



# CITY OF LONG BEACH

# H-1

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

July 19, 2005

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

## RECOMMENDATION:

Receive supporting documentation into the record and conclude the public hearing regarding the issuance of bonds by the Long Beach Bond Finance Authority, in an amount not to exceed \$45,000,000, the proceeds of which will be used to purchase the Redevelopment Agency's tax allocation bonds; and adopt the attached Resolution of the City Council making findings with respect to, and approving the issuance of bonds by, the Long Beach Bond Finance Authority and approving the issuance and sale of bonds by the Redevelopment Agency of the City of Long Beach to the Long Beach Bond Finance Authority. (Citywide)

## DISCUSSION

Staff recommends that the City Council authorize a restructuring of a 2002 Redevelopment Agency bond issue that would reduce the North Long Beach Project Area's debt service payments in future years and produce approximately \$300,000 in additional funds for the Downtown Project Area. The restructuring would not provide new funds for the North Long Beach Project Area at this time.

The City's Department of Financial Management regularly reviews the Redevelopment Agency's (Agency) existing bonded indebtedness in order to assess interest rate levels, determine debt service savings thresholds, and review existing covenants and capacity. When practical, staff will recommend refunding (refinancing) certain bonds in order to take advantage of lower interest rates. Interest rates for municipal bonds recently fell to their lowest level in twenty years. An opportunity now exists to reduce debt service by restructuring existing tax allocation bonds for the North Long Beach and Downtown Redevelopment Project Areas originally issued in 2002.

In recent weeks, interest rates on municipal bonds have risen and fallen unpredictably. On some days, prevailing interest rates have been sufficiently low that restructuring some North Long Beach and Downtown bonds would result in significant savings (Exhibit A). On other days, interest rates have risen to a level that would not permit savings. Staff proposes that the City Council authorize a bond sale and allow staff to

wait for the opportune moment to issue them. Because interest rates have recently been volatile, the bonds might be issued at higher or lower interest rates than predicted in this staff letter. If interest rates begin a long-term upward movement, the bonds may not be issued at all.

In addition to the restructuring, staff proposes that the Agency enter into agreements with the Long Beach Bond Finance Authority (Authority) to allow the Authority to issue new bonds and use a portion of the proceeds to provide funds for new Agency projects and programs. The details of the proposed bond issue are described in the Preliminary Official Statement (Exhibit B).

The total size of the actual anticipated bond issue by the Authority to provide additional funds to the Agency and to allow for a restructuring of existing Agency North Long Beach and Downtown bonds is estimated to be approximately \$42.5 million. However, authority for a larger amount, \$45 million, is requested to cover additional costs that could result from movements in interest rates between the date of City Council authorization and the date of the eventual sale of bonds. This estimated bond issue amount consists of \$40.9 million for bond refinancing, \$300,000 for new projects in the Downtown Project Area, \$900,000 for payment of bond insurance premium costs, and \$440,000 for other costs of issuance.

### **Use of Bond Proceeds**

The proposed use of the bond proceeds is discussed below and in Exhibit A.

#### Refunding Existing Bonds

The Agency's 2002 Series Bonds were issued when interest rates were higher than current interest rates. Staff recommends using \$40.9 million in Authority bond proceeds to partially refund the 2002 Series Bonds for the Downtown and North Long Beach Project Areas.

#### New Projects and Programs

Staff proposes that the Authority use up to \$300,000 from the bond proceeds for new projects and programs in the Downtown Redevelopment Project Area.

#### Bond Insurance and Other Costs of Issuance

When the bonds are issued, debt service reserve accounts to be held by bond trustees must be funded, and fees to the Agency's financial advisors and legal advisors, bond insurance premiums and other costs of bond issuance must be paid. These costs of issuance will be paid from the Authority bond proceeds and are estimated to total \$1.34 million. Costs of issuance are shown by project area in Exhibit A.

