

CITY OF LONG BEACH

R-20

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802 • (562) 570-6845 • Fax (562) 570 -5836

August 24, 2010

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Adopt the attached Resolution authorizing the City Manager to execute documents for the delivery of a new Letter of Credit agreement for the 2004 Series A Taxable Variable Rate Demand Revenue Bonds (Long Beach Towne Center Site Refinancing Project) and approving related documents at an annual cost not to exceed \$100,000. (District 5)

DISCUSSION

On December 16, 2003, the City Council adopted a resolution authorizing the issuance and sale of Taxable Variable Rate Demand Revenue Bonds (Long Beach Towne Center Site Refinancing Project) of approximately \$11.6 million and approved the related documents and actions (Attachment A). The Letter of Credit (LOC) is a credit guarantee that supports this bond.

Allied Irish Banks (AIB) has provided the LOC since this bond was issued. In recent weeks, due to various economic issues related to the European financial markets and European banks, the AIB LOC is not providing the support the credit market requires, and the variable rate bond weekly rate has risen from 1.0 percent in early May, to 4.0 percent in early July. Unless a new LOC is approved, the annual interest costs due to the weakened AIB LOC will increase approximately \$350,000.

Staff has been able to secure a two-year LOC from Wells Fargo Bank. The cost of issuance for this new LOC is approximately \$40,000. The annual cost for the new LOC is approximately \$90,000.

This item was reviewed by Chief Assistant City Attorney Heather A. Mahood on August 5, 2010 and Budget Management Officer Victoria Bell on August 6, 2010.

TIMING CONSIDERATIONS

City Council action is requested on August 24, 2010 in order to have a new Letter of Credit in place as soon as possible.

HONORABLE MAYOR AND CITY COUNCIL
August 24, 2010
Page 2

FISCAL IMPACT

Issuing a new letter of credit will prevent the FY 11 General Fund debt cost for this obligation from increasing by \$350,000. The one-time cost of issuance is approximately \$40,000 and will be funded from Department XC in the General Fund (GP) FY 10 Adopted Budget. There are no local jobs impacted by this action.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,




LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

LAF:DN:EF
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ATTACHMENTS: A – DECEMBER 16, 2003 CITY COUNCIL LETTER
RESOLUTION

APPROVED:



PATRICK H. WEST
CITY MANAGER



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Blvd. 6th Floor • Long Beach, CA 90802 • (562) 570-6845 • Fax (562) 570-5836

December 16, 2003

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Resolution Authorizing the Issuance and Sale of Taxable Variable Rate Demand Revenue Bonds, 2003 Series A (Long Beach Towne Center Site Refinancing Project), and Approving Related Documents and Actions (District 5)

DISCUSSION

The City Council is requested to approve a refinancing of the Series A Promissory Note between the City of Long Beach and the Department of the Navy (Navy). Staff is proposing the issuance of approximately \$11.6 million of taxable, variable rate bonds, in order to reduce the City's current high interest rate (7.50 percent) obligation to the Navy with a lower cost debt obligation.

BACKGROUND

In 1997, the City purchased 30.2 acres of property from the Navy, on which the Long Beach Naval Hospital was formerly located. The City acquired the site through an Economic Development Conveyance in order to develop it, along with two adjacent parcels, into the current 100-acre Long Beach Towne Center. The total cost of the acquisition was \$8.6 million.

In conjunction with the purchase, the City issued two promissory notes (Note) to the Navy. The Series A Note, issued May 20, 1997, in the initial amount of \$6,285,000, has an interest rate of 7.5 percent and matures on May 19, 2030. The City originally intended to pledge the retail revenues from the Long Beach Towne Center. However, the Navy felt the retail revenues to be too speculative to meet their requirements and required additional security for the Note obligation in the form of a letter of credit. The City secured a letter of credit (LOC) from Canadian Imperial Bank of Commerce (CIBC) for the Series A Note principal and interest. The agreement between the City and CIBC required that the City pledge other, non-Towne Center retail, revenues to protect the bank against any draws on the LOC. The City identified Upland Oil revenues as the backing for the agreement. As such, Upland Oil revenues became the underlying pledged source of revenues that secured the Note obligation.

