



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: AUGUST 10, 2021

FROM: DEBT & TREASURY MANAGEMENT

SUBJECT: RESOLUTION NO. _____ AUTHORIZING THE LOS ANGELES BOARD OF HARBOR COMMISSIONERS TO APPROVE REDEMPTION OF THE CITY OF LOS ANGELES HARBOR DEPARTMENT 2011 SERIES A (AMT) AND SERIES B (NON-AMT) REFUNDING REVENUE BONDS

SUMMARY:

Staff requests adoption of a resolution authorizing the redemption of the 2011 Series A (\$8,325,000) and Series B (\$32,820,000) Bonds in an outstanding balance of \$41,145,000 with available funds from Harbor Revenue Fund after August 1st 2021. The redemption of the 2011 Series A and B Bonds will result in interest savings on the Harbor Department's ("Department") outstanding debt.

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;
2. Authorize the redemption of the 2011 Series A and Series B Bonds with funds from the Harbor Revenue Fund;
3. Ratify actions taken by officers, employees, and agents of the Harbor Department prior to the date the Resolution becomes final; and
4. Adopt Resolution No. _____

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DISCUSSION:

Background

Section 609 of the Los Angeles City Charter gives the Harbor Department the power to borrow money, to issue bonds and refunding 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 Harbor Commission.

The Department regularly monitors its debt portfolio for opportunities to achieve interest rate savings by refunding (i.e. refinancing) previously issued debt with new debt carrying lower interest rates. This Resolution proposes that the Department redeem the 2011 Series A and Series B Refunding Bonds with cash instead of executing a refunding due to the opportunity to generate increased savings and the Department's strong cash position. The cash redemption would also release about \$4,401,980 from the debt service reserve fund held by the trustee, that is allocated to 2011 Series A and Series B Refunding Bonds for payment toward the redemption of the bonds. Payment using monies from the Debt Service Reserve Fund will reduce the outflow of funds from the Harbor Revenue Fund toward the redemption to approximately \$36,743,020.

After the debt service payment on August 1st, 2021, the Department had \$618.48 million in outstanding debt. After the cash redemption, the total outstanding debt will be reduced to \$577.33 million. By redeeming the Series 2011 A and B Refunding Bonds, outflows for the Department's total debt service obligations in Fiscal Years 2023 – 2026 will decrease by \$11.3 million in each year.

Redemption of 2011 Series A and Series B Refunding Bonds

Projected Savings

The 2011 Series A and B Refunding Bonds were issued to refund the 2001 Series A and Series B Refunding Bonds, and have a final maturity date in August 2025 (FY2026).

Furthermore, other benefits of a cash redemption versus a public sale current refunding bond transaction are:

- Less costly transaction – a redemption has no underwriting fees, no rating agency fees, no printer fees, and lower municipal advisory and legal expenses.

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- Simpler transaction – a redemption does not require disclosure documents, a ratings process, or investor marketing.
- Faster transaction – a redemption requires only 30 days prior written notice of the redemption to the existing bondholders.

The table below summarizes the estimated savings of \$639,980 resulting from the redemption of 2011 Series A and B Refunding Bonds in comparison with current refunding of these bonds after August 1, 2021 in terms of nominal dollars:

Refunding vs. Redemption Scenarios			
	Existing Series 2011 A&B Bonds	Current Refunding	Cash Redemption
Existing P&I Date / Assumed Settlement Date*	8/1/2021	8/1/2021	8/1/2021
FY 2022 Debt Service	\$1,017,275	\$829,250	None
FY 2023 Debt Service	\$11,347,025	\$9,487,750	None
FY 2024 Debt Service	\$11,343,875	\$9,032,625	None
FY 2025 Debt Service	\$11,335,000	\$9,028,750	None
FY 2026 Debt Service	\$11,315,875	\$9,004,625	None
Adjustment for DSRF Release**	N/A	Included	-\$4,401,980
Aggregate Debt Service through Final Maturity / Redemption Payment	\$46,359,050	\$37,383,000	\$36,743,020
Total Nominal Savings	N/A	\$8,976,050	\$9,616,030
Net Benefit of Redemption vs. Current Refunding ***	N/A	N/A	\$639,980
Series 2021 Principal Amt Outstanding after Refunding	N/A	\$33,170,000	None

*For illustrative purposes only. 8/1 is a Sunday.
 **DSRF Release is already included in the Current Refunding analysis.
 ***The net benefit is the difference between the aggregate debt service for the current refunding and the net redemption payment.
 Note: The average coupon rate on the outstanding Series 2011AB bonds is at 4.9%. We estimate the all-in yield on any refunding bonds to be 0.70%. The 4.20% differential is the primary reason for annual and aggregate interest rate savings noted in the table above. A cash redemption provides additional savings by eliminating all future interest costs on the Series 2011AB bonds. All Series 2011AB bonds will be redeemed in September 2021.

Redemption Team

Frasca & Associates, LLC (Frasca) will serve as the municipal advisor on the redemption. Frasca, a Very Small Business Enterprise (VSBE) and a Woman Business Enterprise (WBE) municipal advisory firm was selected on a competitive basis from the Department's existing pool of Municipal Advisors.

Nixon Peabody will serve as bond counsel for the redemption. Nixon Peabody is currently in the Department's existing pool of outside bond counsel firms and was selected to provide services for the proposed redemption due to having performed as bond counsel for the 2011 Series A and Series B issuance.

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Future Actions

Authorize Harbor Department staff to take all further actions to carry out the redemption, including working with the Municipal Advisor, the Bond Counsel and the City Attorney, as well as the Trustee, U.S. Bank Trust to prepare required documents to cash redeem the 2011 Series A and B Refunding Bonds.

Approval of this Resolution is subject to review by the City Council as set forth in Los Angeles City Charter Section 245 and it shall become effective immediately upon compliance with Section 245.

ENVIRONMENTAL ASSESSMENT:

The proposed action is authorization of the redemption of 2011 Series A and B Refunding Bonds with funds from the Harbor Revenue Fund, 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:

The redemption of the 2011 Series A and B Refunding Bonds will result in \$5,214,050 in future debt service savings plus the release of \$4,401,980 from the Debt Service Reserve Fund, currently held by the trustee. Furthermore, a nominal benefit of approximately \$639,980 relative to a refunding at current market rates through maturity will be achieved. To cash redeem the Bonds, the Department will redeem the outstanding principal amount on the call date of August 1st 2021 plus any accrued interest up through the redemption date. The principal outstanding of \$41,145,000 net of release of approximately \$4,401,980 from Debt Service Reserve Fund allocated to 2011 Series A and B Refunding Bonds will result in approximately \$36,743,020 which together with any accrued interest due will be wired from Harbor Revenue Fund to the Trustee to be distributed to the bond holders of these bonds. Additional costs will include Municipal Advisory fees in an amount not-to-exceed \$10,000 which will be charged to Center 0620, Financial Services Account 54490 based on Frasca's Agreement 20-3720. Fees associated with the Bond Counsel will not exceed \$7,500 and will be covered through Bond Counsel Agreement No. 19-3691 managed by the City Attorney's Office.

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CITY ATTORNEY:

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

FIS Approval: MB (initials)
CA Approval: JS (initials)



SOHEILA SAJADIAN
Director, Debt & Treasury Division



MARLA BLEAVINS
Deputy Executive Director and Chief
Financial Officer

APPROVED:

Marla Bleavins For

EUGENE D. SEROKA
Executive Director