File #: 22-0932, **Version:** 1

Recommendation to adopt resolution approving the issuance and sale of Tidelands Revenue Refunding Bonds, Series 2022, to refinance funds for improvements to the Aquarium of the Pacific, approving the form and authorizing execution of related documents, and approving related official actions. (Districts 1,2,3,7)

In 1995, the Aquarium of the Pacific, a California nonprofit public benefit corporation (Corporation), issued the Long Beach Aquarium of the Pacific (AoP) Revenue Bonds 1995 Series A and B in the aggregate amount of $117,545,000 to finance the acquisition and construction of the AoP facility.

In 2001, the Long Beach Bond Finance Authority (Authority) issued $129,520,000 of Lease Revenue Bonds to refund the AoP Revenue Bonds 1995 Series A and B in the outstanding aggregate amount of $114,250,000, issued by the Corporation. The AoP Series 2001 Refunding Bonds were secured by a first lien and pledge of rental payments from the Corporation, including certain pledged parking revenues, transient occupancy taxes (TOT), and the Tidelands Operating Fund revenues. Related to the 2001 restructuring of the 1995 Corporation bond debt, the City of Long Beach (City), Authority, and Corporation entered into the 2001 Site Lease Agreement, 2001 Lease Agreement, Implementation Agreement (2001 Implementation Agreement), an Amended and Restated Owner Participation Agreement (2001 OPA), and an Amended and Restated City Pledge Agreement (2001 Pledge Agreement).

Under the 2001 Site Lease Agreement, the City leased the AoP and location site to the Authority. As specified in the 2001 OPA, the rental payments of the Corporation, and certain TOT, were sources of revenues to be used in the repayment of the AoP 2001 Refunding Bonds, which were also backed by the Tidelands Operating Fund.

In 2012, the Authority issued $102,580,000 of Refunding Revenue Bonds Series 2012 (Aquarium of the Pacific Project) to (a) refund the outstanding Authority 2001 Refunding Revenue Bonds, (b) fund a reserve fund for the Series 2012 Bonds, and (c) pay for the cost of issuance of the Series 2012 Bonds. The Series 2012 Bonds were secured by Pledged Revenue which included Tidelands Operating Revenue, Tidelands Operating Fund Balance, and AoP rental payments.

City staff recommends that a current refunding of the 2012 Bonds be financed from the proceeds of the City of Long Beach Tidelands Revenue Refunding Bonds, Series 2022 (2022 Bonds). The net present value savings of this refunding are projected to be $5.5 million (or 9.5 percent of the refunded 2012 bonds) over the seven years through the final 2022 Bonds' maturity date of November 1, 2029, if interest rates on the date of sale (tentatively scheduled for Wednesday, August 10, 2022) are even 25 basis points (0.25 percent) higher than they were during the week of July 5-8, 2022. If interest rates on August 10, 2022 are lower than that, the net present value savings will be greater than $5.5 million over this term. Conversely, if interest rates are higher than that, the net present value savings will be less than $5.5 million. If by chance on August 10, 2022 interest rates have risen so high that the net present value savings would be less than 3 percent, then the City's bond financing team will delay the bond sale until such time as at least 3 percent net present value savings can once again be achieved. (At least three percent net present value savings is the City Council's policy threshold for refunding existing bonds.)

The transaction will substantially reshape and simplify the relationship between the Corporation and the City. Over the last few years, the Corporation has accumulated substantial financial resources through a combination of positive operating results and grants from the federal CARES Act. These resources are sufficient to, in essence, prepay all remaining years of the Corporation's $2,154,000 annual contribution to debt service, and thus reduce the size of this 2022 bond issue. By prepaying all seven years of its debt service obligations, the Corporation no longer needs to be a party to the bond issue, so a host of restrictive bond covenants fall away under the new 2022 Bond documents, relieving both the Corporation and City staff from burdensome administrative requirements.

Similarly, the existing facility lease arrangement between the City and the Corporation for the aquarium, which was integral to the 2012 Bonds, will dissolve on the day of closing for the new 2022 Bonds (scheduled for August 31). A new lease agreement is thus necessary for the Corporation to continue to occupy and operate the aquarium facility. That new lease agreement is the subject of a companion item on the August 9, 2022 City Council meeting agenda, as the two items are integrally associated. The City Council should approve the recommended bond issuance only if it also approves the new lease agreement, and should approve the new lease agreement only if it approves the recommended bond issuance.

Therefore, City staff recommends approval of the issuance of the 2022 Revenue Refunding Bonds, in an aggregate par amount not to exceed $38,000,000 and aggregate yield not to exceed 5.00 percent to refund the outstanding 2012 Lease Revenue Refunding Bonds in order to take advantage of current market interest rates, and pay for the cost of issuance.

The legal pledge standing behind all bond issues described here, including the 2022 Bonds, is limited to revenue flowing to the Tideland Operating Fund. Neither the General Fund nor any other City fund is pledged to back the bonds.

The 2022 Bonds are to be issued on a parity with two series of Tidelands Revenue Bonds issued in 2017 (2017 Bonds) to finance improvements to the Aquarium of the Pacific and the Queen Mary. The 2017 Bonds are already secured by an irrevocable pledge by the City of the Tidelands Revenues, so the Indenture of Trust for the 2022 Bonds also contains covenants that the City will not take any action, whether relating to oil or other revenue, respectively, “that would materially adversely affect the amount, or delay the receipt by the City, of Available Tidelands Oil Revenue and Available Tidelands Operating Revenue.” The covenants, which have already been in effect for years, will remain in effect until the 2022 Bonds mature (expected to be November 1, 2029) or are earlier redeemed.

This matter was reviewed by Principal Deputy City Attorney Richard Anthony on July 14, 2022, Financial Management Director Kevin Riper on July 13, 2022, and by Budget Analysis Officer Greg Sorensen on July 18, 2022.

City Council action is requested on August 9, 2022 to facilitate the timely pricing of the refunding Bonds, estimated for August 10, 2022.

Bond proceeds from the City’s Tidelands Revenue Refunding Bonds Series 2022 are estimated at $35.6 million, all of which may be required to offset the cost of refunding the 2012 Bonds. Under the interest rate assumptions described above, the annual debt service on the 2022 Bonds is estimated to be $2.929 million less than the existing annual debt service on the 2012 Bonds being refunded. Against that gross debt service savings, $2.154 million must be offset, because the Tideland Operating Fund will no longer be receiving $2.154 million from the Corporation with which to pay interest each year (because, as explained above, the Corporation is essentially prepaying all seven years of its remaining debt service obligation, thereby reducing the size of the 2022 Bond issue). The difference between those two amounts, $775,000 per year, represents the true savings to the Tideland Operating Fund from this refunding. That true savings in debt service represents a modest increase (about $10 million) in debt capacity for any future bond issue backed by the Tideland Operating Fund, such as for the Belmont Beach Aquatic Center, the Belmont Pier, new water circulation pumps for Los Alamitos Bay, or infrastructure improvements to the Convention and Entertainment Center.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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KEVIN RIPER
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
CITY MANAGER