



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: AUGUST 12, 2015

FROM: DEBT & TREASURY

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 2015 REFUNDING REVENUE BONDS

SUMMARY:

Staff requests adoption of a Resolution authorizing approval of principal financing documents in relation to the issuance of 2015 Refunding Revenue Bonds that will refund (i.e. refinance) all of the City of Los Angeles Harbor Department's 2005 Series A and B Bonds (the "2005AB Bonds") with an outstanding balance of \$43,930,000. These bonds will become redeemable and eligible for refunding on or after August 1, 2015, provided that the aggregate refunded bonds would result in a net present value savings of at least three percent (3%) of the outstanding balance.

On July 13, 2015 the Board of Harbor Commissioners approved Resolution numbers 15-7830 and 15-7831 appointing the two investment banks of Siebert Brandford Shank as senior manager, and RBC Capital Markets as the co-manager to this transaction. On July 13, 2015 the Board of Harbor Commissioners also approved Resolution numbers 15-7832 and 15-7833 to authorize the refunding of 2005AB Bonds and redemption of 2005C-1 Bonds.

The refunding of the 2005AB Bonds will result in interest savings on outstanding debt.

RECOMMENDATION:

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

1. Approve the principal financing documents related to the 2015 Refunding Revenue Bonds, which include the Resolution, Indenture of Trust, Continuing Disclosure Certificate, Bond Purchase Agreement, and the Preliminary Official Statement;

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2. This Resolution and approval of the financing documents shall be subject to the City Council oversight pursuant to Section 245 of the Charter;
3. 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.

The Department regularly monitors its debt portfolio for opportunities to achieve interest rate savings by refunding previously issued debt with debt carrying lower interest rates.

On July 13, 2015 the Board of Harbor Commissioners approved Resolution numbers 15-7832 and 15-7833 to redeem the 2005 Series C-1 Bonds, and the issuance of 2015 Refunding Revenue Bonds through a negotiated sale, in an amount not-to-exceed \$55,000,000 to refund the 2005AB Bonds as well as paying for the cost of issuance, funding of a reserve, and to cover any premium on the refunding bonds. The authorized transaction will not result in additional debt, but will serve to replace more costly debt obligations with less expensive bonds.

On July 13, 2015 the Board of Harbor Commissioners also approved Resolution numbers 15-7830 and 15-7831 to appoint the investment banking firms of Siebert Brandford, Shank, a Woman and Minority Owned Enterprise (WBE/MBE) as the senior manager, and RBC Capital Markets as the co-manager on the transaction.

Refunding of 2005 Series A and B Bonds

The 2005 A and B Bonds were issued to refund the portion of 1996A and 1996B Bonds that were issued to finance the cost of public access projects related to developing Pier 400 and various environmental mitigation measures. The interest on the 2005AB Bonds is not subject to the federal alternative minimum tax ("Non-AMT") since the projects originally funded are available to the general public on the same basis as private users. The final maturity of the 2005AB Bonds is August 1, 2026.

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To achieve debt service savings, the existing bonds will be refunded by new bonds that will carry lower interest rates reflective of today's market conditions. Total interest cost for the Refunding Bonds is expected to be about 2.3% based upon current market conditions. Current interest rates are expected to generate present value savings of approximately \$5.7 million. The average annual debt service savings on a nominal basis are estimated to be \$538,000 through 2026.

The 2005 Series A Bonds in the amount of \$22,740,000 and the 2005 Series B Bonds in the amount of \$21,190,000, are callable (i.e. redeemable) beginning August 1, 2015. Under the Department's Debt Policy, callable bonds may be refunded when a minimum net present value savings of three percent (3%) of the outstanding bonds can be achieved. The Department estimates that given the current level of interest rates, the potential net present value savings would be about 12.88% on refunding the 2005AB Bonds. Per the Department's Debt Policy, if interest rates increase such that the 3% savings threshold cannot be met, the Department will not carry out the refunding. The actual level of savings will depend on the rates of interest on the day of the pricing of the refunding bonds.

Uses of Bond Proceeds

The Refunding Revenue Bonds will only be sold in such an amount necessary to fund the redemption of the 2005AB Bonds, the call premium on the 2005AB Bonds, the costs of issuance, and any additional funds required for the reserve fund for the bonds. Costs of issuing the bonds include fees for bond and disclosure counsel, financial advisor and trustee counsel fees, as well as underwriters' fees and are estimated to be approximately \$400,000.

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 - An agreement 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. It 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 bond holders, and in order to assist the underwriters in complying with Securities and Exchange Commission Rule 15c2-

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12(b)(5) requiring the Harbor Department to provide annual disclosure reports and notice of certain enumerated events (Transmittal 3) .

Bond Purchase Agreement – An agreement 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).

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of principal financing documents relating to the issuance of the Harbor Department 2015 Refunding Revenue Bonds. As an administrative action, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, Section 2(f) of the Los Angeles City CEQA guidelines.

ECONOMIC BENEFITS:

This Board action will have no direct employment effect in the five-country region.

FINANCIAL IMPACT:

Authorizing the issuance of the Harbor Department's 2015 Refunding Revenue Bonds under the current market conditions will result in aggregate present value savings to the Harbor Department that will exceed the 3% requirement established by Department's Debt Management Policy.

Based upon current market conditions, it is estimated that the total debt service savings will be about \$5.7 million. The refunding is expected on a nominal basis to reduce the Department's debt service cost by an average of approximately \$538,000 annually

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through 2026. On a present value basis, savings are estimated to be 12.88% of the outstanding balance, which exceeds the Department's 3% aggregate savings target.

CITY ATTORNEY:

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

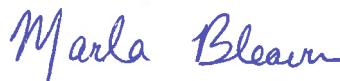
TRANSMITTALS:

- 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

FIS: MB (initials)
 CA: [Signature] (initials)



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APPROVED:



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