



Legislation Text

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Recommendation to adopt resolution to authorize issuance of 2005 Long Beach Bond Finance Authority (LBBFA) Limited Obligation Improvement Bonds (2005 Earthquake Bonds) in an amount not to exceed \$5.6 million to refinance the 1997 Limited Obligation Revenue Bond, approve waivers to City Investment Policy as stated in resolution in regards to investment maturities; and authorize City Manager to execute all documents. (Citywide)

In 1991, the City Council authorized the issuance of \$17.4 million of Earthquake Repair Assessment District No. 90-3 (AD 90-3) conduit bonds to enable property owners to make necessary seismic repairs by allowing an annual assessment levy on their properties. In 1997, the AD 90-3 bonds became at risk of default due to a high level of property delinquencies driven by the real estate recession. To prevent a default and protect the City's reputation in the financial markets, the City Council approved the 1997 restructuring of the AD 90-3 bond issue.

On June 24, 1997, the City Council authorized the formation of the Long Beach Bond Finance Authority (LBBFA), a joint powers authority between the City and Redevelopment Agency (Attachment). The LBBFA was established to issue bonds under the Marks-Roos Local Bond Pooling Act of 1985. Concurrently, the City Council authorized the restructuring of the AD 90-3 bonds, and the purchase of certain of those bonds issued by the LBBFA as an investment by the City.

The 1997 transaction restructured the original bonds by splitting the transaction into Series A and Series B bonds. Series A bonds were secured by properties whose assessment payments were current and had a strong record of prompt payment; this series was sold to outside investors. The Series B bonds were established for the bonds associated with those non-performing properties; those bonds were purchased by the City at a discount and were secured by properties that were in default. The Series B debt was managed by the City Attorney's and City Treasurer's Offices; delinquent assessments were pursued to prevent the City from incurring a loss.

2005 LBBFA Limited Revenue Bonds (Assessment District No. 90-3 Refinancing)

The 2005 LBBFA Limited Obligation Revenue Bonds will refund the 1997 Series B Limited Obligation Revenue Bonds debt. Since 1997, the assessment district delinquency rate has declined from approximately 40 percent to 25 percent, and in aggregate the interest earnings in lien sales have provided exceptional returns on the City's investment.

As a result of the City Attorney's successful collection efforts related to the non-performing properties, the cash flow from the Series B properties allows the City to market most of the remaining debt.

This 2005 LBBFA bond issuance will not exceed \$5.6 million and it will generate approximately \$3.1 million in net cash proceeds, from which the Subsidence Fund will be repaid for its investment of \$2.6 million and the General Fund will be paid approximately \$546,345 for insuring the original transaction. Approximately \$1.9 million of new Series A bonds will be issued at a par and secured by properties whose assessments payments are current. The new Series B bonds will be Capital Appreciation Bonds (CABS) and will

be discounted for current delinquencies. These discounted bonds have an additional potential cash flow of \$2.6 million through maturity, from delinquencies brought current. City Council is requested to approve waivers to City Investment Policy as stipulated in the attached Resolution to facilitate this bond transaction.

This report was reviewed by Chief Assistant City Attorney Heather Mahood and Budget Management Officer David Wodynski on June 1, 2005.

City Council action is requested on June 14, 2005, as interest rates are projected to rise and a delay could result in the bonds being issued at higher interest rates thus reducing projected savings.

The anticipated savings to the City from this refinancing is approximately \$3.1 million, of which \$546,345 will accrue to the General Fund, to help meet the goals of the Three-Year Financial Strategic Plan.

Approve recommendation.

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