City of Long Beach

411 West Ocean Boulevard
Long Beach, CA 90802

Legislation Details (With Text)

File #:	23-0428	**Version:** 1	**Name:**	FM - FALB Lease Revenue Bonds, Series 2023	
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File created:	4/3/2023		**In control:**	City Council	
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Title: Recommendation to adopt resolution approving the proceedings by the Finance Authority of Long Beach for the issuance and sale of its Lease Revenue Bonds, Series 2023 to finance the acquisition and refurbishment of an existing building for municipal uses and to finance certain capital improvements of the City of Long Beach (City), in an aggregate not to exceed principal amount of $90,000,000, and authorize the execution of related documents, and approving related official actions. (Citywide)

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Date	Ver.	Action By	Action	Result
5/2/2023	1	City Council	approve recommendation and adopt	Pass

Recommendation to adopt resolution approving the proceedings by the Finance Authority of Long Beach for the issuance and sale of its Lease Revenue Bonds, Series 2023 to finance the acquisition and refurbishment of an existing building for municipal uses and to finance certain capital improvements of the City of Long Beach (City), in an aggregate not to exceed principal amount of $90,000,000, and authorize the execution of related documents, and approving related official actions. (Citywide)

The Lease Revenue Bonds, Series 2023 (Bonds) will be issued by the Finance Authority of Long Beach (Authority) under the provisions of Article 4 (commencing with section 6584) of the JPA Act (Bond Law). To provide repayment of the Bonds, the City and Authority will enter into a lease-leaseback arrangement on City-owned property. A little more than one-fourth ($23.6 million) of the proceeds from the Bonds will be used to finance the acquisition of the building at 125 Elm Avenue to provide the City's Police Department a Crime Lab, offices for various City departments for administrative use, and to provide an onsite Senior Center. Bond proceeds will also fund capitalized interest during the construction of building improvements before the building can be occupied. Almost three-fourths ($60.7 million) of the bond proceeds will be used to fund various projects in the Fiscal Year (FY) 23 Infrastructure Investment Plan from the Measure A Bond program that will be considered by the City Council on May 2, 2023. The costs of issuance will also be funded by the Bonds. The Series 2023 Bonds will be structured for level annual debt service and without a debt service reserve fund, thus lowering the required issuance amount and related interest costs. The Bonds will have a final maturity of 30 years, to match the useful lives of the assets being financed.

The legal security pledge for the Bonds is the City's General Fund. Under current interest rate assumptions (April 12, 2023), the estimated total annual debt service of $4.8 million will be apportioned $1.3 million for the 125 Elm acquisition, and $3.5 million for the Measure A infrastructure projects.

While the General Fund will pay the $1.3 million estimated annual debt service on the 125 Elm acquisition being financed by this bond issue, the General Fund will be paying for only 72.5 percent of the entire 125 Elm project (acquisition plus building improvements). The Gas Fund Group will pay for the remaining 27.5 percent of the entire 125 Elm project, because the Utilities Department will occupy one floor of the building.

Measure A will pay the $3.5 million estimated annual debt service for the Measure A infrastructure projects.

Rationale for Bond Issuance

City staff recommend approval of the Series 2023 bond issuance for three policy reasons, one practical and two pertaining to equity.

<u>Practical financial realities</u>

The alternative to debt financing is reserving cash and paying as you go. If a city waits until it accumulates enough cash to pay up front for major capital improvements, it will probably have to wait a long time before those improvements can be undertaken. In the meantime, community infrastructure needs go unmet until sufficient cash is accumulated. A rough analogy is an individual's personal decision to purchase a home. Most residents cannot afford to pay cash for a home, so they take out a mortgage and pay for the home over time, through monthly mortgage payments. Similarly, a city can issue bonds to finance capital improvements right away, paying off the debt over time.

<u>Equity between different generations of taxpayers</u>

Public policy best practices favor issuing debt to pay for long-lived capital assets that are funded by bonds. First, it is unfair for current taxpayers to shoulder the entire cost of a long-lived capital improvement by paying cash up front, when some of today's taxpayers - perhaps even most, depending on the useful life of the asset being purchased - will not benefit from the full life of that asset after they move or even pass away. Second, it is equally unfair for future taxpayers to pay nothing for a capital improvement from which they will benefit after they move to a city. In public finance, roads and streets are the classic example as they last for decades. If today's taxpayers pay cash for new or reconstructed roads and streets, then future taxpayers - many of whom have not yet even moved to Long Beach - will be getting a free ride on pavement paid for, in cash, by earlier generations of taxpayers. The technical term for this important concept is "intergenerational equity," or fairness between generations of taxpayers.

