



Legislation Text

File #: 20-0343, **Version:** 1

Recommendation to adopt resolution authorizing the execution of a Revolving Line of Credit with JPMorgan Chase Bank, N.A., by the Board of Water Commissioners, on behalf of the City of Long Beach, in an amount not to exceed \$60,000,000, for a maximum term of three years, with the option to extend for an additional two-year periods, secured and payable solely from Long Beach Water Department revenues in the Water Fund Group, and authorize the execution of all necessary documents in connection therewith. (Citywide)

To assist with the Long Beach Water Department's (Water Department) continual infrastructure improvements, the City of Long Beach (City) proposes to establish a Revolving Line of Credit with JPMorgan Chase Bank, in an amount not to exceed \$60,000,000, with a maximum term of three years, with the option to extend for an additional two years. The Line of Credit will enable the Water Department to have maximum financial flexibility and draw funds for water system infrastructure improvements on an as-needed basis over the three-year term. This short-term financing will also enable the Water Department to manage cash flows and pay interest-only payments on amounts drawn from the Line of Credit.

The total cost of issuing the Line of Credit including trustee, consultant, and counsel fees is estimated to be \$100,000. In addition, to maintain the Line of Credit, the Water Department will pay an annual commitment fee of \$165,000 for a total first year cost of \$265,000. The commitment fee must be paid, even if the Line of Credit is unused. The Line of Credit may also be extended at the option of the bank, with the consent by the Board of Water Commissioners (Board), for another two years.

If the Line of Credit is utilized, the Water Department will pay an index variable rate of 1.00 percent, plus 1.01 percent, for a total of 2.01 percent. If the entire Line of Credit is drawn, the estimated interest cost for all three years would be approximately \$1.3 million on the \$60,000,000 loan. As is normal for these types of transactions, the Water Department will be required to pledge its water revenues as collateral to help ensure repayment.

A Request for Qualifications (RFQ) was issued on August 12, 2019 to establish a pool for revolving line of credit providers. Nine providers were qualified. In March 2020, the pool was requested to provide specific proposals with current rates and terms. Due to the rapid deterioration in the capital markets stemming from the COVID-19 pandemic, seven of the nine withdrew from participation. Of the two responders, JPMorgan Chase Bank, N.A., offered the most advantageous rates and terms and is recommended for selection.

This matter was reviewed by Deputy City Attorney Richard Anthony on April 10, 2020, Deputy Finance Director Sandy Tsang-Palmer and Finance Director John Gross on April 8, 2020, and

by Director of Finance for the Water Department Paul Fujita on April 10, 2020.

City Council action is requested on April 21, 2020, to ensure that the Line of Credit is available and to allow the Water Department to fund infrastructure improvement projects without having to immediately issue a bond.

The Revolving Line of Credit, in the amount not to exceed \$60,000,000, will be secured and payable from the revenues generated from charges to customers for water usage in the Water Fund Group. The estimated one-time cost of issuance will be approximately \$100,000. Additionally, the annual commitment fee for the Line of Credit will be \$165,000, billed quarterly in the amount of \$41,250. The FY 20 impact to the Water Fund Group will be approximately \$182,500, including the issuance cost and two quarters of the commitment fee, and approximately \$82,500 in FY 21 for a total of \$265,000 for the initial one-year term. If the Line of Credit is drawn upon, the annual cost will range from approximately \$165,000 to a maximum of \$1.3 million of interest cost, plus the repayment of the \$60 million, or the actual amount drawn. The actual annual cost will vary based on the amount drawn on the Line of Credit and the variable interest rate. It is anticipated that the total principal amount ultimately drawn will be refinanced through a long-term bond financing at the end of the Line of Credit term. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

Approve recommendation.

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JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

CHRISTOPHER J. GARNER
GENERAL MANAGER
WATER DEPARTMENT

APPROVED:

THOMAS B. MODICA
ACTING CITY MANAGER