

**BOARD OF UTILITIES COMMISSIONERS**

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May 25, 2023

Recommendation

Adopt Resolution UT-1479 authorizing and approving a change in the interest rate for the Natural Gas Purchase Revenue Bonds, Series 2007B issued by the Long Beach Bond Finance Authority and the related Interest Rate Swaps, authorizing and approving certain documents and actions relating thereto, and delegating authority to officers in connection therewith. This approval will ensure the reference index rate on the Series 2007B bonds matches the reference index rate on its corresponding Interest Rate Swaps.

Executive Summary

On October 18, 2007, the Long Beach Bond Finance Authority (the Authority), issued its Natural Gas Purchase Revenue Bonds, Series 2007B to finance the acquisition of a long-term supply of natural gas for sale to the City over a period of 30 years. The 2007B Bonds are currently bearing an interest rate equal to 67% of three-month London Interbank Offer Rate (LIBOR) plus a spread. The Interest Rate Swaps related to the 2007B Bonds contain floating rates of 67% of three-month LIBOR plus the same applicable spread. Currently, both the 2007B Bonds and Swaps reference the same three-month LIBOR interest rate, so there is no interest rate differential risk.

For a variety of market and industry pressures, the LIBOR interest rate will be discontinued on June 30, 2023, requiring those debt obligations that reference LIBOR to choose a new reference interest rate or be subject to the automatic fallback protocol as outlined in federal law for municipal bonds and as outlined by the International Swap and Derivatives Association (ISDA) for interest rate swap agreements. Both fallback protocols change the interest rate to the Secured Overnight Financing Rate (SOFR) from LIBOR. As a reference point, on May 3, 2023, three-month SOFR was 5.34%, Daily SOFR was 4.81% and three-month LIBOR was 5.1%. Per federal law, the fallback protocol for municipal bonds will automatically adjust to three-month term SOFR when LIBOR is discontinued. Per ISDA, the fallback protocol for interest rate swaps will automatically adjust to Daily SOFR when LIBOR is discontinued. While federal law and ISDA actions provide a path forward, it creates an interest rate differential in the City's 2007B Bonds and its related Swap that potentially reduces or increases net revenue savings dependent on market conditions. This interest rate differential risk did not exist in the original structure of the 2007B Bonds and its related Swap.

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To preserve the integrity of the original 2007B Bond/Swaps transaction, it will be necessary to approve an interest rate change on the Swaps to ensure both the 2007B Bonds and Swaps reference the same interest rate, removing the interest rate differential risk. This Resolution authorizes an interest rate change on the Interest Rate Swap to three-month Term SOFR to match the 2007B Bonds that will automatically be adjusted to three-month Term SOFR per the fallback protocol provided under federal law.

City Financial Management and Utilities Department staff have worked with its municipal and swap advisor, Public Financial Management, and its bond counsel, Orrick Herrington & Sutcliffe, on the documents associated with this interest rate change.

Fiscal Impact

The total cost of this interest rate change, including the City's municipal and swap advisor, bond counsel fees, and all other related fees, is estimated at \$200,000, and will be paid from the Gas Fund. The interest rate change will preserve the integrity of the original 2007B/Swap transaction. Regardless of the index rate (LIBOR or SOFR) selected, a defined formula is used in the bond and swap documents to approximate a tax-exempt interest rate. While the index rate is changing, the documents will still approximate a tax-exempt interest rate, making any additional costs or savings to the Gas Fund nominal.

The interest rate fees are not budgeted in the Gas Fund in FY 23 but can be absorbed within current appropriations.



