



## Legislation Text

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**File #:** 23-0431, **Version:** 1

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Recommendation to adopt resolution approving an extension of the current Revolving Line of Credit with JP Morgan Chase Bank, N.A. by the Board of Utilities Commissioners (successor to the Board of Water Commissioners), on behalf of the City of Long Beach (City), for an additional one-year term and authorize the execution of all necessary documents and amendments in connection therewith before the existing Credit Agreement expires on May 21, 2023. (Citywide)

JP Morgan Chase Bank, N.A. currently provides the Utilities Department with a \$60 million line of credit that was originally approved by the City Council on April 21, 2020. The current line of credit is scheduled to expire on May 21, 2023. The short-term borrowing program was established to allow the Utilities Department (then the Water Department) to periodically borrow on a low cost, short-term basis and/or reimburse the Utilities Department allowing the Department to better match the long-term asset life of the capital projects with its debt repayment schedule. When a sufficient size of principal is accumulated to efficiently convert the outstanding principal to long term bonds, the Utilities Department will initiate a bond transaction. The benefits of such a strategy are to delay the incurrence of higher cost, fixed rate debt service and avoid substantial amounts of idle cash invested at low rates.

Given the approaching expiration of the current line of credit, Utilities Department and Treasury Bureau staff, working with one of the Utilities Department's municipal advisors, KNN Public Finance, initiated discussions with JP Morgan Chase to determine the bank's interest in extending the existing credit agreement for one year. JP Morgan Chase agreed to provide an extension of this credit agreement for a one-year term with an amendment to the interest rate. Under the current line of credit, the tax-exempt borrowings paid by the Utilities Department were based on a percentage of the one-month London Interbank Offered Rate (LIBOR). With the pending end of the publication of LIBOR on June 30, 2023, future tax-exempt borrowings on this line of credit will be based on a percentage of the Secured Overnight Financing Rate (SOFR), plus an adjustment of 10 basis points (the current basis point spread adjustment as established by federal regulation, under the LIBOR Act, which is a reflection of the historical credit spread difference between SOFR and LIBOR interest rates). The revolving line of credit's legal security pledge remains the subordinate net revenues of the Water Enterprise. The Borrowing Limit under the Line of Credit will remain at the existing Principal Amount of Not to Exceed \$60 million. The Line of Credit will continue to be secured solely by Water Revenues on its Subordinate Lien.

This matter was reviewed by Principal Deputy City Attorney Richard Anthony on April 11, 2023, and by Director of Finance for the Utilities Department Brandon Walker and Revenue Management Officer Geraldine Alejo on April 14, 2023.

The Board of Utilities Commissioners approved this item for extension on April 13, 2023. City Council action is requested on May 2, 2023, to ensure that the JP Morgan Chase line of credit is extended for a one-year period before the May 21, 2023 expiration date.

The total cost of the extension of the JP Morgan Chase line of credit, including consultant and counsel fees, is estimated at \$34,000, to be paid for by the Water Group Fund. The annual commitment fee to maintain the Line of Credit will remain at 0.275 percent. If the \$60 million Line of Credit were fully drawn today, the annual interest cost is estimated to be approximately \$3 million (holding the SOFR constant at its current level of just under 5 percent). However, the annual cost will vary based on the amount drawn on the line of credit and the changes in interest rates over time. To date, there has only been one \$14 million draw on this line of credit, which occurred on August 4, 2022, for various capital improvements to the water system. Only water revenues are pledged for the repayment of this debt including the cost of maintaining this line of credit. 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, and the Utility Commission's priorities. There is no local job impact associated with this recommendation.

Approve recommendation.

KEVIN RIPER  
DIRECTOR OF FINANCIAL MANAGEMENT

CHRISTOPHER J. GARNER  
GENERAL MANAGER OF  
PUBLIC UTILITIES

APPROVED:

THOMAS B. MODICA  
CITY MANAGER