

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

R-8

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

August 21, 2012

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach
California

RECOMMENDATION:

Adopt the attached Resolution authorizing the City Manager to execute documents in connection with the renewal of the letter of credit that provides support for the Taxable Variable Rate Demand Revenue Bonds, 2004 Series A (Long Beach Towne Center Site Refinancing Project) at an annual cost not to exceed \$78,000. (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, 2004 Series A (Long Beach Towne Center Site Refinancing Project) of approximately \$11.6 million with a final maturity on November 1, 2030, and approved the related documents and actions (Attachment A). Variable rate municipal debt is issued with a letter of credit (LOC) to enhance the investors' security. The LOC is a guarantee, by the issuing bank, that secures the investors' interests and it also guarantees the City's debt payment to the bondholder. In the event that the City is unable to make payment on the bond, the LOC bank is required to cover the full amount of the payment and will assume control of the asset.

The term of a LOC ranges from one to three years. The existing LOC expires on September 30, 2012. Staff has negotiated a two-year replacement LOC with Wells Fargo Bank, the provider of the expiring LOC, at a level sufficient to guarantee up to \$10,335,000 of outstanding notes. Wells Fargo Bank has offered to renew the LOC at 0.75%. The existing LOC is currently at 0.80%. All other terms related to the LOC remain the same.

This matter was reviewed by Assistant City Attorney Charles Parkin on July 31, 2012 and Budget Management Officer Victoria Bell on August 6, 2012.

TIMING CONSIDERATIONS

City Council action is requested on August 21, 2012 to facilitate the orderly substitution of the new LOC, as the current LOC expires September 30, 2012.

HONORABLE MAYOR AND CITY COUNCIL
August 21, 2012
Page 2

FISCAL IMPACT

The one-time issuance expense of approximately \$25,000 and the not to exceed annual cost amount of \$78,000 is included in the FY 13 Proposed Budget in the Debt Service Fund (DS 600) in the Citywide Activities Department (XC). There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

JG:DN/EF
K:\EXEC\COUNCIL LETTERS\TREASURY\08-21-12 CCL - 2004 LONG BEACH TOWNE CENTER VRDN LETTER OF CREDIT.DOC

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) 570-8845 • Fax (562) 570-6888

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.

ATTACHMENT A

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 Killbrew on November 19, 2003.

ATTACHMENT A

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.

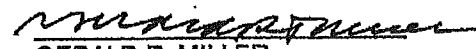
IT IS RECOMMENDED THAT THE CITY COUNCIL:

- 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

Attachments

OFFICE OF THE CITY ATTORNEY
ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

1 RESOLUTION NO.

2
3 RESOLUTION OF THE CITY COUNCIL OF THE
4 CITY OF LONG BEACH APPROVING THE EXTENSION
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), AND
10 AUTHORIZING OFFICIAL ACTIONS
11

12 WHEREAS, the City has previously issued its \$11,595,000 City of Long
13 Beach (Los Angeles County, California) Taxable Variable Rate Demand Revenue Bonds,
14 2004 Series A (Long Beach Towne Center Site Refinancing Project) (the "Bonds"),
15 pursuant to an indenture of trust, by and between the City and U.S. Bank National
16 Association, as trustee; and

17 WHEREAS, in order to support the payment of principal and purchase price
18 of and interest on the Bonds, Wells Fargo Bank, National Association (the "Bank"), issued
19 its irrevocable direct pay letter of credit (the "Letter of Credit") pursuant to a
20 reimbursement agreement, dated as of February 1, 2009, by and between the City and
21 the Bank; and

22 WHEREAS, the current expiration date of the Letter of Credit is September
23 30, 2012, but the Bank has agreed to extend the expiration date of the Letter of Credit
24 until September 30, 2014; and

25 WHEREAS, the Council wishes at this time to approve the extension of the
26 Letter of Credit;

27 NOW, THEREFORE, the City Council of the City of Long Beach resolves as
28 follows:

OFFICE OF THE CITY ATTORNEY
ROBERT E. SHANNON, City Attorney
333 West Ocean Boulevard, 11th Floor
Long Beach, CA 90802-4664

1 Section 1. Approval of Extension of the Letter of Credit. The City Council
2 hereby approves the extension of the Letter of Credit.

3 Section 2. Official Actions. The City Manager, the Director of Financial
4 Management, the City Treasurer, the City Clerk, and any other officer of the City, or any
5 of such officers, are each hereby authorized and directed to execute and deliver any and
6 all documents and instruments, and to do and cause to be done any and all acts and
7 things necessary or proper for carrying out the transactions contemplated by this
8 Resolution.

9 Section 3. Effective Date. This resolution shall take effect immediately
10 upon its adoption by the City Council, and the City Clerk shall certify the vote adopting
11 this resolution.

12 I hereby certify that the foregoing resolution was adopted by the City
13 Council of the City of Long Beach at its meeting of _____, 2012, by
14 the following vote:

15
16 Ayes: Councilmembers: _____

17 _____
18 _____

19
20 Noes: Councilmembers: _____

21 _____
22 Absent: Councilmembers: _____

23 _____
24 _____

25
26 _____
City Clerk