Christopher J. Garner
General Manager

Attachment

RESOLUTION NO. UT-1479

A RESOLUTION OF THE BOARD OF PUBLIC UTILITIES COMMISSIONERS OF THE CITY OF LONG BEACH AUTHORIZING AND APPROVING A CHANGE IN THE INTEREST RATE FOR THE NATURAL GAS PURCHASE REVENUE BONDS, SERIES 2007B ISSUED BY THE LONG BEACH BOND FINANCE AUTHORITY AND THE RELATED INTEREST RATE SWAPS, 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 city organized and existing under a charter duly and regularly adopted pursuant to the provisions of the Constitution of the State of California; and

WHEREAS, the Board of Public Utilities Commissioners of the City, successor to the Board of Water Commissioners of the City (the "Board"), acting on its own behalf and on behalf of the City; 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 2007B (the "Bonds") pursuant to the Trust Indenture, dated as of September 1, 2007, as supplemented on August 1, 2009, between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Indenture") in order to finance the acquisition of a long-term supply of natural gas, for sale to the City of Long Beach over a period of years; and

WHEREAS, the Bonds are bearing interest at a rate equal to 67% of three-month LIBOR plus a spread of 1.41% for the Bonds maturing on November 15, 2025,

1 1.43% for the Bonds maturing on November 15, 2026, 1.45% for the Bonds maturing on
2 November 15, 2027, and 1.55% for the Bonds maturing on November 15, 2033, in each
3 case subject to a maximum rate of 15%; and

4 WHEREAS, the Interest Rate Swaps related to the Bonds contain floating
5 rates of 67% of three-month LIBOR plus the applicable spread; and

6 WHEREAS, the LIBOR Rate is being discontinued as of June 30, 2023;

7 NOW, THEREFORE, the Board of Public Utilities Commissioners of the City
8 of Long Beach resolves as follows:

9 Section 1. Findings and Determinations. The Board hereby finds and
10 determines that the foregoing recitals are true and correct.

11 Section 2. Approval of Authority Transaction. The Board hereby approves
12 the Authority's plan, as described in Resolution No. B.F.A. 2023-__ of the Authority
13 adopted on _____, 2023, pursuant to the Adjustable Interest Rate (LIBOR) Act, to
14 convert, by operation of law, the interest rate on the Bonds from 67% of three-month LIBOR
15 plus the applicable spread to 67% of three-month Term SOFR (plus the applicable credit
16 spread adjustment) plus the applicable spread on the first interest reset date after June 30,
17 2023. No other changes are being made to the Bonds. Also pursuant to the Adjustable
18 Interest Rate (LIBOR) Act, references to "LIBOR" in the Indenture with respect to the
19 definitions of "Interest Rate Swaps," "LIBOR Rate Determination Date" and, for the
20 calculation of Redemption Price, the "Spread Premium" will convert, by operation of law,
21 to Term SOFR. References to "LIBOR" in any ancillary documents relating to the Bonds
22 will also be amended to refer to "Term SOFR."

23 The Board hereby also approves the Authority's plan, as described in
24 Resolution No. B.F.A. 2023-__ of the Authority adopted on _____, 2023, to amend
25 each of the Interest Rate Swaps to (i) convert the floating rate from 67% of three-month
26 LIBOR plus the applicable spread to 67% of three-month Term SOFR (plus the applicable
27 credit spread adjustment) plus the applicable spread, (ii) change the compounding
28 convention to match the compounding convention for setting the interest rate on the Bonds,

(iii) eliminate the 15% cap on the floating rates, and (iv) increase the fixed rates to compensate for the change in the compounding convention (taking into account the effect of elimination of the 15% cap), all to be effective on the first interest rate reset date after June 30, 2023.

Section 3. Official Actions. The Designated Officers and any and all other officers of the Board are hereby authorized and directed, for and in the name and on behalf of the Board, to do any and all things and take any and all actions, including execution and delivery of any and all documents and certificates which they, or any of them, may deem necessary or advisable in order to consummate the transactions contemplated herein.

Section 4. Effective Date of Resolution. The Secretary shall certify to the passage of this Resolution by the Board, and it shall thereupon take effect

I hereby certify that this Resolution was adopted by the Board of Public Utilities Commissioners of the City of Long Beach at its meeting on _____, 2023 by the following vote:

Ayes: Commissioners: _____

Noes: Commissioners: _____

Absent: Commissioners: _____

Secretary
Board of Public Utilities Commissioners