



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JULY 16, 2019

FROM: DEBT & TREASURY MANAGEMENT

SUBJECT: RESOLUTION NO. _____ AUTHORIZING THE LOS ANGELES BOARD OF HARBOR COMMISSIONERS TO APPROVE PRINCIPAL FINANCING DOCUMENTS RELATING TO THE ISSUANCE OF THE CITY OF LOS ANGELES HARBOR DEPARTMENT 2019 REFUNDING REVENUE BONDS

SUMMARY:

Staff requests adoption of the Resolution authorizing approval of the principal financing documents in relation to the issuance of 2019 Refunding Revenue Bonds that will refund (i.e. refinance) all or a portion of the City of Los Angeles Harbor Department's 2009 Series A and C Bonds (the "2009 AC Bonds") which are currently outstanding in the principal amount of \$235,200,000. Following the August 1, 2019 debt service payment, \$220,595,000 in principal will be outstanding. A total of \$215,595,000 of the bonds will be refunded, as \$5,000,000 of the 2009 Series C Bonds are non-callable.

On June 20, 2019, the Board of Harbor Commissioners approved the issuance of 2019 Refunding Revenue Bonds to refund all or a portion of the 2009 AC Bonds. On June 20, 2019, the Board of Harbor Commissioners also approved the appointment of three investment banks of Jefferies, LLC as senior manager, and Siebert Cisneros Shank & Co. LLC a Minority, Women, and Small Business Enterprise (MBE/WBE/SBE), and UBS Financial Services Inc. as co-managers to this transaction.

The 2019 Refunding transaction will not result in additional debt or change the maturity of these bonds, but will replace higher interest rate debt with lower interest rate debt reducing the future debt service payment obligations for the Harbor Department.

RECOMMENDATION:

It is recommended that the Los Angeles Board of Harbor Commissioners:

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;

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2. Approve the principal financing documents related to the 2019 Refunding Revenue Bonds, which include the Resolution, Indenture of Trust, Continuing Disclosure Certificate, Bond Purchase Agreement, the Preliminary Official Statement, the TEFRA (Tax Equity and Fiscal Responsibility Act) Document, and the Independent Green Bond Certification;
3. Find that the Harbor Department published a TEFRA Document on July 3, 2019 and held a TEFRA Hearing by Department staff at 10 AM on July 10, 2019. Pursuant to Section 147(f) of the Internal Revenue Code of 1986, there must be a Public Hearing for the financing or refinancing of Capital Improvement Program (CIP) projects with proceeds from the sale of tax-exempt obligations; and
4. Adopt Resolution No. _____

DISCUSSION:

Background

Section 609 of the Los Angeles City Charter gives the Harbor Department the power to borrow money, to issue bonds and to refund bonds, notes and other evidences of indebtedness for any lawful purpose relating to the Harbor Department. These borrowings are to be repaid from the Department's operating fund account, the Harbor Revenue Fund, in a form and manner approved by the Harbor Commission.

On June 20, 2019, the Board of Harbor Commissioners approved the refunding of some or all of the 2009 AC Bonds and the issuance of the 2019 Refunding Revenue Bonds through a negotiated sale, in a principal amount not-to-exceed \$217,000,000. Proceeds of the 2019 Refunding Revenue Bonds would be used to refund all or a portion of the 2009 AC Bonds, paying for costs of issuance, and to cover any premium on the refunded bonds. The authorized transaction will not result in additional debt, but will serve to replace more costly debt obligations with less expensive bonds.

On June 20, 2019, the Board of Harbor Commissioners also approved to appoint the investment banking firms of Jefferies, LLC as senior manager, and Siebert Cisneros Shank & Co. LLC, and UBS Financial Services Inc. as co-managers on the transaction.

Refunding of 2009 Series A, and C Bonds

The 2009 AC Bonds were issued in 2009 during the American Recovery and Reinvestment Act (ARRA) when municipal debt issuers were authorized to issue tax-exempt debt (not subject to Alternative Minimum Tax ("AMT") to the investor) to finance

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private activity projects that ordinarily would have been subject to AMT for the investors. The Harbor Department took advantage of the ARRA enactment and issued 2009 Series A Bonds to finance private activity capital projects as tax-exempt (Non-AMT). The Department also purchased back some of its previously issued AMT Bonds and refunded (refinanced) those bonds by issuing 2009 Series C Bonds also as Non-AMT. Subject to bond counsel concurrence, 2009 Series A will be refunded (refinanced) as Non-AMT, while for 2009 Series C, the interest on these bonds will be subject to AMT since the projects originally funded were for private activity projects subject to AMT.

The final maturity of 2009 Series A Bonds is August 1, 2029 and the final maturity of 2009 Series C Bonds is August 1, 2031.

