City of Long Beach
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Memorandum

Date: July 24, 2014

To: Patrick H. West, City Manager

From: John Gross, Director of Financial Management

For: Mayor and Members of the City Council

Subject: **BELMONT POOL: MID-TERM BOND ISSUE AND REVENUE RISK**

Background

At the June 17, 2014 Study Session on the Belmont Beach & Aquatics Center (Belmont Pool), the City Council requested information on a possible mid-term bond financing (6-10 years). The mid-term bond financing would be intended to help fund the Belmont Pool project if it were to cost about $125 million instead of the $99 million that had been used in the June 17, 2014 presentation. Staff was asked to research whether a 6-10 year bond issue would allow the financing of a more expensive pool without impacting the City's ability to move forward with other projects that are currently planned in the next few years. In addition, staff was asked to review and report on risks associated with the uncertain nature of Tidelands funding sources – oil revenues and the annual transfer from the Port. This memo addresses those City Council requests.

A mid-term bond issue is not recommended as it is expensive and will likely create significant problems

A six-year bond providing about $25 million in proceeds would provide the additional financing needed for the Pool if it cost about $125 million; the six year term (as opposed to 7-10 years) would minimize the cost. A bond financial advisor was engaged to review the implications of such a financing to allow a more expensive Belmont Pool and other projects to proceed concurrently. The consultant concluded that such a financing could likely be done. However, it would be difficult to market and it could adversely impact the ability to complete the financing of the Alamitos Bay Marina Rebuild, putting that project at risk of delay. It would also add about $6 million in interest to the cost of the project, increasing the cost of the Pool from a potential $125 million to $131 million. The bond was structured so that only interest is paid for six years (to avoid delaying other projects) and then the entire principal amount is paid in the sixth year. When the bond is paid off after six years, the large payment would result in significant delays for projects that would have been planned at that time. Because of these negative factors, a mid-term bond issue is not recommended. Staff has also reviewed longer term debt funding and does not recommend it for any projects because of the impact of burdening the Tidelands Operating fund with debt (Tidelands already has $100 million in debt that supports the Aquarium), and because the future annual debt service would make little money available for cash funded projects that have heretofore been the hallmark of the Tidelands Operating Fund.

The funding of Tidelands operating costs is likely to become a future issue and is exposed to risk from any change in the annual transfer of funds from the Port

In prior years, the Tidelands Operating Fund has had a significant operating surplus due to an annual transfer of monies from the Port. The Port transfer is important because without it, Tidelands operations would have had a significant deficit. The operating surplus has decreased recently as operational costs have increased. Operational costs are increasing, in part due to increased Tidelands storm water management costs and design and management costs associated with a high level of capital projects, and a ten year matching grant to the Aquarium. In the future, the current small annual surplus is projected to become a significant operating deficit once the new Belmont Pool begins operation. The Pool is expected to have a significant annual operating shortfall that the Tidelands Operating Fund will need to absorb. At that point, if revenues for Tidelands are not higher than they are currently projected to be, reductions in Tidelands operational costs will need to be made.

Under the City Charter, the annual Port transfer is 5% of gross revenues. However, the Harbor Commission is not able to transfer funds to Tidelands unless it first determines that the Port does not need the funds. Because of the City Charter conditions, the transfer is subject to risk that Port revenues will decline and that the Port may eventually need some or all of the funds. Over at least the next few years, it appears unlikely that Port revenues will decline significantly. However, there appears to be some risk that the Port may need some of the funds being transferred since the Port has some large projects that may have higher than expected costs.

The Current Tidelands Capital Plan is exposed to more risk than usual with regard to a change in oil prices

The FY 15 proposed budget and the five-year Tidelands capital plan have more risk than in the recent past with regard to planned spending of oil revenues. The risk comes from the fact that for the first time in at least a few years, almost all the projected funds available from oil revenue is planned for expenditure in the year the revenue is received, including oil revenue above $70 a barrel. If the oil revenue does not occur whether it be because of a price drop, a change in drilling regulations, or whatever reason, there will be a funding shortfall. If that happens, any projects not legally committed will need to be deferred or cancelled. As the City moves forward with the projects, the financial status of the Tidelands fund will need to be continually assessed to ensure cash is available for projects that are ready to be funded.

If you have any questions, please feel free to contact John Gross at extension 8-6427.

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