



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MAY 29, 2012

FROM: DEBT & TREASURY

SUBJECT: RESOLUTION NO. _____ TO REPLACE THE COMMERCIAL PAPER LIQUIDITY PROVIDER, INCREASE THE LINE OF CREDIT TO \$250 MILLION, AND EXTEND THE PROGRAM THROUGH JULY 2015

SUMMARY:

Staff recommends the approval of two three-year Line of Credit Agreements with Mizuho Corporate Bank (Mizuho), headquartered in Tokyo, Japan and Wells Fargo Bank, National Association (Wells Fargo), headquartered in San Francisco, California to provide standby liquidity support of \$125 million each for a total of \$250 million for the City of Los Angeles Harbor Department's (Harbor Department) Commercial Paper (CP) Program. The Harbor Department's current CP Program has liquidity support from a \$200 million, three-year Line of Credit Agreement with JP Morgan Chase Bank that will expire on July 29, 2012. The proposed standby line of credit increase and new three-year Line of Credit Agreements will extend the CP Program through July 2015 and continue to provide the Harbor Department with an efficient and cost effective method of meeting financing needs to support capital projects before long-term debt is used and, if necessary, a way to fund working capital needs.

RECOMMENDATION:

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

1. 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, among other matters, the following four principal documents related to the City of Los Angeles Harbor Department's CP Program: the Amended and Restated Issuing and Paying Agent Agreement; the three-year Credit Agreements with Mizuho Corporate Bank, Ltd. and Wells Fargo Bank, National Association; the Mizuho Fee Letter; the Wells Fargo Fee Letter; and, the Offering Memorandum;

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2. Direct the Executive Director or her designee to undertake jointly and severally any and all actions that are necessary and consistent with the Resolution to establish and implement the issuance and remarketing of the CP Program, subject to the discretionary right of the City Council to review such documents pursuant to the requirements of LAAC Section 11.28.2;
3. 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 Harbor Commissioners, immediately transmit for further processing certified copies of the Resolution, Board report, and all related documents to the Mayor, Office of the City Administrative Officer, and the City Council; and,
4. Adopt Resolution No. _____.

DISCUSSION:

Background – On August 22, 2001, the Board authorized the Harbor Department CP Program at a not-to-exceed limit of \$375 million. CP Notes are unsecured short-term debt instruments that are issued by the Harbor Department and sold to investors through investment banks that perform as sellers or dealers of commercial paper. CP Notes generally have maturity periods that vary from 1 to 270 days and are used to meet short-term financial needs.

On June 4, 2009, the Board authorized the issuance of CP Notes at the \$100 million level and adopted Resolution No. 09-6753 that, among other things, approved documents related to such issuance of CP Notes, including Dealer Agreements, a Credit Agreement, an Issuing and Paying Agent Agreement, and an Offering Memorandum. On June 3, 2010, the Board authorized an increase in the level of issuance for CP Notes to a not-to-exceed limit of \$200 million and an extension of the line of credit through July 29, 2012 by adopting Resolution Nos. 10-6946 and 10-6958 that, among other things, approved documents related to the CP Program.

Currently, JP Morgan Chase Bank provides the full \$200 million line of credit supporting the issuance of CP Notes. To date, the Harbor Department has borrowed a total of \$100 million in CP Notes. The fee rate for the current line of credit with JP Morgan Chase Bank is 0.775% per annum. This fee rate while competitive at the time is now almost twice as high as the new proposed fee rate. The proposed Line of Credit Agreements with Mizuho and Wells Fargo offer a reduction in fee rate at 0.40% for \$250 million in total standby liquidity support resulting in annual savings of \$550,000.

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Borrowing through CP Notes remains one of the least expensive, lowest risk, and most flexible and efficient ways of interim funding. Having the ability to issue CP provides several significant benefits: (1) it allows access to short-term financing at low CP Note rates; (2) any issue of tax-exempt CP Notes can be refunded in the future with tax-exempt bonds; and, (3) issuing commercial paper generates continued name recognition in the investor marketplace, given that the Harbor Department is not a frequent issuer of debt, thereby helping the marketability of the Harbor Department securities.

Reasons for Increasing the Line of Credit – Between the \$60 million line of credit with Union Bank that expired in March 2012 and the current \$200 million in CP Notes, the Harbor Department had \$260 million in short-term borrowing capability. The Union Bank line of credit was not renewed due to its higher cost compared with CP Notes. Based upon projections of capital expenditure spending and cash flow generation by the Harbor Department over the next few years, staff is recommending increasing the available line of credit from \$200 million to \$250 million and extending the term of the CP Program an additional three years through July 2015. With capital expenditures budgeted at over \$340 million in Fiscal Year (FY) 2012/13 and projected to average over \$370 million a year in the two fiscal years beyond that, having greater capacity to issue commercial paper provides better flexibility in terms of funding in FY 2013/14 and FY 2014/15.