Debt issuance solves the intergenerational equity problem. By spreading out the payment for capital improvements - via annual debt service paid to bondholders - a city ensures that taxpayers from all generations benefiting from capital improvements actually pay for them, thereby avoiding a burden on the current generation of taxpayers who would otherwise be saddled with an all-cash payment for the capital improvements up front. This approach to paying for municipal infrastructure has been a basic tenet of public finance for over a century.

Equity lens

A second important public policy reason in favor of issuing debt to pay for long-lived capital assets is related to the first. It concerns the socioeconomic composition of different generations of Long Beach taxpayers. The City paying cash up front for major capital improvements would result in today's low-income taxpayers subsidizing future high-income taxpayers who have not yet even moved to Long Beach. To the extent possible, today's taxpayers should benefit from services provided today by the taxes they pay. Today's taxpayers, especially low-income taxpayers, should not be forced to subsidize future taxpayers, especially high-income taxpayers.

All that said, from the perspective of long-term financial management, issuing debt instead of paying cash for capital improvements does constrain future City Councils' spending flexibility. Once a city issues debt, annual principal and interest are a fixed contractual obligation, and must be paid to bondholders, leaving less annual revenue available for discretionary appropriation until the bonds mature. For that reason, the municipal bond rating agencies like Moody's and Fitch frown upon cities that devote more than about 10 percent of their General Fund to debt service. Even after City Council consideration, authorization and eventual sale of the bonds recommended here, the City's annual debt service on bonds backed by the General Fund (including Measure A) will be less than five (5) percent of General Fund expenditures plus transfers out.

This matter was reviewed by Principal Deputy City Attorney Richard F. Anthony on March 27, 2023 and by Budget Operations and Development Officer Rhutu Amin Gharib on April 2, 2023.

The Finance Authority of Long Beach approved this item on March 30, 2023. City Council action is requested on May 2, 2023, to facilitate the timely pricing of the Bonds, estimated for a bond sale in early May 2023.

Another timing consideration deserves emphasis, one that is imposed on the City's Public Works Department. The tax-exempt nature of the 2023 Lease Revenue Bonds requires that the City spend 85 percent of the bond proceeds within 3 years of issuance, and 100 percent within 5 years. If the City fails to spend the bond proceeds timely, then any subsequent Internal Revenue Service (IRS) audit of the bond transaction could, in the worst case, result in a penalty to the City equal to 30 percent of total interest paid to bondholders over the entire life of the bonds. At April 12,2023 interest rates, total interest paid to bondholders would be $73.3 million, 30 percent of which is $22 million - a penalty that would have to be paid to the

IRS out of the City's General Fund.

To prevent this enormous financial penalty, the Public Works Department will need to execute expeditiously the capital improvement projects being financed by the bonds. There is a practical limit to how many Public Works projects can be physically completed in any given amount of time, which depends on a combination of City staff availability, contractor availability, the supply chain for construction materials and equipment, etc. Staff have determined that $60 million of Measure A projects from this first of three planned bond issues is an aggressive, but achievable goal, which will require that the Measure A projects receive first priority for infrastructure project completion in order to meet the demanding timeline. This may result in other, unplanned or "one-off" projects - even those with fully identified funding - being delayed or deferred in favor of meeting the aggressive schedule for the Measure A infrastructure investment.

Bond proceeds from the Finance Authority of Long Beach Lease Revenue Bonds Series 2023 are estimated at $84 million, all of which will be used to finance the acquisition of the building at 125 Elm Avenue to provide the City's Police Department a Crime Lab, offices for various City departments for administrative use and to provide an onsite senior center, and costs of issuance of the bonds. Bond proceeds will fund capitalized interest during the construction of building improvements before the building can be occupied. Bond proceeds will also be used to fund various projects in the FY 23 Infrastructure Investment Plan from the Measure A Bond program that will be considered by the City Council on May 2, 2023.

Under the interest rate assumptions for this financing, the annual debt service on the 2023 Bonds is estimated to be $4.8 million, structured as level annual debt service payments, with a final bond maturity in 2055. The actual interest rate is subject to market conditions on the day of pricing. (Had these bonds been sold on April 12, the true interest cost would have been 3.9 percent.)

This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing Council priorities, including the City's financial and debt policies. There is no local job impact associated with this recommendation.

Approve recommendation.

KEVIN RIPER
DIRECTOR
FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
CITY MANAGER