### **Use of Bond Proceeds in Each Redevelopment Project Area**

The bond issuance will include bonds for the North Long Beach and Downtown Redevelopment Project Areas, and the provision of additional funds for the Downtown Redevelopment Project Area. Exhibit A provides estimates of the potential reduction in debt service on the 2002 bonds that could be generated through the sale of bonds based on current interest rates and assumptions regarding the requirements of bond insurers. Changing bond market conditions could alter the level of debt service reduction for the North Long Beach bonds, and the amount of funds available for projects in the Downtown Project Area from the sale of the proposed bonds.

#### North Long Beach Redevelopment Project Area

Staff proposes that the Authority issue bonds in respect of the North Long Beach Redevelopment Project Area that will provide over \$1.0 million in present value savings to the Agency.

#### Downtown Redevelopment Project Area

Bonds of the Authority for the Downtown Redevelopment Project Area can be issued that will net bond proceeds of approximately \$300,000. Staff recommends that the estimated remaining \$300,000 of proceeds be designated for use on downtown public works projects to be identified and budgeted in the future.

### **Joint Powers Authority**

Staff proposes to use the Long Beach Bond Finance Authority for the proposed bond issue. The Authority is a separate legal entity formed by the City and Agency. The Authority can issue a single series of bonds to the public to restructure bonds for both redevelopment project areas. If the Authority were not used, the Agency would be required to issue separate refunding bonds to the public for North Long Beach and Downtown. The higher cost of issuing separate bonds to the public for each project area would reduce the amount of savings available for use. Issuing a single series of bonds to the public significantly reduces issuance costs and creates a bond structure that is more attractive to investors than two separate bond issues.

### **Financial Security**

Restructuring the North Long Beach and Downtown bonds will not increase the amount of debt service that either project area pays each year, nor will the issuance extend the final maturity of the existing bonds. The restructuring will reduce future debt service payments paid by the North Project Area.

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### **Public Review**

The Agency discussed and approved the proposed bond issues in a noticed public meeting on July 11, 2005. Due to the need to authorize the issuance of bonds quickly to capture the current interest rate market, this matter was not presented to the North Project Area Committee.

This letter was reviewed by Assistant City Attorney Heather Mahood on July 6, 2005, and by Budget Management Officer David Wodynski on July 8, 2005.

### **TIMING CONSIDERATIONS**

Although interest rates have reached historic lows, they are unpredictable and can rise without notice. Staff requests City Council approval of the issuance of bonds on July 19, 2005, as a delay could result in the bonds being issued at a higher interest rate, which would directly affect the amount of projected savings.

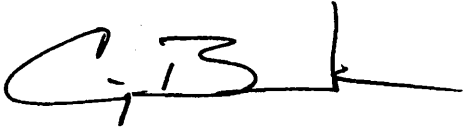
### **FISCAL IMPACT**

The Agency would be solely responsible for debt service payments. The City's General Fund would not be obligated to contribute to bond payments. The Agency's property tax increment from the North Long Beach and Downtown project areas would pay the debt service for the proposed bond issuance. The North Long Beach and Downtown Redevelopment Project Areas are only restructuring existing bonds, the project areas' annual debt service currently being paid on the outstanding bonds would not increase, and the final maturity of the bonds would not change. The debt service payments for the North Project Area would decrease in future years as a result of the restructuring.

### **SUGGESTED ACTION:**

Approve recommendation.

Respectfully submitted,

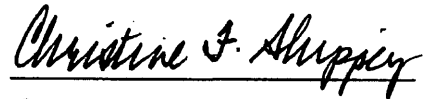


CRAIG BECK  
ACTING DIRECTOR OF COMMUNITY DEVELOPMENT



MICHAEL KILLEBREW  
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:



*for*

GERALD R. MILLER  
CITY MANAGER

CB:OWG:owg

Attachments: Exhibit A – Use of Bond Proceeds  
Exhibit B – Preliminary Official Statement  
Resolution