



Legislation Text

File #: 10-0257, **Version:** 1

Recommendation to adopt resolution authorizing the City of Long Beach, California to issue Harbor Revenue Bonds Series 2010, in an amount not to exceed \$630,000,000, acting by and through its Board of Harbor Commissioners (Board) to finance certain capital improvements at the Port of Long Beach, refund certain Harbor Revenue Bonds previously authorized by the City and issued by the Board, fund the reserve funds for the Series 2010 Bonds, and pay the cost of issuance of the Series 2010 Bonds. (District 2)

The Board of Harbor Commissioners (Board) acting on behalf of the City of Long Beach (City) proposes to issue Harbor Revenue Bonds in an amount not to exceed \$230,000,000 (the New Money Series 2010A Bonds) and Harbor Revenue Refunding Bonds in an aggregate amount not to exceed \$400,000,000 (the Refunding Series 201 OB Bonds), collectively the "Series 2010 Bonds," in an amount not to exceed \$630,000,000. The Series 2010 Bonds will be secured and payable from the revenues of the Port of Long Beach. The objective of this debt restructuring is to reduce interest expense.

Cash Redemption of Series 2000A

On November 1, 2000, the Harbor Department issued \$275,000,000 in bonds to finance certain capital improvement projects. The Harbor Department will use available cash within the Harbor Revenue Fund to redeem the remainder of these Series 2000A Bonds in the par amount of \$214,770,000 in order to reduce the interest rate expense related to these bonds resulting from a current annual interest rate of 5.5 percent. This series of bonds is callable on May 15, 2010 at 101 percent of par, which will increase the total amount needed to fund the redemption to \$216,917,700.

New Money Series 2010A

The Board intends to issue New Money Series 2010A bonds in an amount not to exceed \$230,000,000 to support the expansion and modernization of the shipping terminals on Piers O, E, F and G, fund a reserve account not to exceed \$13,800,000 and pay the cost of issuing the bonds not to exceed \$2,900,000.

It is estimated that the combination of the Series 2000A Bond cash redemption and issuance of the New Money Series 2010A Bonds, will provide a \$20,000,000 nominal interest savings, equivalent to a present value savings of over \$13 million, without extending the average term. The nominal savings will be realized by reducing annual interest expense by approximately \$1,333,000 each year for the next 15 years. The nominal savings are net of all issuance costs. The savings result from redeeming the higher cost Series 2000A Bonds with cash and issuing new debt at a lower cost. The Series 2000A Bonds are subject to the Alternative Minimum Tax and have an average coupon of 5.5 percent. The New Money Series 2010A Bonds are not subject to the Alternative Minimum Tax as allowed by the American Recovery and Reinvestment Act ARRA, and will carry an anticipated average interest rate below 4 percent.

Refunding Series 2010B Bonds

The Board also intends to purchase from bond owners up to all of the outstanding Series 2002B Bonds, Series 2004A Bonds, and Series 2005A Bonds maturing on or after May 15, 2011 (the Tendered Bond Candidates) totaling a potential \$353,640,000. Each bond owner will be invited by the City, acting by and through the Board, to offer to sell (tender) their portion of the Tendered Bond Candidates for cash.

To fund the tender, the Board intends to issue Refunding Series 2010B Bonds in an amount not to exceed \$400,000,000. Proceeds from the Refunding Series 2010B Bonds, together with moneys released from the Debt Service Reserve Funds related to the Tendered Bond Candidates, will be used to purchase all or a portion of the tendered bonds, fund a reserve account and pay the cost of issuing the Refunding Series 2010B Bonds. The final volume of Tendered Bond Candidates will determine the sizing of the Refunding Series 2010B Bonds. While it is anticipated that the volume of tendered bonds accepted by the Port could be substantially lower, the proposed "not to exceed amount" provides the flexibility to maximize the benefits of the bond tender offer.

The present value savings from the tender offer and refunding will depend on the number of bonds tendered and therefore is hard to predict. Each tendered bond will be individually evaluated for acceptance based on the savings it offers. If all \$353,640,000 of par Bonds are tendered at prices economically attractive to the Port, the potential present value savings may reach as high as \$8,600,000; however, it is unknown whether all the Tendered Bond Candidates will be offered. The tender agent estimates that only \$35,000,000 to \$70,000,000 of the Tendered Bond Candidates will actually be tendered and accepted. Based on these lower estimated volumes, the Port is targeting a present value savings in the range of \$0.5 million to \$1 million.

On February 9, 2010, the City, acting on behalf of the Board, held a Tax Exempt and Fiscal Responsibility Act of 1982 (TEFRA) public hearing in order to comply with the requirements of the Internal Revenue Code. The purpose of the hearing was to allow the public to voice their approval for or against the issuance of the New Money Series 2010A Bonds by the Board, for and on behalf of the City. The hearing notice was published in the Long Beach Press Telegram on January 25, 2010. No public comment was offered.

This matter was reviewed by Deputy City Attorney Charles M. Gale on February 25, 2010 and Budget Management Officer Victoria Bell on March 15, 2010.

The Series 2010 Bonds are special, limited obligations of the City. The Board has pledged and assigned all gross operating revenues received by the Harbor Department to secure the payment of all principal, premium and interest on the Series 2010 Bonds and previously issued parity debt in accordance with their respective terms. After completion of this debt restructuring, it is anticipated that the cash redemption of the Series 2000A Bonds in conjunction with the issuance of the New Money Series 2010A Bonds will provide approximately \$1,333,000 in annual interest expense savings in each of the next 15 years valued at \$13 million in present value dollars without substantively changing the amount of Harbor Department debt outstanding, or its average maturity. The target present value savings for the Refunding Bonds Series 2010B is in the range of \$0.5 million to \$1 million; however, the actual present value savings resulting from the tender offer may be higher and will be determined by the actual number of Tendered Bond Candidates offered. These

financial transactions will not have an impact on the General Fund. The expected savings generated by this debt restructuring will accrue to the Harbor Revenue Fund, increase the Port's net income, and therefore, reduce future borrowing needs. The Tidelands Operating Fund will also benefit from the increase in the Harbor Department's net income as a result of lower interest expense.

Approve recommendation.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LONG BEACH APPROVING THE ISSUANCE BY THE BOARD OF HARBOR COMMISSIONERS, ON BEHALF OF THE CITY OF LONG BEACH, OF BONDS SECURED BY HARBOR DEPARTMENT REVENUES IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$230,000,000 TO FINANCE NEW CAPITAL IMPROVEMENTS AT THE PORT OF LONG BEACH AND OF REFUNDING BONDS SECURED BY HARBOR DEPARTMENT REVENUES IN AN AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$400,000,000 TO PAY THE PURCHASE PRICE OF CERTAIN TENDERED OUTSTANDING HARBOR REVENUE BONDS AND CERTAIN OTHER MATTERS

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RICHARD D. STEINKE
EXECUTIVE DIRECTOR, PORT OF LONG BEACH

NAME
TITLE

APPROVED:

PATRICK H. WEST
CITY MANAGER