



Legislation Text

File #: 21-0195, **Version:** 1

Recommendation to authorize City Manager, or designee, to: (1) execute and approve all documents necessary to implement a cash flow loan by the City of Long Beach Tidelands Oil Revenue Fund Group - Oil Field Abandonment Reserve - to the Aquarium of the Pacific Corporation of up to \$5 million, and (2) terminate the previous May 5, 2020 authorization for a loan from the Tidelands Operations Fund to the Aquarium for October 2020 rent. (District 2)

On March 4, 2020, California Governor Newsom declared a State of Emergency in response to the COVID-19 pandemic (pandemic). Shortly thereafter, the City of Long Beach (City) also issued a Proclamation of Local Emergency, beginning a series of measures to protect Long Beach residents. As a result of the State's and City's health orders, the Aquarium of the Pacific Corporation (Corporation) suspended public visitation to the Aquarium facility (Aquarium). Revenues have been severely impacted and will continue to be impacted until the Aquarium can fully reopen.

The Corporation has requested a loan from the City to assist them through this pandemic. The proposed loan has two purposes: (1) to be drawn on monthly for cash as needed to pay for operating and maintenance costs, and (2) to allow the Corporation to be able to pay the annual rent due to the City in October 2021 to the extent the Corporation has not accumulated enough cash to make the rent payment. It is in the interests of the City to assist the Corporation to avoid a default on the rent payment as the City would have to make good on the equivalent of the rent amount, one way or the other for bond debt service, and it would not be in the interest of the Corporation if they were to have a default on the payment of rent.

The Corporation has determined that the loan needed may range between \$1.2 to \$10 million, but that the range of \$1.2 million to \$5 million seems more likely. The January 26, 2021 Health Order allows the Aquarium to immediately reopen for outdoor visitors. This is a good sign, and if good news on the pandemic continues, the loan draw could be as low as \$1.2 million. However, as the pandemic has proved, there are many uncertainties and the situation could change.

Normal attendance at the Aquarium generates revenue that is sufficient to meet all obligations and allow for some accumulation of cash for loan repayment. It is the Corporation's expectation that cash flows will return to normal levels when the pandemic and residual impacts are over and additional loan draws will not be needed (except potentially for the October 2021 rent payment). The Aquarium will repay the loan as soon as possible, based on its ability to repay. The Corporation believes that total repayment is likely to be made substantially sooner than the 13-year term of the loan.

The Corporation has taken many steps to preserve cash, but states it still has a negative cash flow of about \$1.1 million per month if the Aquarium is completely closed and about \$0.6 million per month if Health Orders allow outside operation. Because of the negative cash flow, the full closure or limited outdoor operations do not allow the accumulation of cash needed to pay the annual rent due to the City in October. The City uses the rent to partially pay debt service on Aquarium bonds. The loan projections made by the Aquarium have taken these cash flows into account as well as their current available cash balance.

On May 5, 2020, the City Council authorized a loan to the Corporation because the pandemic was resulting in low revenues and the Corporation wanted the ability to borrow money from the City to make the October 2020 rent payment to the City. The Corporation was able to make the full rent payment without the need for that loan. As a result, it is recommended that the May 5, 2020 loan authorization be terminated to avoid duplication or confusion.

Because the loan is being made from the Oil Field Abandonment Fund, there is financial backing from the Tidelands Operating Fund Group to ensure that the Oil Field Abandonment Reserve remains whole even if the Aquarium fails to repay on a timely basis. However, it is not expected that the Tidelands Operating Fund Group will have to make any payments. The Oil Field Abandonment Reserve will earn a higher rate of interest from this loan than it otherwise would have earned.

The recommendation actions provide long-term protection of the Tidelands Fund by helping to ensure that the expected revenues from the operation of the Aquarium can pay (through rent and parking garage revenues) the expected portion of the Aquarium-related debt service that would otherwise need to be paid by other revenues of the Tidelands Fund.

The key terms of the new loan are as follows:

- Purpose: for liquidity, operating and maintenance, and rent costs of the Aquarium due to closure in compliance with Health Orders.
- Maximum loan amount: \$5 million.
- Source of loan and backing: Oil Field Abandonment Reserve in the Tidelands Oil Revenue Fund, backed by the Tidelands Operating Fund Group.
- Draw terms:
 - o Drawn on a monthly basis, the monthly amount to be based on the estimated operating cash needs of the Aquarium operations for the following month, with the October 2021 draw to be inclusive of the annual rent payment due that month.
 - o Each draw will be based on a formal written request from the Corporation indicating the projected cash needs and a high-level breakout of those needs, e.g., salary, benefits, utilities, rent, supplies/services, etc. The request must state that the draw is needed to maintain safe liquidity, pay immediate operating costs, and

rent for October 2021.