HONORABLE MAYOR AND CITY COUNCIL
December 16, 2003
Page 2

The Series B Note, also issued May 20, 1997, in the initial amount of \$2,315,000, accrued interest at a rate of 9.0 percent, and had a flexible first payment date, final term and a source of repayment based on the "revenues" from the Long Beach Towne Center, as defined in the Series B Note document. Both the Series A and B Notes carried a pre-payment option which allowed the notes to be redeemed early, without penalty. The Series B Note also contained a provision that allowed it to be converted, no later than May 19, 2001, to the same interest and amortization terms as the Series A Note. Due to the projected potential cost of the Series B Note, the City exercised its restructuring option on May 8, 2001 and was left with a single promissory note to the Navy in the amount of \$11,075,523. The reason that staff recommended the conversion of the Series B Note to the terms of the Series A Note was to limit the potential for accelerated debt service on the Series B Note in future years and to allow the City to continue pursuing legislative relief to forgive the Note in its entirety.

REFUNDING STRUCTURE

To date, the City has not been successful in negotiating a reduction or elimination of the Note debt with the Navy, and it appears that further attempts to relieve the City of this obligation are futile at this point. As a result, staff has evaluated various alternative refunding/restructuring options that would reduce the annual cost of the debt. Staff has determined that the most cost effective refunding structure would be for the City to issue taxable variable rate revenue bonds. The bonds would have the same maturity as the existing Series A Promissory Note (2030) and would be secured by the same source of repayment as currently exists (Uplands Oilfield revenue). The current LOC bank, Allied Irish, has agreed to extend their LOC for the variable rate bonds. It is important to note that this variable rate refunding does not preclude the City either from continuing to seek legislative relief from the Federal Government or from applying any such relief to repayment of this debt at a future date.

It is anticipated that the refunding bonds will total \$11.6 million. This includes approximately \$11.2 million to retire the Note and approximately \$360,000 to pay for bond issuance costs. The costs to issue this debt include approximately \$130,000 for underwriting expense, \$60,000 for letter of credit expense, and \$170,000 to pay for financial advisory services, legal counsel, trustee fees and printing services.

Attached for reference are prior council letters dated May 6, 1997 (exhibit A) and August 21, 2001 (exhibit B).

This matter was reviewed by Chief Assistant City Attorney Heather Mahood and Budget Manager Michael Killebrew on November 19, 2003.

HONORABLE MAYOR AND CITY COUNCIL
December 16, 2003
Page 3

TIMING CONSIDERATIONS

Allied Irish Bank has provided the City with a favorable LOC fee quote, which they have indicated will be valid through December 31, 2003. City Council action is requested on December 16, 2003 in order to secure an advantageous LOC fee and to avoid further delays for the sale of the refunding bonds.

FISCAL IMPACT

The FY 04 annual debt cost of this obligation is expected to decrease from approximately \$990,000 to approximately \$590,000 assuming short term interest rates remain at or near their current levels for the remainder of the current Fiscal Year. This represents an estimated 40 percent reduction in annual debt service in the first year. Even if short-term taxable interest rates increase steadily over the next several years and ultimately attain the 15-year average variable rate of 5.11 percent, it is anticipated that the refunding will generate approximately \$5 million of gross savings to the City through the term of the bonds.

It is important to note that staff has projected reasonable refunding savings based on historical and current variable rates. It is highly likely that, at various times, variable rates in the future will differ from the assumptions used for this analysis. The long-term economic benefit of this transaction may be reduced or eliminated if variable rates exceed current projections for extended periods of time in the future.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

- 1) Adopt the attached Resolution authorizing the Issuance and Sale of Taxable Variable Rate Demand Revenue Bonds, 2003 Series A (Long Beach Towne Center Site Refinancing Project).
- 2) Approve related documents and actions.

Respectfully submitted,



ROBERT S. TORREZ
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:



GERALD R. MILLER
CITY MANAGER

1 RESOLUTION NO.

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3 A RESOLUTION OF THE CITY COUNCIL OF THE
4 CITY OF LONG BEACH APPROVING THE SUBSTITUTION
5 OF THE LETTER OF CREDIT BANK RELATING TO THE
6 CITY OF LONG BEACH (LOS ANGELES COUNTY,
7 CALIFORNIA) TAXABLE VARIABLE RATE DEMAND
8 REVENUE BONDS, 2004 SERIES A (LONG BEACH
9 TOWNE CENTER SITE REFINANCING PROJECT),
10 APPROVING A SUPPLEMENT TO THE OFFICIAL
11 STATEMENT RELATING TO SUCH BONDS, APPROVING
12 THE FORM AND AUTHORIZING AND DIRECTING
13 EXECUTION OF A REIMBURSEMENT AGREEMENT WITH
14 THE ISSUER OF THE SUBSTITUTE LETTER OF CREDIT
15 AND AUTHORIZING OFFICIAL ACTIONS
16

