Legislation Details (With Text)

File #:	23-0617 **Version:** 1	**Name:**	FM/Utilites - Natural Gas Purchase Revenue Bonds, Series 2007B
Type:	Resolution	**Status:**	Adopted
File created:	5/23/2023	**In control:**	City Council
On agenda:	6/13/2023	**Final action:**	6/13/2023
Title:	Recommendation to adopt resolution authorizing and approving a change in the index rate for the Natural Gas Purchase Revenue Bonds Series 2007B, issued by the Long Beach Bond Finance Authority and the related Interest Rate Swaps, authorizing and approving certain documents and actions relating thereto, and delegating authority to officers in connection therewith. (Citywide)		
Sponsors:	Financial Management, Utilities		
Indexes:			
Code sections:			
Attachments:	1. 06132023-R-19sr&att.pdf, 2. RES-23-0089.pdf		

Date	Ver.	Action By	Action	Result
6/13/2023	1	City Council	approve recommendation and adopt	Pass

Recommendation to adopt resolution authorizing and approving a change in the index rate for the Natural Gas Purchase Revenue Bonds Series 2007B, issued by the Long Beach Bond Finance Authority and the related Interest Rate Swaps, authorizing and approving certain documents and actions relating thereto, and delegating authority to officers in connection therewith. (Citywide)

On October 18, 2007, the Long Beach Bond Finance Authority (the Authority), issued its Natural Gas Purchase Revenue Bonds, Series 2007B in order to finance the acquisition of a long-term supply of natural gas, for sale to the City of Long Beach (City) over a period of years. The 2007B Bonds are currently bearing an interest rate equal to 67 percent of three-month London Interbank Offer Rate (LIBOR) plus a spread. The Interest Rate Swaps related to the 2007B Bonds contain floating rates of 67 percent of three-month LIBOR plus the same applicable spread. Currently, both the 2007B Bonds and Swaps reference the same three-month LIBOR interest rate, so there is no interest rate differential risk.

Discussion on Interest Rate Change

As the result of a variety of market and industry pressures, the LIBOR interest rate will be discontinued on June 30, 2023, requiring those debt obligations that reference LIBOR to choose a new reference index rate or be subject to the automatic fallback protocol as outlined in federal law for municipal bonds and as outlined by the International Swap and Derivatives Association (ISDA) for interest rate swap agreements. Both fallback protocols change the index rate to the Secured Overnight Financing Rate (SOFR) from LIBOR. As a reference point, on May 3, 2023, three-month SOFR was 5.34 percent, Daily SOFR was 4.81 percent and three-month LIBOR was 5.1 percent. Per federal law, the fallback protocol for municipal bonds (such as the 2007B Bonds) will automatically adjust to 3-month Term SOFR when

LIBOR is discontinued. Per ISDA, the fallback protocol for interest rate swaps will automatically adjust to a slightly different interest rate, Daily SOFR, when LIBOR is discontinued. While federal law and ISDA actions provide a path forward, it creates an interest rate differential in the City's 2007B Bonds and its related Swaps that potentially reduces (or increases) net revenue savings dependent on market conditions. This interest rate differential risk did not exist in the original structure of the 2007B Bonds and its related Swaps.

To preserve the original intent of the 2007B Bond/Swaps transaction, it is necessary to approve an index rate change on the Swaps to ensure both the 2007B Bonds and Swaps reference the same index rate, thereby removing the interest rate differential risk between the three-month Term SOFR and the Daily SOFR. While the average basis point differential between the two index rates from 2019 to today was only about three basis points, the potential magnitude could be significant if the two index rates do not move in tandem. Because the methodologies for computing the two index rates are different, there has been some evidence of these two index rates not moving in tandem. As an example, using the same 2019 to today period, the three-month Term SOFR has been as high as 424 basis points above Daily SOFR and as low as 266 basis points below Daily SOFR. To avoid this interest rate differential risk, this resolution authorizes an index rate change on the Interest Rate Swaps to three-month Term SOFR to match the 2007B Bonds that will automatically be adjusted to three-month Term SOFR per the fallback protocol provided under federal law.

Financial Management and Utility Department staff have worked with its municipal and swap advisor, PFM Financial Advisors LLC and its bond counsel, Orrick Herrington & Sutcliffe on the documents associated with this interest rate change.

This matter was reviewed by Principal Deputy City Attorney Richard Anthony on May 12, 2023, Director of Finance for the Utilities Department Brandon Walker on May 25, 2023, and by Revenue Management Officer Geraldine Alejo on May 24, 2023.

The Long Beach Bond Finance Authority approved this item on March 30, 2023. The Board of Utilities Commissioners approved this item on May 25, 2023. City Council action is requested on June 13, 2023, to facilitate the timely closing of this index rate change before the LIBOR rate is discontinued on June 30, 2023.

The total cost of this index rate change, including the City's municipal and swap advisor, bond counsel fees, and all other related fees, is estimated at $196,166, and will be paid from the Gas Fund Group in the Long Beach Utilities Department. The change will ensure that the index rates for the 2007B Bonds and related interest rate swaps both reference the three-month Term SOFR. Should the 2007B Bonds and interest rate swap reference different index rates, this would result in an interest rate differential that would potentially reduce (or increase) net revenue savings dependent on market conditions. As such, it is important to remove the interest rate differential risk to preserve the original intention of the structure of the 2007B bonds and related interest rate swaps, and avoid potential spikes in that differential resulting in unexpected costs (or savings) to the Gas Fund Group. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities, including the City's financial and debt policies. There is no local job impact associated with this recommendation.

Approve recommendation.

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