long Beach Redevelopment Project Area Committee have worked together to create the "Strategic Guide for Redevelopment" and a "Public Works Master Plan" for the North Long Beach Redevelopment Project Area. Using the two documents as a guide, staff tentatively recommends the following projects:

- Single-Family Development at Atlantic Avenue and 52nd Street;
- Single-Family Development South of Village Center;
- Artesia Avenue and Atlantic Avenue Development Site;
- Waite Motel – Atlantic Avenue Development Site;
- Camelot Center and Market Façade Improvements;
- North Long Beach Library – Land Acquisition and Development;
- Community Resource Center – Land Acquisition and Development;
- Complete Phase II of Three-Year Street Paving and Streetscape Plan (2003-2006);
- New Three-Year Street Paving and Streetscape Plan (2006-2009);
- Acquisition for Public Parking/Private Development Sites – Village Center and Historic Node;
- Acquisition for Public Parking Sites in Bixby Knolls;
- Expansion of 55th Way Park; and
- Expansion of Admiral Kidd Park.

Poly High Redevelopment Project Area

The Poly High Redevelopment Project Area has sufficient revenues for a bond issue that would provide net proceeds of approximately \$2.1 million. The proceeds could be used to acquire blighted property on Pacific Coast Highway for eventual reuse. Specific sites have not been identified, and the purchase would be brought forth for formal approval.

Central Long Beach Redevelopment Project Area

The Central Long Beach Redevelopment Project Area would net bond proceeds in the amount of approximately \$48.3 million. The Redevelopment Agency and the Central Project Area Committee have nearly completed the "Central Long Beach Guide to Development." Using that document as a guide, staff has tentatively identified the following projects:

- . West Gateway Olson (Site 9) and Lennar (Site 10) Housing Development (includes Bank of America Repayment);
- . Menorah Housing Foundation Senior Housing;
- . Atlantic Avenue Housing Between Pacific Coast Highway and Willow Street (Phase V – Land Acquisition);
- . Willmore Implementation Plan Land Acquisition;
- . American Marketplace Land Acquisition;
- . Expansion of Post Office (Pacific Avenue Neighborhood Center);
- . Purchase Sites at Willow Street and Atlantic Avenue;
- . Anaheim and Atlantic Avenue Development Site Land Acquisition;
- . 7th Street Neighborhood Center Land Acquisition;
- . Expansion of Burnett Library at Atlantic Avenue and Hill Street;
- . Acquisition of Parking Site on Cherry Avenue (Signal Hill Street Improvement);
- . Police Facility on Pacific Coast Highway;
- . Chittick Field Expansion;
- . Drake Park Expansion;
- . Daryle Black Park Expansion;
- . Long Beach Boulevard at 15th Street (New Park with School); and
- . Seaside Park Land Acquisition (West Anaheim Neighborhood Center).

West Beach Redevelopment Project Area

The West Beach Redevelopment Project Area would receive net bond proceeds of approximately \$695,000. The bond proceeds would be used to pay for public improvements that would benefit the project area, such as the improvement of Lincoln Park.

Los Altos Redevelopment Project Area

In 1995, the Los Altos Redevelopment Project Area received a loan of \$12.7 million from the West Long Beach Industrial (WLBI) Redevelopment Project Area. The current loan balance is approximately \$8.7 million. The Los Altos Redevelopment Project Area would use net bond proceeds of approximately \$4.1 million to repay a portion of this debt to the WLBI Redevelopment Project Area. The \$4.1 million loan repayment could be used to provide storm drainage improvements in the WLBI Redevelopment Project Area consistent with its FY 05 adopted budget.

Staff recommends that the Los Altos Redevelopment Project Area repay the WLBI Redevelopment Project Area loan immediately after receiving the net bond proceeds. Therefore, staff is recommending as part of this Council letter to approve an appropriation increase of \$4.1 million to permit this payment.

Gas Utility Bond Refinancing

The City's Department of Financial Management regularly reviews existing bond indebtedness in order to assess market levels and determine savings thresholds, as well as review debt covenants. When practical, staff will recommend refunding (refinancing) certain bonds to capture lower interest rates, eliminate covenants or restructure payment schedules. An opportunity exists to reduce debt service by approximately \$80,000 per year by refunding the existing Gas Utility Bonds of \$7.8 million.

Joint Powers Authority

As was the case with the 2002 Redevelopment Agency Bonds, staff proposes to use the Long Beach Bond Finance Authority (LBBFA) for the proposed bond issue. The LBBFA is a joint powers authority and a separate legal entity formed by the City and Redevelopment Agency. The LBBFA can issue a single series of bonds for all five redevelopment project areas, the housing set-aside bonds and the Gas Utility refunding. If the LBBFA is not used, the Redevelopment Agency would be required to issue separate bonds for each redevelopment project area. The higher cost of issuing separate bonds for each project area could make the smaller bond issues for Poly High, West Beach and the Gas Utility financially infeasible. Issuing a single series of bonds significantly reduces issuance costs and creates a bond structure that is more attractive to investors than would be the case with separate bond issues. Use of the LBBFA has additional benefits that are described below.

Financial Security

The Departments of Community Development and Financial Management have worked closely to create a proposal that would provide funds for redevelopment projects, but would not over-encumber Redevelopment Agency tax increment revenue flows. Staff, with the aid of consultants, reviewed the amount of tax increment revenue each project area is projected to have after payment of existing obligations, cost of administration and proposed funding of essential programs. The net available cash flow is projected to be more than sufficient to support the proposed new debt service.