17 WHEREAS, the City has previously issued its \$11,595,000 City of Long
18 Beach (Los Angeles County, California) Taxable Variable Rate Demand Revenue Bonds,
19 2004 Series A (Long Beach Towne Center Site Refinancing Project) (the "Bonds"),
20 pursuant to an indenture of trust (the "Indenture"), by and between the City and U.S.
21 Bank National Association, as trustee (the "Trustee"); and

22 WHEREAS, payment of the principal of and interest on the Bonds is
23 secured by all revenues (the "Oil Revenues") derived and received by the City from the
24 operation of its Upland Oil Field; and

25 WHEREAS, in order to support the payment of principal and purchase price
26 of and interest on the Bonds, Allied Irish Banks, p.l.c., New York Branch (the "Bank"),
27 issued its irrevocable direct pay letter of credit (the "2004 Letter of Credit") pursuant to a
28 reimbursement agreement, dated as of January 1, 2004, by and between the City and the

1 Bank (the "2004 Reimbursement Agreement"); and

2 WHEREAS, the City proposes to substitute the Bank with a new letter of
3 credit bank in accordance with the provisions of the Indenture and the 2004
4 Reimbursement Agreement; and

5 WHEREAS, Wells Fargo Bank, National Association (the "Substitute
6 Bank"), has agreed to issue a letter of credit in substitution of the 2004 Letter of Credit, to
7 be issued pursuant to a reimbursement agreement by and between the City and the
8 Substitute Bank (the "Substitute Reimbursement Agreement"); and

9 WHEREAS, the Council wishes at this time to authorize the execution of
10 such documents and the performance of such acts as may be necessary or desirable to
11 effect the substitution described above;

12 NOW, THEREFORE, the City Council of the City of Long Beach resolves as
13 follows:

14 Section 1. Findings and Determinations. The Council hereby finds and
15 determines that the foregoing recitals are true and correct.

16 Section 2. Substitution of Substitute Bank for the Bank. The Council
17 hereby approves the substitution of the Substitute Bank for the Bank.

18 Section 3. Approval of Substitute Reimbursement Agreement. The
19 Council hereby approves the Substitute Reimbursement Agreement, in the form on file
20 with the City Clerk, together with such additions thereto and changes therein as the City
21 Manager, the Director of Financial Management and the City Treasurer (the "Designated
22 Officers"), shall deem necessary, desirable or appropriate, the execution of which by the
23 City shall be conclusive evidence of the approval of any such additions and changes. The
24 Designated Officers, each acting alone, are hereby authorized and directed to execute,
25 and the City Clerk is hereby authorized and directed to attest to, the final form of the
26 Substitute Reimbursement Agreement for and in the name and on behalf of the City. The
27 Council hereby authorizes the delivery and performance of the Substitute
28 Reimbursement Agreement.

1 Section 4. Approval of Supplement to Official Statement. A supplement
2 to the final official statement relating to the Bonds, substantially in the form on file with the
3 City Clerk, be and is hereby approved, and the Designated Officers are each hereby
4 authorized and directed to execute said document, with such changes, insertions and
5 omissions as may be approved by such officials, as may be deemed necessary to
6 provide updated disclosure information to the owners or prospective owners of the
7 Bonds, and a statement that the facts contained in such updated disclosure information
8 are true and correct in all material respects.

9 Section 5. Mandatory Tender Notice. The Designated Officers are each
10 hereby authorized and directed to notify the Trustee of the substitution of the Substitute
11 Bank for the Bank and to direct the Trustee to send a mandatory tender notice to the
12 owners of the Bonds in accordance with Section 2.03(d) of the Indenture, substantially in
13 the form on file with the City Clerk.

14 Section 6. Official Actions. The City Manager, the Director of Financial
15 Management, the City Treasurer, the City Clerk, and any other officer of the City, or any
16 of such officers, are each hereby authorized and directed to execute and deliver any and
17 all documents and instruments, and to do and cause to be done any and all acts and
18 things necessary or proper for carrying out the transactions contemplated by this
19 Resolution.

20 Section 7. This resolution shall take effect immediately upon its adoption
21 by the City Council, and the City Clerk shall certify the vote adopting this resolution.

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I hereby certify that the foregoing resolution was adopted by the City Council of the City of Long Beach at its meeting of August 24, 2010 by the following vote:

Ayes: Councilmembers: _____

Noes: Councilmembers: _____

Absent: Councilmembers: _____

City Clerk

OFFICE OF THE CITY ATTORNEY
ROBERT E. SHANNON, City Attorney
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Long Beach, CA 90802-4664