



**AUDIT COMMITTEE**

Report to the  
Board of Harbor Commissioners

**“FOR INFORMATION ONLY”**

**DATE: MAY 14, 2015**

**TO: AUDIT COMMITTEE OF THE BOARD OF HARBOR COMMISSIONERS**

**SUBJECT: RENEWAL OF COMMERCIAL PAPER PROGRAM 2015**

On August 22, 2001, the Board of Harbor Commissioners adopted Resolution 6021 authorizing the Harbor Department Commercial Paper (CP) Program at a not-to-exceed limit of \$375 million, and on October 4, 2001 the Harbor Commissioners adopted Resolution No. 6035 approving documents and agreements related to the CP Program.

CP Notes are unsecured short-term debt instruments that are issued by the Harbor Department and sold to investors through investment banks that perform as sellers or dealers of commercial paper. CP Notes generally have maturity periods that vary from 1 to 270 days and may be used to meet short-term liquidity needs. CP Notes provide quick access to capital markets in the form of just in time financing to fund capital improvement projects and minimize use of capitalized interest. The CP Notes are utilized for bridge funding prior to being either paid off with cash from operations or refunded by long-term bonds. CP Notes provide a lower cost of capital as a form of short-term borrowing tool.

From 2001 to 2006, \$113 million of CP Notes were issued that were refunded in September 2006 with Series 2006D fixed-rate long term bonds. No CP Notes were issued from 2006 to 2009. The Harbor Department renewed the CP Program in 2009 for one year due to the high cost of Line of Credit (LOC) Facility at the time as a result of the economic recession, which was amended in 2010 and subsequently renewed in 2012 for three years. The fees for the LOC Facility as well as the CP Dealers since 2009 are listed below:

Board Action	Period	LOC Providers	Dealers & Fees
09-6753	2009-2010	\$100M JP Morgan at 1.35%	Loop Capital & Morgan Stanley at 0.10%
10-6946 & 6958	2010-2012	\$200M JP Morgan at 0.775%	Loop Capital & Morgan Stanley at 0.10%
		\$125M Mizuho Bank at 0.40%	
12-7319 & 7320	2012-2015	\$125M Wells Fargo Bank at 0.40%	Loop Capital & Morgan Stanley at 0.07%
Proposed:	2015-2018	\$200M Mizuho Bank at 0.29%	Ramirez & Co. and US Bancorp at 0.045%

The maximum amount of CP Notes the Harbor Department has issued was a total of \$150 million from 2009 through 2014 in support of the capital improvement projects, such as China Shipping, Trapac, Alternative Maritime Power (AMP), and various transportation projects. In September 2014, \$100 million of the outstanding CP Notes that were tax-exempt and issued in 2009 and 2010, during the American Recovery and Reinvestment Act (ARRA) were refunded with Series 2014B fixed-rate long term tax-exempt bonds, and the remaining \$50 million of Notes that were issued for capital improvement projects in 2013 and 2014 were redeemed and paid off from the Harbor Revenue Fund on maturity. Currently there are no CP Notes outstanding, and the existing contracts with the two LOC providers, the two Dealers, and the Issuing and Paying Agent will expire in July 2015.

Staff is recommending a credit amount of up to \$200 million based on historical utilization of the CP Program, as well as assessment of potential funding and liquidity requirements during the next three years. Currently, CP Notes with maturity of up to 90 days are expected to be issued at rates that are under 0.15% per annum. The rates are reset every time these notes mature or are remarketed. The interest paid by the Harbor Department on the CP Notes that it proposes to issue may be, for the investor that purchases them, (a) tax exempt but subject to the Alternative Minimum Tax (AMT), (b) tax exempt and not subject to the AMT (Non-AMT), or (c) taxable, depending on the purpose for which the borrowing was incurred, such as working capital needs.

Role of the parties involved in reinstating the CP Notes Program are as follows:

- Financial Advisor: Provides advice to the Harbor Department and coordinates the transaction from start to closing. Frasca & Associates, LLC (Frasca) a Very Small Business Enterprise (VSBE) and a woman owned (WBE) financial advisory firm was selected from Harbor Department's existing pool of Financial Advisors based on competitive fees and experience.
- Note Counsel: Prepares the legal agreements and advises the Department on legal issues. They also prepare the Offering Memorandum which serves as the primary marketing and disclosure document. Kutak Rock, LLP was selected from City Attorney's existing pool of Bond Counsel based on competitive fees and experience. Staff will bring the Offering Memorandum to the Board for approval.
- Dealers: Underwriting firms engaged in the sale and marketing of the CP Notes. The two CP Dealers of Ramirez & Co. (Minority Business Enterprise) and US Bancorp were selected from the Harbor Department's existing pool of investment bankers approved by the Board of Harbor Commissioners on April 23, 2015 based on competitive fees of 0.045% and experience. Staff will bring the two dealer agreements to the Board for approval.
- Issuing and Paying Agent: Acts as depository or trustee for safekeeping of the CP Notes, makes payments of principal and interest on the maturity of the Notes on behalf of the Department to investors. US Bank Corporate Trust Services

continues its role with Amendment No.2 to the existing contract as the Issuing and Paying Agent. Staff will bring the Issuing and Paying Agent agreement to the Board for approval.

- Line of Credit Provider: Provides liquidity support to make the payments on the CP Notes in the event that the issuer is unable to pay on the maturity date of the Notes, or if there is a failed remarketing due to market conditions. Any such advances would then be repaid by the Department to the bank. Because CP Notes are an unsecured type of debt, investors require an LOC in support of the Program. Mizuho Bank was selected as the LOC provider based on a survey among LOC provider banks. Mizuho has offered to provide the Harbor Department with the most competitive fee of 0.29% for \$200 million program, per Amendment No. 1 to the existing contract. Staff will bring the agreement with the LOC provider to Board for approval.

Governmental issuers of bonds and notes are given ratings by the rating firms of Moody's, Standard & Poor's, and Fitch. These ratings are based on multiple factors including management expertise, capital facilities, customer base, revenues and expenses, amount of outstanding debt, debt policies, among other factors. Ratings differ for long-term bonds and short-term debt. These ratings are used by investors to assist with their decisions. The Harbor Department's long-term debt ratings are currently Aa2, AA and AA by Moody's, Standard & Poor's, and Fitch, respectively. Historically, the Department's CP Notes have been rated P-1/A-1/F1, the highest ratings category, based upon the liquidity facility provider's short-term ratings. Ratings will be sought upon the approval of this Resolution and favorable results are expected.



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