



**THE PORT  
OF LOS ANGELES**

Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: JUNE 11 2019**

**FROM: DEBT & TREASURY MANAGEMENT**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ AUTHORIZING THE LOS ANGELES BOARD OF HARBOR COMMISSIONERS TO APPROVE THE ISSUANCE OF THE CITY OF LOS ANGELES HARBOR DEPARTMENT 2019 REFUNDING REVENUE BONDS**

**SUMMARY:**

Staff requests adoption of a resolution authorizing the issuance of the 2019 Refunding Revenue Bonds that will refund (i.e. refinance) all or a portion of the City of Los Angeles Harbor Department's (Department) 2009 Series A and C Bonds (the "2009 AC Bonds"), which are currently outstanding in the principal amount of \$235,200,000. Following 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.

The refunding of the 2009 AC Bonds for a total of \$215,595,000 is expected to result in combined present value savings of approximately \$35,467,327 or 16.5% of the bonds to be refunded with an 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%.

The 2019 Refunding transaction will not change the maturity date of these bonds or result in additional debt, but will replace higher interest rate debt with lower interest rate debt thereby resulting in lower debt service payments for the Harbor Department.

**RECOMMENDATION:**

It is recommended that the Los Angeles 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;

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2. Authorize the issuance of the City of Los Angeles Harbor Department 2019 Refunding Revenue Bonds (the "Refunding Revenue Bonds"), in one or more series, through a negotiated sale in a combined principal amount not-to-exceed \$217,000,000 and with a final maturity no later than August 1, 2031;
3. Authorize the current refunding of the Harbor Department's 2009 AC Bonds with the proceeds of the 2019 Refunding Revenue Bonds, subject to the parameters set forth in this Resolution;
4. Ratify actions taken by officers, employees, and agents of the Harbor Department prior to the date the Resolution becomes final, including but not limited to the publication of the Notice of Intention to Sell, and printing and distribution of the Preliminary Official Statement, consistent with the Board action;
5. Direct the Board Secretary, pursuant to Charter Section 609 and the Bond Procedural Ordinance (LAAC Sections 11.28.1 through 11.28.9) to certify that the Board has adopted the Resolution and, on behalf of the Board, immediately transmit for further processing certified copies of the Resolution and copies of the Board item and Transmittals to the Mayor, to the City Administrative Officer, and to the City Council; and
6. Adopt Resolution No. \_\_\_\_\_

**DISCUSSION:**

*Background*

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

The Department regularly monitors its debt portfolio for opportunities to achieve interest expense savings by refunding previously issued debt with debt carrying lower interest rates. This Resolution proposes that the Department issue 2019 Refunding Revenue Bonds through a negotiated sale, to refund some or all of the 2009 AC Bonds (Transmittal 1). The proposed not-to-exceed amount of \$217,000,000 will cover any rise in interest rates as well as all costs associated with the issuance of the refunding bonds. The proposed transaction will not result in additional debt, but will serve to replace more costly debt obligations with less expensive bonds.

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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 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 use 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.

Bond Series	Refunding Balance	Final Maturity	Coupon
2009A (Non-AMT PABs) New Money	\$61,285,000	2029	5.00% - 5.25%
2009C (Non-AMT PABs) Tender	154,310,000	2031	5.00% - 5.25%
<b>Total Callable Refunding Bonds</b>	<b>215,595,000</b>		

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% (Transmittal 2).

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, the costs of issuance, and any additional funds required for the reserve fund. 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.

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Method of Sale

The Department has the option to sell bonds on either a competitive basis or a negotiated basis. In a competitive sale, the Department selects a date for the sale and accepts sealed bids from underwriters. The firm offering the lowest interest rate wins the bid. In a negotiated sale, the Department selects the underwriters from an investment banking pool approved by the Board and works with them to structure the transaction. Per Los Angeles Administrative Code (LAAC) Section 11.28.4, if the Department desires to use a negotiated sale, the Chief Financial Officer must determine that a negotiated transaction would be of benefit to, and would be in the best interest of the Harbor Department. The Chief Financial Officer for the Harbor Department is recommending a negotiated sale for the 2019 Refunding Revenue bonds due to the fact that such a sale provides a greater opportunity to reach out to the investor community to stimulate greater interest in our bonds, thereby driving down the cost of borrowing. Furthermore, a negotiated sale provides greater flexibility with respect to timing the sale of the bonds.

Future Actions

The principal financing documents related to the 2019 Refunding Revenue Bonds, which include the Indenture of Trust, Continuing Disclosure Certificate, Bond Purchase Agreement, and the Preliminary Official Statement will be presented at a subsequent Board meeting in July.

Board approval of the Resolution and Financing Documents will be subject to discretionary City Council review pursuant to LAAC Section 11.28.2. When such review is complete, either by the expiration of time or accelerated City Council review, the Board's approval becomes final. The pricing of the bonds would occur after this time elapses.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is 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.

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**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.

**CITY ATTORNEY:**

The Office of the City Attorney has reviewed this board report and has no legal issues at this time.

**TRANSMITTALS:**

1. Resolution No. \_\_\_\_\_
2. Refunding Analysis

FIS Approval: MB  
CA Approval: JS




SOHEILA SAJADIAN  
Director, Debt & Treasury Management  
Division



MARLA BLEAVINS  
Deputy Executive Director and Chief  
Financial Officer

APPROVED:

  
EUGENE D. SEROKA  
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