Bank Selection and Role – To ensure the ability to obtain access to a broad base of investors and for the CP Notes to be readily sold, issuance of CP Notes requires liquidity support from strongly rated credit provider banks in the form of a line of credit. The Harbor Department's financial advisor, Frasca & Associates, prepared and distributed a Request for Proposal (RFP) to credit providers in February 2012. The ability and willingness of commercial banks to provide credit has improved in the past two years but continues to remain unsettled as financial regulations evolve. Six banks responded to the RFP. Based upon a review and analysis of the proposals received, staff recommends the appointment of Mizuho, a bank based in Tokyo, Japan, acting through its New York Branch, and Wells Fargo, based in San Francisco, to provide a three-year line of credit of \$125 million each for a total of \$250 million to support the Harbor Department's CP Program. These two banks responded with the most attractive pricing at the rate of 0.40% and were favorably rated at A1/A+/A and Aa3/AA/AA- by Moody's, S&P, and Fitch, respectively. Subject to the conditions described in the Line of Credit Agreements and Fee Letters, each bank, as applicable, will step in to pay a maturing note if the Harbor Department is unable to do so.

The Current Market Environment – Currently, the Harbor Department has \$100 million of CP Notes outstanding, in \$50 million increments, at an interest rate of 0.19% and

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0.22% for 63 days and 66 days, respectively that were issued for private activity purposes to make improvements to the TraPac and China Shipping terminals. The CP Notes interest rates are near historical lows with the 10-year Municipal Market Data (MMD) at 1.78%. In the current market, CP Notes with maturities of up to 90 days are expected to be issued at interest rates that are under 0.25% per annum. The interest rates are reset every time these notes are sold. The CP Notes currently outstanding were originally issued as tax-exempt notes not subject to the alternative minimum tax, as authorized by the American Recovery and Reinvestment Act of 2009.

By adopting this Resolution (Transmittal 1), the Board will approve: (a) Amended and Restated Issuing and Paying Agent Agreement (Transmittal 2) with U.S. Bank to increase the total amount of CP Notes the Harbor Department may issue; (b) a form of the Line of Credit Agreements with Mizuho and Wells Fargo (Transmittal 3); (c) Fee Letter – Mizuho (Transmittal 4) to support the Harbor Department's ability to pay, if necessary, the applicable CP Notes when due; (d) Fee Letter – Wells Fargo (Transmittal 5) to support the Harbor Department's ability to pay, if necessary, the applicable CP Notes when due; (e) the Offering Memorandum (Transmittal 6), which provides potential commercial paper investors with information about the Harbor Department and the CP Program; and, (f) such other documents and actions as may be necessary or desirable from time to time to implement the Harbor Department's CP Program.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of three-year Line of Credit Agreements with Mizuho Corporate Bank and Wells Fargo Bank, National Association to provide standby liquidity support for the Harbor Department's CP Program. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with 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-county region.

FINANCIAL IMPACT:

With a \$50 million increase in liquidity support from \$200 million to \$250 million, the annual cost of the proposed Line of Credit Agreements of approximately \$1 million (0.40% X \$250M) compares favorably to the current annual cost of \$1.55 million (0.775% X \$200M).

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If there is any borrowing under the Line of Credit Agreements, the interest on any CP Note outstanding will be in addition to the above stated fee. Currently, commercial paper interest rates are under 0.25% for 90-day paper. All associated expenses for the CP Program including financial advisory fees, line of credit fees, broker/dealer fees, and issuing and paying agent fees have been budgeted under the Non-Operating expense budget. The annual cost for the Line of Credit Agreements is budgeted in general ledger Account No. 89075 of Cost Center 6000; interest expense that results from borrowing under the Line of Credit is budgeted in general ledger Account No. 83110 of Cost Center 6000. The cost of financial advisory services and any associated legal fees will be paid out of cost of issuance once the Harbor Department issues these CP Notes.

CITY ATTORNEY:

The office of the City Attorney has reviewed and approved the Amended and Restated Issuing and Paying Agent Agreement, the Line of Credit Agreements and the Fee Letters and approved them as to form and legality.

TRANSMITTALS:


- 1. Resolution No. _____.
- 2. Amended and Restated Issuing and Paying Agent Agreement
- 3. Form of Line of Credit Agreements with Mizuho and Wells Fargo
- 4. Mizuho Fee Letter
- 5. Wells Fargo Fee Letter
- 6. Offering Memorandum

FIS Approval: KK (initials)
CA Approval: HMM (initials)


KARL K. Y. PAN
Chief Financial Officer


MOLLY CAMPBELL
Deputy Executive Director

APPROVED:


GERALDINE KNATZ, Ph.D.
Executive Director