"FOR INFORMATION ONLY"

DATE: **FEBRUARY 14, 2019**

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

SUBJECT: **REVOLVING LINE OF CREDIT WITH PNC BANK**

On August 24, 2018, the Harbor Department's (Department) three-year Standby Letter of Credit Agreement (LOC Agreement) with Mizuho Bank in support of a $200 million Commercial Paper (CP) Program expired. Subsequent to renewal of the LOC Agreement in 2015 the Department did not issue any CP Notes during the last three years.

The Department recommends approval of the Revolving Credit Agreement instead of a CP Program due to the economic savings that can be realized. Although the Department does not currently anticipate the need to use the proposed Revolving Credit Agreement in the near future, it believes it is fiscally prudent to secure this line in the event that future needs arise during the next three years.

Total cost of the Revolving Credit Agreement without drawing on the line will be $241,458 annually or $724,375 over three years inclusive of $40,000 in one-time legal fees.

In 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. The Harbor Department renewed the CP Program in 2009 for one year due to the high cost of a LOC Facility at the time as a result of the economic recession, which was renegotiated in 2010 at a lower rate and was subsequently renewed in 2012 for three years. In addition, in 2009 during the economic recession, so as to have an alternative liquidity facility, the Harbor Department entered into a two-year $60 million revolving credit agreement with Union Bank that was never utilized. In 2015 the Harbor Department renewed the CP Program for another three years which expired in August 2018.

Since 2001 the Harbor Department has engaged in the use of a credit facility in support of its CP Program to meet short term needs and to bridge fund capital improvement projects. From time to time, the Harbor Department has utilized its CP Program and either redeemed or refunded the notes with long-term bonds depending on market conditions.

Table 1: Previous CP issuances in support of the capital improvement program included:

Years	Amount Issued	Refinanced/Refunded	Redeemed/Paid Off
2001 through 2006	$113 million	September 2006 $113 million refunded with Series 2006D Bonds	2014
2006 through 2009	-	-	-
2009 through 2014	$150 million	September 2014 $100 million refunded with Series 2014B Bonds	$50 million redeemed and paid off with funds from the Harbor Revenue Fund (HRF) upon maturity

The proposed PNC revolving credit agreement is similar to the previous Union Bank revolving credit agreement the Department entered into in 2009 but can be secured at more advantageous rates (in 2009 the Union Bank revolver rate was 1.5 percent atop then market rates for a total rate in excess of 3 percent). Executing a revolving credit agreement in today's market environmental is also a less costly alternative compared to a CP Program as shown in Tables 2 and 3 below.

Establishing a PNC Bank revolving credit agreement facilitates the ease and speed in which funds can be accessed directly from PNC Bank when needed to fund capital improvement projects that have time sensitive construction schedules. A CP Program, however, not only involves issuance of notes through investment bankers in the open market but requires the CP Notes be rated by the credit rating agencies resulting in additional costs in securing ratings.

In October 2018, a Request for Proposal (RFP) for $150 million credit facility was issued and posted on the Harbor Department's website, Los Angeles Business Assistance Virtual Network (LABAVN), and electronically transmitted to twenty-four (24) banks that provide credit facilities either in support of a CP program with a standby LOC or a Revolving Credit Program. The Department received twelve (12) bids from CP Standby LOC providers, and four (4) bids from Revolving Credit providers. The lowest responsive bidder was selected among the responses received and reviewed by Harbor Department Finance staff.

The following table summarizes the top five bids for a three-year credit facility received by the Department by the due date of November 8, 2018 ranked by the lowest cost, taking into account proposed fees and associated costs with establishing each facility:

Table 2: Lowest cost proposals assuming zero amount to be drawn:
(Ranked by 3-Yr Cost from Lowest to Highest)