Projected Savings

The refunding of the 2009 AC Bonds is expected to result in combined present value savings of approximately \$35,467,327 or 16.5% of the bonds to be refunded with average annual debt service savings of \$4,190,500 through August 2031. It is estimated that the all-in true interest cost for the combined transaction will be approximately 1.87%.

Uses of Bond Proceeds

The 2019 Refunding Revenue Bonds will only be sold in such an amount necessary to fund the redemption of the 2009 AC Bonds, and the costs of issuance. The costs associated with issuing the bonds include fees for bond and disclosure counsels, the rating of the bonds by three rating agencies, the municipal advisor, the trustee fees, and trustee counsel fees, and are estimated to be approximately \$535,000. Total cost for the underwriting services will be approximately \$358,000 and includes compensation for all three firms, fees for underwriters' counsel, and other miscellaneous costs. These costs will be paid from the proceeds of the bond issuance.

A few of the projects financed by 2009 AC Bonds could be classified as sustainable and environmentally-focused such as Alternative Maritime Power (AMP), construction of Port Police Headquarters as LEED (Leadership in Energy and Environmental Design), installation of solar panels, and restoration of Bolsa Chica as a mitigation project. The Department is seeking independent certification to classify the 2019 Series C Bonds as Green Bonds to attract investors who prioritize investing in bonds that support environmentally focused projects, with the goal of increasing the investor base for the Department bonds. Greater demand for Department bonds could lower the borrowing cost of the transaction.

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As a result of structuring 2019 Refunding Revenue Bonds in order to obtain the highest present value savings, the maturities of some of the bond series changed, either increasing or decreasing their average maturity, and therefore require a TEFRA Hearing to be held by the Department. The final maturity for the 2019 Refunding Revenue Bonds will stay the same as the 2009 AC Refunded Bonds at 2031.

Required Documents

Resolution - This authorizes approval of the principal financing documents described below and ratifies all actions taken by officers, employees and agents of the Department related to the issuance and sale of the Bonds (Transmittal 1).

Indenture of Trust - This agreement is made between the Harbor Department and the Trustee that represents the bondholder's interests by highlighting the rules and responsibilities that each party must adhere to and sets forth the terms and the security of the bonds. Certain provisions of the Indenture of Trust, including Sections 5.02, 6.02, and 6.11 thereof, have been updated for clarity and to allow flexibility, as well as enabling the Department to issue or incur subordinate lien obligations in the future, if the need arises. The Indenture also indicates where the income stream for the bonds is derived from (Transmittal 2).

Continuing Disclosure Certificate - This Certificate is executed and delivered by the Harbor Department for the benefit of the bondholders, and in order to assist the underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) requiring the Harbor Department to provide annual disclosure reports and notice of certain enumerated events (Transmittal 3).

Bond Purchase Agreement - This agreement is made between the Harbor Department and the underwriters' syndicate establishing the terms of a bond sale. The terms of a bond purchase agreement will include sale conditions, sale price, bond interest rate, bond maturity, bond redemption provisions, sinking fund provisions and conditions under which the agreement may be canceled (Transmittal 4).

Official Statement - The Official Statement is a disclosure document that discloses material information on the Harbor Department and the Port of Los Angeles as well as the offering of such securities. Official statements typically include information regarding the purposes of the issue, how the securities will be repaid, and the financial and economic characteristics of the Harbor Department. This document is utilized by the underwriters to market the bonds (Transmittal 5).

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TEFRA Approval Certificate - Pursuant to Section 147(f) of the Internal Revenue Code of 1986, there must be a Public Hearing for the financing or refinancing of Capital Improvement Program (CIP) projects with proceeds from the sale of tax-exempt obligations (Transmittal 6).

Independent Green Bond Certification – This certification is a third party opinion in reference to the original use of the bond proceeds for projects promoting environmental sustainability and conservation (Transmittal 7).

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of principal financing documents relating to the issuance of Refunding Revenue Bonds by the City of Los Angeles Harbor Department, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from CEQA in accordance with Article II Section 2 (f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

The refunding of the 2009 AC Bonds is expected to result in combined present value savings of approximately \$35,467,327 or 16.5% of the bonds to be refunded with average annual debt service savings of \$4,190,500 through August 2031. It is estimated that the all-in true interest cost for the combined transaction will be approximately 1.87%. All transaction related costs will be paid from the bond proceeds.

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CITY ATTORNEY:

The Office of the City Attorney has approved the Indenture of Trust, the Bond Purchase Agreement, and the TEFRA Certificate as to form and legality.

TRANSMITTALS:

1. Resolution No. _____
2. Form of Indenture of Trust
3. Form of Continuing Disclosure Certificate
4. Form of Bond Purchase Agreement
5. Form of Preliminary Official Statement
6. TEFRA Certificate
7. Form of Green Bond Framework and Opinion

FIS: MB
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APPROVED:



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