



AUDIT COMMITTEE

Report to the
Board of Harbor Commissioners

Item #1

“FOR DISCUSSION ONLY”

DATE: JUNE 11, 2015

TO: AUDIT COMMITTEE OF THE BOARD OF HARBOR COMMISSIONERS

SUBJECT: ISSUANCE OF HARBOR REFUNDING REVENUE BONDS 2015

Based on the current market for municipal debt, staff is recommending that the Port refund (i.e. refinance) the following bond series in order to take advantage of lower interest rates and save on future debt service:

Bond Series	Outstanding Callable Balance	Final Maturity	Coupon
2005 A	\$22.740 million	2026	5.00%
2005 B	<u>\$21.190 million</u>	2026	5.00%
Total	\$43.930 million		

As summarized within Transmittal 1, the present value savings from the proposed refunding transaction, based on current interest rates, would be about \$5.7 million or 12.88% of the outstanding callable balance. The Harbor Department's Debt Policy requires a net present value saving of 3% or greater for any refunding transaction. The new refunding bonds will be issued with the same maturity date as the refunded bonds. For a summary of nominal interest savings expected to be realized from the proposed refunding transaction, please refer to Transmittal 2.

Staff is also considering the cash redemption of the Series 2005 C-1 Bonds. The outstanding balance on these bonds is \$7.41 million with a maturity of August 1, 2017. The Department is currently paying interest on these bonds at the rate of 5% while the earnings rate on Harbor funds invested in the City's General Pool through March 2015 was 0.36%. While the Department would pay a 2% call premium to redeem the 2005 C-1 Bonds, the redemption would reduce net interest payments and debt service through 2017 and be an effective utilization of our cash reserves. The funds to pay off the \$7.41 million for the Series 2005 C-1 Bonds would come from the Unappropriated Balance. Use of these funds would not cause the Department to drop below the 500 days of cash on hand, the financial metric that is consistent with "AA" credit rating. As summarized within Transmittal 3, the estimated savings to the Department, net of the call premium and foregone interest earnings, would be \$0.49 million.

The refunding bonds to be issued will fund the redemption of the 2005A and 2005B bonds, the call premium, and cost of issuance. We anticipate that the total par amount of the refunding issue will not exceed \$50 million. Additionally, we estimate that the all-in total interest cost for the refunding bonds will be 2.35% based upon current market conditions.

TRANSMITTALS:

1. Present Value of Anticipated Savings – Summary Calculation
2. Annual Interest Savings from Series 2005 A & B Refunding
3. Nominal Cash Savings from Series 2005 C-1 Redemption


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Port of Los Angeles
Issuance of Harbor Refunding Revenue Bonds 2015
Calculation of Present Value Savings

TRANSMITTAL 1

Refunded Information				Refunding Information		Savings
Series	Maturity	Coupon	Outstanding Callable Balance	Coupon	Stated Yield	PV Savings (\$)
2005A	08/01/16	5.000%	1,590,000	2.000%	0.400%	24,509
2005A	08/01/17	5.000%	1,670,000	3.000%	0.790%	88,802
2005A	08/01/18	5.000%	1,755,000	4.000%	1.200%	143,533
2005A	08/01/19	5.000%	1,850,000	4.000%	1.470%	197,813
2005A	08/01/20	5.000%	1,940,000	5.000%	1.710%	247,897
2005A	08/01/21	5.000%	2,040,000	5.000%	1.990%	286,213
2005A	08/01/22	5.000%	2,145,000	5.000%	2.190%	326,885
2005A	08/01/23	5.000%	2,255,000	5.000%	2.350%	368,166
2005A	08/01/24	5.000%	2,375,000	5.000%	2.520%	402,953
2005A	08/01/25	5.000%	2,495,000	5.000%	2.660%	437,640
2005A	08/01/26	5.000%	2,625,000	5.000%	2.820%	424,309
2005B	08/01/16	5.000%	1,565,000	2.000%	0.400%	24,123
2005B	08/01/17	5.000%	1,640,000	3.000%	0.790%	87,206
2005B	08/01/18	5.000%	1,725,000	4.000%	1.200%	141,079
2005B	08/01/19	5.000%	1,820,000	4.000%	1.470%	194,605
2005B	08/01/20	5.000%	1,910,000	5.000%	1.710%	244,063
2005B	08/01/21	5.000%	2,010,000	5.000%	1.990%	282,004
2005B	08/01/22	5.000%	2,110,000	5.000%	2.190%	321,552
2005B	08/01/23	5.000%	2,220,000	5.000%	2.350%	362,452
2005B	08/01/24	5.000%	2,335,000	5.000%	2.520%	396,166
2005B	08/01/25	5.000%	2,455,000	5.000%	2.660%	430,624
2005B	08/01/26	5.000%	1,400,000	5.000%	2.820%	226,298
Total			43,930,000	A		5,658,892

Summary

Total PV Savings (\$)	B	5,658,892
Divided by: Total Outstanding Callable Balance	A	43,930,000
Equals: PV Savings as a % of Original Issuance		12.88%

Port of Los Angeles
Issuance of Harbor Refunding Revenue Bonds 2015
Annual Interest Savings from Series 2005 A & B Refunding

	Current Debt Service Including 2005AB	Proposed Debt Service Aggregate (1)	Debt Service Savings
(2) FY16, post - 8/1/2016	\$ 24,194,794	\$ 23,975,094	\$ 219,700
FY17	89,493,063	88,922,788	570,275
FY18	89,917,113	89,348,038	569,075
FY19	89,990,963	89,422,863	568,100
FY20	89,501,338	88,932,988	568,350
FY21	89,946,688	89,379,438	567,250
FY22	89,442,419	88,876,169	566,250
FY23	88,879,888	88,310,763	569,125
FY24	88,865,894	88,300,019	565,875
FY25	89,620,063	89,053,563	566,500
FY26	89,056,731	88,490,856	565,875
FY27	76,418,500	75,849,625	568,875
Total	\$ 995,327,450	\$ 988,862,200	\$ 6,465,250

Note(s):

- (1) Aggregate Proposed Debt Service excludes principal and interest payments related to the Series 2005 A&B issuances and includes principal and interest payments related to the proposed Series 2015 A&B refunding bonds.
- (2) FY 2016 Debt Service excludes principal and interest payments due on August 1, 2016 as the proposed refunding is anticipated to occur after August 1.

Port of Los Angeles
Issuance of Harbor Refunding Revenue Bonds 2015
Nominal Cash Savings from Series 2005 C-1 Redemption

Base Scenario (No Action Taken)

Principal to be paid on 8/1/2017	\$ 7,410,000
Interest to be paid in 2015, 2016 & 2017	926,250
Less: Interest earned on Harbor funds	(106,704)
A Total cash outflows (Base)	\$ 8,229,546

Proposed Scenario (Redeem 2005 C-1)

Principal to be paid at closing	\$ 7,410,000
Interest to be paid on 8/1/2015	185,250
Call premium @ 102% in 2015	148,200
B Total cash outflows (Proposed):	\$ 7,743,450

Scenario Comparison

Total cash outflows (Base) (A)	\$ 8,229,546
Less: Total cash outflows (Proposed) (B)	(7,743,450)
Equals: Nominal cash savings (A - B)	\$ 486,096