



## Legislation Text

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**File #:** 10-0419, **Version:** 1

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Recommendation to adopt resolution transferring the City's allocation of Recovery Zone Economic Development Bonds to the Redevelopment Agency of the City of Long Beach (Agency), and approving the issuance of tax allocation bonds by the Agency in an amount not to exceed \$35,000,000 for its North Long Beach Project Area; and

Staff recommends that the City Council transfer the City's allocation of Recovery Zone Economic Development Bonds (RZEDBs) to the Agency, and approve the Agency's issuance of up to \$35 million of tax allocation bonds for the Agency's North Long Beach Project Area (Project Area). The total estimated principal amount of the bond issue is approximately \$33 million; however, authority for the full amount, \$35 million, is requested to cover additional bonding capacity that could result from movements in interest rates between the date of City Council approval and the date of sale of the bonds. The anticipated use of the bond proceeds includes \$30 million for various projects within or of benefit to the Project Area, \$3 million for a debt service reserve fund, and \$330,000 for costs of issuance.

Staff also recommends that the City Council make certain findings regarding the East Police Station and the financing thereof with funds from the Project Area so that a portion of the bond proceeds can be used for that purpose.

The Agency has identified a number of capital projects that it would like to finance with bonds that would be repaid with tax increment revenues from the Project Area. The projects include a new fire station (Fire Station No. 12), and various street and other improvements identified in Exhibit A. The Agency anticipates that approximately \$2 million of Project Area tax increment revenues will be needed each year to pay the annual debt service on the bonds, after taking into account certain subsidy payments from the Federal government related to the interest payable on the bonds as discussed below. The Agency approved the issuance of the bonds on April 5, 2010.

In order to issue the bonds, Section 33640 of the California Redevelopment Law requires that the City Council approve the issuance of the bonds by the Agency. The bonds will be payable solely from tax increment revenues arising from the Project Area.

No City General Fund or other revenues or assets will in any way be pledged to or used for the repayment of the bonds.

### **Transfer of RZEDB Allocation and Financing Structure**

On February 17, 2009, the President signed into law the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Recovery Act allocated to State and local governments the authority to issue RZEDBs and allowed for the issuance of Build America Bonds (BABs), to finance certain capital projects. The interest paid to bond investors on the RZEDBs and on the BABs is not tax-exempt, so the interest rate on RZEDBs and on the BABs is higher than the interest rate on traditional tax-exempt municipal bonds; however, the issuer of RZEDBs or of BABs receives a

payment from the Federal government, on each interest payment date, equal to 45 percent (in the case of RZEDBs) or 35 percent (in the case of BABs) of the interest paid on the respective bonds. Thus, subject to bond market conditions, the final amount of interest payable on any RZEDBs or on any BABs, after taking into account the Federal reimbursement, may be less than on a traditional tax-exempt bond. The Recovery Act allocated \$22,235,000 of RZEDBs to the City, and allows for an unlimited amount of BABs to be issued by State and local governments in calendar years 2009 and 2010.

In order to obtain the most favorable interest rate for the Agency's bonds, and recognizing that the financial markets remain volatile, the City's financial advisors have recommended flexibility to issue the bonds as RZEDBs, as BABs, as traditional tax-exempt bonds, or as a combination of any of the above. In order for the bonds to be issued as RZEDBs, the City must transfer its allocation of \$22,235,000 of RZEDBs under the Recovery Act to the Agency. On December 7, 2009, the Agency adopted Resolution No. R.A. 41-2009, declaring the entire area within the boundaries of the City as a "recovery zone" for purposes of the Recovery Act, which will allow the Agency to use proceeds of RZEDBs, if the City assigns its allocation of RZEDBs to the Redevelopment Agency, for any of the projects proposed to be financed with bond proceeds.

### **Annual Debt Service Costs**

The source of repayment of the bonds will be tax increment revenues from the Project Area. The annual debt service on the bonds will be approximately \$2 million, after taking into account the Federal subsidy payments that will apply to the bonds. Following the issuance of the bonds, and taking into account the Federal subsidy payments, it is expected that total annual debt service on the 2002 bonds, the 2005 bonds and the new 2010 bonds will be approximately \$9.3 million. The 2010-2011 tax increment revenues allocable to the Redevelopment Agency from the Project Area, after deduction for pass-through obligations payable to other taxing agencies, amounts required by Redevelopment Law to be used for housing purposes and pending assessment appeals, will be approximately \$20.6 million.

### **Findings Regarding East Police Station**

California Redevelopment Law provides that a redevelopment agency may, with the consent of the City Council of the City in which the redevelopment agency is located, pay for the costs of public improvements, if the City Council determines all of the following:

- That the construction of such public improvements is of benefit to the Project Area by helping to eliminate blight or by providing housing for low or moderate income persons.
- That no other reasonable means of financing the public improvements are available to the community.
- That the payment of Agency funds for the cost of the public improvements is consistent with the implementation plan adopted for the Project Area.

As the Agency plans to fund the construction of public improvements with bond proceeds, these findings must be made for each public improvement to be financed.

The required findings for all the public improvements listed on Exhibit A, except the East Police Station, were previously made by the Agency in Resolution No. R.A. 15-2007 adopted on June 4, 2007, and by the City Council in Resolution No. 07-0079 adopted on June 12, 2007. It is requested that the City Council adopt the attached resolution making the necessary findings for the development of the East Police Station with redevelopment funds from the Project Area. The Agency adopted a resolution making the same findings for the East Police Station on April 5, 2010.

### **Public Review**

The Agency's North Long Beach Project Area Committee reviewed the bond issue at its meetings on January 28, 2010, February 25, 2010, and March 25, 2010. The Agency held a study session on the proposed bond issue on February 1, 2010 and approved this list of projects to be funded by the bond issue on March 1, 2010. On April 5, 2010, the Agency adopted a resolution authorizing the issuance of the bonds and approving the related bond documents at its regular meeting.

This matter was reviewed by Assistant City Attorney Heather A. Mahood on March 22, 2010 and by Budget Management Officer Victoria Bell on March 19, 2010.

The City has awarded a contract for the construction of the fire station. Interest rates in the bond market are favorable, but could rise given the continuing financial challenges in California and the United States. Staff requests City Council approval of the issuance of the bonds on April 20, 2010, as a delay could disrupt the timing of the construction of the improvements to be financed with the bond proceeds, and could result in the bonds being issued at a higher interest rate, or the City/Agency losing its Federal allocation of RZEDB's.

The Agency will be solely responsible for debt service payments on the bonds. The City's General Fund will not be obligated in any way to these bond payments. The Agency's tax increment revenues from the North Long Beach Project Area will be used to pay the debt service on the bonds, in the amount of approximately \$2 million annually, after taking into account applicable Federal subsidy payments, for up to the next 30 years. The Agency expects to have sufficient tax increment revenues from the Project Area to pay the scheduled debt service on the bonds, as well as on its 2002 and 2005 North Long Beach Project Area bonds, and all of its other North Long Beach Project Area obligations.

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LONG BEACH TRANSFERRING ALLOCATION OF RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS TO, AND APPROVING THE ISSUANCE OF BONDS BY, THE REDEVELOPMENT AGENCY OF THE CITY OF LONG BEACH, AND APPROVING RELATED ACTIONS**

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