LOC Type	Bank	$150 million	Annual Fees	Legal Fees	Ratings Fees	3-Yr Cost
Revolving Line	PNC	Unutilized: 15 bps Utilized Spread to Index: 34 bps	$228,125 -	$40,000	-	$724,375
Revolving Line	A	Unutilized: 20 bps Utilized Spread to Index: 45 bps	$304,167 -	$40,000	-	$957,500
CP LOC	B	LOC Fee: 17 bps Trading Penalty: 8 bps	$281,810 -	$40,000	$80,000	$970,431
CP LOC	C	LOC Fee: 24 bps Trading Penalty: 0 bps	$397,850 -	$40,000	$80,000	$1,313,550
CP LOC	D	LOC Fee: 25 bps Trading Penalty: 0 bps	$414,427 -	$40,000	$80,000	$1,363,281

Assumptions
$150.0 million size for revolving facilities
$163.5 million size for LOCs to account for principal plus interest component
Banker's 360-day year used in calculations

The lowest cost proposal was received from PNC Bank. The Department does not currently plan to utilize the Revolving Credit Program in the near future, but wishes to secure this line in case future financing needs arise during the next three years.

An advantage of opting for a revolving line of credit compared with CP Program is the economic savings that can be realized through the lack of a need to obtain credit ratings from the three major rating agencies, resulting in monetary savings both at the inception of the program as well as annual rating review fees. Furthermore, there will be additional savings in broker/dealer fees due to not having a need to hire broker/dealers to market the CP Notes to investors. The estimated monetary savings in opting for a revolving line of credit versus a CP program, without a plan to borrow, and based on the recent bids received is $233,125 for the three years. This excludes any interest expense on the borrowing which would be comparable under both programs. Furthermore comparing the current lowest bid with the previous standby LOC that recently expired, excluding rating agency, broker/dealer, and legal fees and without any drawdowns and borrowings, the economic annual saving is about $411,000.

PNC Bank will not be imposing any fees on the Department associated with reductions in size of the proposed revolving line of credit or early termination, providing a three-day prior written notice to PNC Bank is provided.

In the event that the Department utilizes the Revolving Program for financing of tax-exempt Capital Improvement Program (CIP) needs, the associated costs with utilizing $50 million will be as follows:

Table 3: Lowest cost proposals assuming $50 million drawn against the revolving line of credit:
(Ranked by 3-Yr Cost from Lowest to Highest)

LOC Type	Bank	$150 million	Annual Fees	Legal Fees	Ratings Fees	Annual Rating Review Fees for Drawn	3-Yr Cost
Revolving Line	PNC	Unutilized: 15 bps Utilized Spread to Index: 34 bps	$152,083 $172,361	$40,000	-	-	$1,013,333
CP LOC	B	LOC Fee: 17 bps Trading Penalty: 8 bps	$281,810 $40,000	$45,000	$80,000	$25,000	$1,165,431
Revolving Line	A	Unutilized: 20 bps Utilized Spread to Index: 45 bps	$202,778 $228,125	$45,000	-	-	$1,337,708
CP LOC	C	LOC Fee: 24 bps Trading Penalty: 0 bps	$397,850 -	$40,000	$80,000	$28,000	$1,397,550
CP LOC	D	LOC Fee: 25 bps Trading Penalty: 0 bps	$414,427 -	$40,000	$80,000	$29,200	$1,450,881

Assumptions
$150.0 million size for revolving facilities
$163.5 million size for LOCs to account for principal plus interest component
Banker's 360-day year used in calculations

This comprehensive cost analysis focuses on the comparable fees charged by each bank, including proposed bank counsel costs, differences in trading levels, CP dealer fees and rating agency fees for a CP program. This analysis excludes actual interest costs of any draw or borrowing, which will be driven by market rates for the period the borrowing is outstanding.

US Bank National Association as the trustee of the Department's outstanding revenue bonds continues its current role, and will be the depository institution for safekeeping of any revolving loans, and will make any payments of principal and interest on the maturity of the loans on behalf of the Department to PNC Bank.

Under the City of Los Angeles' (City) Responsible Banking Ordinance (RBO 182138) Section 20.95.1 was added to Chapter 5.1 of the Administrative Code to provide for the establishment of a Responsible Banking Investment Monitoring Program. The intent of the Responsible Banking Monitoring Program is to encourage community reinvestment by financial institutions and underwriters doing business in the City of Los Angeles. PNC Bank has submitted all required documents in compliance with the City's RBO.

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