



Legislation Text

File #: 12-0489, **Version:** 1

Recommendation to adopt resolution authorizing City Manager to execute documents in connection with the replacement of the letter of credit that provides support for the City of Long Beach Gas and Oil (LBGO) Department's Subordinate Revenue Commercial Paper Notes Series A and Series B (Taxable) at an annual cost not to exceed \$85,000. (Citywide)

On July 12, 2005, the City Council adopted a Resolution authorizing the issuance of the Gas Utility commercial paper program up to \$35,000,000 and authorizing the City Manager to execute all necessary documents (attached). A letter of credit is a bank credit guarantee that supports the commercial paper program.

The purpose of the commercial paper program is to provide LBGO short-term financing for certain capital improvements. These improvements include selective removal and replacement of aging gas pipeline, meters, and valves; upgrade from six pressure districts to one uniform pressure district; upgrade or removal of district regulating stations; and upgrades to the cathodic protection system. Upgrading the overall gas infrastructure system will increase safety and lower operating costs.

Improvement costs are proposed to be partially financed utilizing the short-term commercial paper program. Currently, \$3,000,000 of commercial paper is outstanding. To achieve the lowest overall cost of borrowing, it is common industry practice to use short-term variable-rate commercial paper financing to accumulate a sufficient amount of project debt that will then be economically refinanced with a long-term bond financing. To meet its current short-term infrastructure funding needs, LBGO plans to replace the expiring letter of credit with a new two-year letter of credit, at a level sufficient to guarantee up to \$15,000,000 of outstanding commercial paper. Though immediate additional infrastructure financing is not contemplated, this action preserves future infrastructure flexibility at a reduced level. As projected short-term infrastructure needs evolve, the letter of credit guarantee may be adjusted accordingly.

This matter was reviewed by Assistant City Attorney Charles Parkin on May 25, 2012 and Budget Management Officer Victoria Bell on May 31, 2012.

..TIMING CONSIDERATIONS

City Council action is requested on June 19, 2012 to facilitate the orderly substitution of the new letter of credit, as the current letter of credit expires July 27, 2012.

There is no General Fund impact. The letter of credit relates to the Gas Fund (EF 301) and will be paid from the commercial paper program proceeds that will be secured by a pledge of the Gas Utility Enterprise. The annual cost to the Gas Fund will not exceed \$85,000. There is no local job impact associated with this recommendation.

Approve recommendation.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LONG BEACH CITY OF LONG BEACH APPROVING AND AUTHORIZING THE EXECUTION OF A SECOND SUPPLEMENTAL SUBORDINATE TRUST INDENTURE, A FIRST AMENDMENT TO ISSUING AND PAYING AGENT AGREEMENT, A FIRST AMENDMENT TO COMMERCIAL PAPER

DEALER AGREEMENT, A REIMBURSEMENT AGREEMENT, A BANK NOTE, AND CERTAIN OTHER DOCUMENTS RELATING TO THE CITY OF LONG BEACH, CALIFORNIA SUBORDINATE GAS UTILITY REVENUE COMMERCIAL PAPER NOTES AND APPROVING THE DISTRIBUTION OF A COMMERCIAL PAPER OFFERING MEMORANDUM AND AUTHORIZING AND DIRECTING CERTAIN ACTIONS WITH RESPECT THERETO

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

CHRISTOPHER GARNER
DIRECTOR OF LONG BEACH OIL AND GAS

APPROVED:

PATRICK H. WEST
CITY MANAGER