



Legislation Text

File #: 09-0673, **Version:** 1

Recommendation to adopt resolution authorizing 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)

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 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.

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.

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.

Approve recommendation.

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

LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

CHIRSTOPHER J. GARNER
DIRECTOR OF GAS AND OIL DEPARTMENT

NAME
TITLE

APPROVED:

PATRICK H. WEST
CITY MANAGER