



DATE: FEBRUARY 28, 2019

FROM: DEBT & TREASURY

**SUBJECT: RESOLUTION NO. _____ TO APPROVE REVOLVING CREDIT
AGREEMENT WITH PNC BANK**

SUMMARY:

Staff requests the approval of a Revolving Credit Agreement with PNC Bank National Association and related documents that will enable the City of Los Angeles Harbor Department (Harbor Department) to borrow up to \$150 million at any one time to meet cash flow needs related to funding capital projects as necessary over the course of a three-year term.

Previously, the Harbor Department issued Commercial Paper (CP) Notes to help meet its cash flow needs. The Harbor Department had entered into a three-year Standby Letter of Credit Agreement (LOC Agreement) with Mizuho Bank, and that LOC Agreement expired on August 24, 2018. The LOC Agreement had supported a \$200 million Commercial Paper (CP) Program over the three-year period during which it was effective. The Harbor Department did not issue any CP notes over that three-year period.

The Department now recommends approval of a Revolving Credit Agreement instead of Standby Letter of Credit in support of a CP Program due to the economic savings that can be realized. PNC Bank provided the most competitive pricing pursuant to a competitive Request for Proposals (RFP) process. Although the Department does not currently anticipate the need to utilize the proposed Revolving Credit Agreement in the near future, it believes it is fiscally prudent to secure this line in the event that any unanticipated future needs arise during the next three years.

Under the proposed Revolving Credit Agreement, the Harbor Department would be financially responsible for \$40,000 in one-time PNC Bank's legal fees, annual fees of \$228,125 as well as additional costs should any amounts be drawn against the revolving credit facility. Total costs over the three-year term will be \$724,375, assuming no amounts are drawn against the revolving credit facility.

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RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

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;
2. Adopt, pursuant to the Los Angeles City Charter (LACC) Section 609 and the Bond Procedural Ordinance of the City of Los Angeles Administrative Code (LAAC) Sections 11.28.1 through 11.28.9, the attached Resolution approving the following principal documents related to the Harbor Department's Revolving Credit Agreement; the Authorizing Resolution; the three-year Revolving Credit Agreement with PNC Bank; and the Indenture of Trust with U.S. Bank National Association;
3. Direct the Executive Director or his designees to jointly and severally do any and all actions necessary consistent with the Resolution to establish and implement the Revolving Credit Agreement, subject to the right of the City Council to review such documents pursuant to the requirements of LAAC Section 11.28.2;
4. Direct the Board Secretary, pursuant to LACC Section 609 and the Bond Procedural Ordinance of the LAAC Sections 11.28.1 through 11.28.9, to certify that the Board has adopted the Resolution and, on behalf of the Board of Harbor Commissioners, immediately transmit to City Council and the Mayor for approval; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background – The Harbor Department occasionally has a need to borrow funds on a short-term basis to fund the development of capital projects. One of the ways in which the Department meets this need is through the use of Commercial Paper which is the issuance of a short-term debt instrument. 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. Since this initial authorization, the Department has utilized its CP Program and either redeemed or refunded the notes with long-term bonds in the following instances:

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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

As an alternative to issuing CP, the Department can execute a revolving credit agreement with a bank. In 2009, the Department entered into a two-year \$60 million revolving credit agreement with Union Bank that was never utilized. Executing a revolving credit agreement in today’s market environment is a less costly alternative compared to a CP program as shown in Tables 2 and 3 below.

Establishing the 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 CP dealers in the open market but requires the CP Notes be rated by the credit rating agencies resulting in additional costs.

In October 2018, a Request for Proposals (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.

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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	\$228,125	\$40,000	-	\$724,375
		Utilized Spread to Index: 34 bps	-			
Revolving Line	A	Unutilized: 20 bps	\$304,167	\$40,000	-	\$957,500
		Utilized Spread to Index: 45 bps	-			
CP LOC	B	LOC Fee: 17 bps	\$281,810	\$40,000	\$80,000	\$970,431
		Trading Penalty: 8 bps	-			
CP LOC	C	LOC Fee: 24 bps	\$397,850	\$40,000	\$80,000	\$1,313,550
		Trading Penalty: 0 bps	-			
CP LOC	D	LOC Fee: 25 bps	\$414,427	\$40,000	\$80,000	\$1,363,281
		Trading Penalty: 0 bps	-			

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 facility in the near future, but wishes to secure this line in case future financing needs arise during the next three years.

An advantage of 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 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 \$246,056 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 \$471,304.

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.

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

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 any borrowing is outstanding.

US Bank National Association as the trustee of the Department's outstanding revenue bonds will also be trustee for 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.

By adopting the Resolution (Transmittal 1), the Board of Harbor Commissioners will approve:

(a) The Revolving Credit Agreement with PNC Bank (Transmittal 2); and

(b) The Indenture of Trust between the Department and US Bank National Association (Transmittal 3).

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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.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of a revolving credit agreement with PNC Bank, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Although staff does not currently anticipate needing additional funding over the next three years, the proposed Revolving Credit Agreement will enable the Harbor Department to borrow up to \$150 million at any one time through a revolving credit facility should capital funding needs require the need to do so. Furthermore, the revolving credit facility will be available at a lower relative cost than that which would be incurred by entering into a Standby LOC Agreement in support of a CP Program.

Assuming that no amounts are drawn against the revolving credit facility, the Harbor Department will be financially responsible for \$40,000 in one-time legal fees for PNC Bank, and annual fees of \$228,125 (\$724,375 in aggregate over the three-year term) if the proposed Revolving Credit Agreement is approved. In FY 2018, the Harbor Department paid \$639,224 in fees to Mizuho associated with the LOC Agreement as well as rating agency and other fees of \$60,205 on the unused CP Program for a total of \$699,429. Assuming that no amounts are drawn against the revolving credit facility, the Harbor Department would save \$471,304 annually relative to the costs incurred in FY 2018 under the now expired LOC Agreement.

Assuming that \$50 million is drawn against the revolving credit facility and outstanding for three years, the Harbor Department's three-year costs would increase by \$288,958 from \$724,375 to \$1,013,333. In addition, the Harbor Department would pay additional interest costs based upon market rates in effect for the period during which any borrowing is outstanding.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved as to form and legality the Resolution, Revolving Line of Credit Agreement with PNC Bank, and the Indenture of Trust with US Bank.

TRANSMITTALS:

1. Resolution No. _____
2. Revolving Credit Agreement with PNC Bank
3. Indenture of Trust with U.S. Bank National Association

FIS Approval: MB

CA Approval: MB



SOHEILA SAJADIAN
Director of Debt and Treasury



MARLA BLEAVINS
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APPROVED:



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