For example, the North Long Beach Redevelopment Project Area has sufficient tax increment to issue bonds that would provide net proceeds of \$105 million. However, the proposed bond issue for North Long Beach is \$66.7 million, with net proceeds of approximately \$60 million. The North Long Beach Redevelopment Project Area would be committing only a little more than half of its available tax increment revenue for debt

service, and would have the capacity to issue more bonds in the future. The Central Long Beach, West Beach, Poly High and Los Altos bonds would use all of the capacity to issue debt in those project areas.

In addition, staff proposes that the bonds be issued by the LBBFA to create a stronger security structure. The LBBFA would, at the beginning of each year, receive tax increment funds from each of the five project areas issuing bonds and from all seven project areas for the housing set-aside bonds. Debt service payments for the Central Long Beach, North Long Beach and housing set-aside bonds would be structured to slightly exceed the amount due for the LBBFA debt service. After the required amounts are applied to debt service for each project area, the excess funds would form an additional reserve that could be used to support any project area should it be in danger of defaulting on its bond payments. Once the funds were not required to prevent a default, they would be returned to the project area from which they were collected at or before the end of each year. New funds would then be collected at the beginning of the following year.

The joint powers authority structure provides additional security in the unlikely event that a project area could not pay its debt service. The additional security is valued by investors and should assist with securing bond insurance, thus lowering bond interest rates and payments.

It is contemplated that fixed rate bonds will be issued. However, a portion of the fixed rate bonds could be converted to a lower variable rate through a swap hedge transaction. A swap transaction is a commonly used tool to manage cash outflows related to bond payments. A fixed-to-variable rate swap agreement will be used if and when the swap market is advantageous to the City.

Public Review

The Redevelopment Agency has discussed the proposed bond issues in noticed public meetings. The proposed issues were discussed at study sessions of the Redevelopment Agency Board. Staff made presentations to the Project Area Committees (PACs) for the West Long Beach Industrial, North Long Beach and Central Long Beach Redevelopment Project Areas. The PACs reviewed the proposed bond issue with staff, and the Redevelopment Agency approved the proposed bond issuance on January 10, 2005.

Next Steps

The Redevelopment Agency has authorized the issuance and sale of the bonds and the City Council is being asked to review and approve the Redevelopment Agency's actions, as well as the request to refund the Gas Utility Bonds. The bond sale could occur within 30 days of City Council approval. The City Council, Redevelopment Agency and the PACs would have the opportunity to discuss the use of the bond

proceeds as projects and budget amendments are approved by the Redevelopment Agency and City Council.

The proposed bond financing was reviewed by Assistant City Attorney Heather Mahood on January 6, 2005, and by Budget Management Officer David Wodynski on January 7, 2005.

TIMING CONSIDERATIONS

City Council action is requested on January 18, 2005, as interest rates have been rising and a delay could result in the bonds being issued at higher interest rates and a portion of the bonds not being issued at all.

FISCAL IMPACT

The Redevelopment Agency's property tax increment revenue from the North Long Beach, Poly High, West Beach, Los Altos and Central Long Beach Redevelopment Project Areas will pay the debt service for the proposed bond issuance for these areas. Tax increment from all seven redevelopment project areas will pay the debt service for the proposed housing set-aside bonds. The Redevelopment Agency will be solely responsible for debt service payments and the City's General Fund will not be impacted. The Redevelopment Agency and City's Tidelands Operations Fund will both continue to provide debt service payments for the Gas Utility Bonds.

The bond proceeds should be spent within a maximum of three years. Staff will request FY 05 budget adjustments from the Redevelopment Agency and City Council as projects are identified and approved.

As noted earlier, staff recommends utilizing the net bond proceeds of up to \$4,017,000 for the Los Altos Project Area to repay a portion of their loan debt to the WLBI Project Area. This funding is currently unbudgeted; therefore, an appropriation increase is included in the recommendations below.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

1. Hold a public hearing regarding the issuance of bonds by the Long Beach Bond Finance Authority in an amount not to exceed \$199,982,000, the proceeds of which will be used to purchase the Redevelopment Agency's tax allocation bonds, the housing set-aside bonds and the Gas Utility Bonds;
2. Receive supporting documentation into the record and close the public hearing;

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3. Adopt the attached Resolution of the City Council making findings with respect to, and approving the issuance of bonds by, the Long Beach Bond Finance Authority and approving the issuance and sale of bonds by the Redevelopment Agency of the City of Long Beach to the Long Beach Bond Finance Authority; and
4. Increase appropriations in the Redevelopment Fund (RD) in the Department of Community Development (CD) by \$4,017,000 for the Los Altos loan repayment to the WLBI Project Area.

Respectfully submitted,

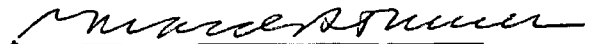


For MELANIE S. FALLON
DIRECTOR OF COMMUNITY DEVELOPMENT



MICHAEL A. KILLEBREW
ACTING DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:



GERALD R. MILLER
CITY MANAGER

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Attachments: Exhibit A – 2005 Redevelopment Agency Bond Issue
Preliminary Official Statement
Redevelopment Project Area Map
Resolutions