- o Each draw will incorporate a true-up of the draw amount adjusting the most current draw for the cumulative difference between the actual past needs and the draw amounts for all the respective previous months.
- Loan Term: 13 years, maturing in 2034.
- Loan Interest Rate: Ten-year treasury yield - fixed rate.
- Principal and interest payments:
 - o Paid semi-annually (interest in arrears) on December 1 and June 1, with the first payment due on a payment date that is six months after health orders allow full reopening.
 - o Any payment is first applied against interest due then against principal.
 - o Interest will be calculated on each draw beginning the first day of the month for which the cash is intended to be used.
 - o The amount of the principal payments is at the discretion of the Corporation with the requirement that the loan be paid down as soon as cash flow and higher priority covenant requirements allow and that all principal and interest be paid by the end of the term.
- No prepayment penalty: The Corporation may partially or fully repay the loan on any interest payment date without penalty.
- Subject to Appropriation: The City's obligation to make this loan is subject to annual appropriation.
- Loan is backed by the Tidelands Operating Fund Group (secondary to bond debt service) if the Aquarium is unable to repay at \$900,000 per fiscal year beginning at the end of FY 23, but only to the extent the Corporation has not made at least the total cumulative payments that the \$900,000 per year would provide. If the Oil Field Abandonment Reserve appears as if it will not have enough cash to fund immediate costs, the Tidelands Operating Fund Group must advance repayment, even if the Corporation is meeting the terms of the loan.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on February 3, 2021 and by Budget Manager Grace H. Yoon on February 5, 2021.

City Council action is requested on March 9, 2021, to allow the Corporation time to plan and manage its cash flows during the pandemic.

The loan is from the Oil Field Abandonment Reserve in the Tidelands Oil Revenue Fund Group. This reserve currently has \$34 million and is accumulating funds to pay for the cost of permanently abandoning wells when the Tidelands oil fields close. Much more than \$34 million will be needed to pay for oil field abandonment and the Reserve is being added to,

currently at the rate of about \$6 million a year, except for the suspension in FY 20, and the anticipated suspension in FY 21 and possibly FY 22 due to the City's financial constraints as a result of the pandemic. The main costs for oil field abandonment are estimated to come later than 2035, although Federal, State or economic actions could make it earlier. While there is a need to provide funding for oil field abandonment on an annual basis from oil revenues before oil revenues drop too low, there is no immediate need for the cash in the Oil Field Abandonment Reserve. The Oil Field Abandonment Reserve funds can be lent as long as loans are repaid before oil field abandonment costs are incurred.

Although repayment of the loan by the Corporation over the 13-year term, and potentially substantially sooner, seems likely based on its historical performance, it is not assured. As a result, the loan is backed by the Tidelands Operating Fund Group (Tidelands Fund) that gets much of its operating revenue from oil and from 5 percent of the Port's revenues. If the Aquarium does not repay its loan on a timely basis, the Oil Field Abandonment Reserve will be made whole by the Tidelands Fund.

The long-term financial well-being of the Tidelands Fund appears challenging, even with debt service paid by that fund declining in the next few years. The Fund has relatively high and not easily reduced operating costs. In addition, the beach area supported by the Fund has substantial capital needs. There are also the substantial unfunded obligations with regard to Oil Field Abandonment Reserve that will require diversion of an increasing portion of the annual oil revenue to the Reserve. This is because oil revenues will decline with natural productivity loss from older wells, while the contributions needed for the Reserve will likely stay the same or increase. A higher price for oil would substantially help, both from a revenue viewpoint and the potential of exploration extending the life of, and production from, the oil fields.

Based on current projections, there is a significant deficit expected in the Tidelands Fund in FY 21 due to low revenue from parking and Urban Commons, and the Aquarium (if they do not receive the proposed loan). Oil revenue is currently expected to be higher than budgeted and may partially offset other lower revenue and reduce the expected shortfall. Notwithstanding how well oil revenues perform, it appears likely that at least some Tidelands reserves will need to be used in FY 21. For at least a few years beginning soon, increased oil revenue is likely due to contractual terms, independent of oil prices, but the cost of funding the reserve for oil field abandonment may significantly offset the revenue increase.

In the context of this financial situation, the proposed Corporation loan is backed by the Tidelands Fund. The Tidelands Fund has responsibility, not for the loan itself, but to repay the loan if the Corporation is unable to do so. The status of the loan will need to be watched; if the Corporation has trouble repaying the loan, the Tidelands Fund will need to set aside funds to repay the Well Abandonment Reserve. The backing of the loan by the Tidelands Fund is a potential, but unlikely, financial burden on the fund; however, backing the loan is in the best interests of the Tidelands Fund. The loan backing will help the Tidelands Fund in the long run by assisting the Aquarium to return to normal financial operations as soon as

possible and to allow the Corporation to make normal rent payments to the Tidelands Fund from Corporation revenues. There will be severe impacts on the Tidelands Fund if the Corporation cannot make normal rent payments, but at present, it is considered unlikely that the Corporation will fail to make rent payments or fail to repay the loan on a timely basis.

If the loan is approved by the City Council, it will be managed by the Financial Management Department and the draw authorization will be approved by the Assistant City Manager based on a draw request from the Corporation. Appropriation increase requests needed to technically authorize the loan draws to the Corporation will be brought to the City Council after the fact in future citywide Budget Adjustment City Council letters.

Approve recommendation.

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JOHN GROSS
INTERIM DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
CITY MANAGER