



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the
Board of Harbor Commissioners

DATE: AUGUST 4, 2016

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 2016 REFUNDING REVENUE BONDS

SUMMARY:

Staff requests adoption of a resolution authorizing the issuance of the 2016 Refunding Revenue Bonds that will refund (i.e. refinance) all or a portion of the City of Los Angeles Harbor Department's (Harbor Department) 2006 Series A, B, and C Bonds (the "2006ABC Bonds"), which are currently outstanding in the principal amount of \$119.245 million, and advance refunding the 2009 Series B Bonds (the "2009B Bonds"), which are currently outstanding in the principal amount of \$100 million, through a negotiated sale.

The refunding of the 2006ABC Bonds and advance refunding the 2009B Bonds is expected to result in combined present value savings of approximately \$33.7 million or 15.35% of the bonds to be refunded with average annual debt service savings of \$1.7 million through August 2039. It is estimated that the all-in true interest cost for the combined transaction will be approximately 2.72%.

The 2016 Refunding transaction will not change the maturity of these bonds or result in additional debt, but will replace higher interest debt with lower interest rate debt reducing the future debt service payment obligations for the Harbor Department.

RECOMMENDATION:

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

1. Find 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 as determined by the Director of Environmental Management;

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2. Authorize the issuance of the City of Los Angeles Harbor Department 2016 Refunding Revenue Bonds (the "Refunding Revenue Bonds"), in one or more series, through a negotiated sale in a combined principal amount not-to-exceed \$240 million, and with a final maturity no later than August 1, 2039;
3. Authorize the current refunding of the Harbor Department's 2006ABC Bonds with the proceeds of the 2016 Refunding Revenue Bonds, subject to the parameters set forth in this Resolution;
4. Authorize the advance refunding of the Harbor Department's 2009B Bonds with the proceeds of the 2016 Refunding Revenue Bonds, subject to the parameters set forth in this Resolution;
5. 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;
6. Adopt Resolution No. _____; and
7. 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.

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 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 expense savings by refunding previously issued debt with debt carrying lower interest rates. This Resolution proposes that the Department issue 2016 Refunding Revenue Bonds through a negotiated sale, in an amount not-to-exceed \$240 million to refund some or all of the 2006ABC and 2009B Bonds. The proposed not-to-exceed amount will cover any rise in interest rates as well as covering all costs associated with the issuance

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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.

Refunding of 2006 Series A, B, and C Bonds

The 2006ABC Bonds were issued to refund a portion of each of the bond series 1996A, 1996B, and 1996C Bonds that were issued to finance the cost of some projects related to development of Pier 400 and various environmental mitigation measures. The interest on the 2006 Series A and B Bonds is subject to the federal alternative minimum tax ("AMT") since the projects originally funded are for private activity use. However the interest on the 2006 Series C Bonds is not subject to the federal alternative minimum tax ("Non-AMT") since the projects originally funded are available to the general public. The final maturity of the 2006 Series A Bonds is August 1, 2024, and the final maturity of the 2006 Series B and C is August 1, 2025.

Refunding of 2009 Series B Bonds

The 2009B Bonds are not subject to the federal alternative minimum tax ("Non-AMT") since the projects originally funded are available to the general public. These bonds were issued to finance public usage projects such as Cabrillo Way Marina, San Pedro Waterfront Enhancement, Wilmington Waterfront Development, Harry Bridges Boulevard Buffer, and a few other public usage projects. Therefore 2009B Bonds are eligible for advance refunding to take advantage of the historically low current interest rate environment. The final maturity of the 2009B Bonds is August 1, 2039.

Bond Series	Outstanding Balance	Final Maturity	Coupon
Current Refunding			
2006A (AMT)	\$ 48,565,000	2024	5.00%
2006B (AMT)	60,420,000	2025	5.00%
2006C (Non-AMT)	10,260,000	2025	5.00%
Subtotal	\$ 119,245,000		
Advance Refunding			
2009B (Non-AMT)	\$ 100,000,000	2039	5.25%
Grand Total	\$ 219,245,000		

Projected Savings

The refunding of the 2006ABC Bonds and advance refunding of 2009B Bonds is expected to result in combined present value savings of approximately \$33.7 million or 15.35% of the bonds to be refunded with average annual debt service savings of \$1.7 million through August 2039. It is estimated that the all-in true interest cost for the combined transaction will be approximately 2.72% (Transmittal 2).

Uses of Bond Proceeds

The 2016 Refunding Revenue Bonds will only be sold in such an amount necessary to fund the redemption of the 2006ABC Bonds and the 2009B Bonds, the call premium on

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the 2006ABC 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 counsel, the rating of the bonds by three rating agencies, the financial advisor, the trustee fees, and trustee counsel fees, and are estimated to be approximately \$600,000. Total cost for the underwriting services will be approximately \$420,000 which would include 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.

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 2016 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. Also, a negotiated sale provides greater flexibility with respect to timing the sale of the bonds.

Future Actions

The principal financing documents related to the 2016 Refunding Revenue Bonds, which include the Indenture of Trust, Continuing Disclosure Certificate, Bond Purchase Agreement, the Preliminary Official Statement, and the Escrow Agreement will be presented at a subsequent Board meeting in August.

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.

This Resolution shall take effect immediately upon its adoption.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the issuance of Refunding Revenue Bonds by the City of Los Angeles Harbor Department. As an administrative action, the Director of Environmental

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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.

FINANCIAL IMPACT:

The refunding of the 2006ABC Bonds and advance refunding of 2009B Bonds are expected to result in combined present value savings of approximately \$33.7 million or 15.35% of the bonds to be refunded with average annual debt service savings of \$1.7 million through August 2039. It is estimated that the all-in true interest cost for the combined transaction will be approximately 2.72% (Transmittal 2). 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 (initials)
CA Approval: MB (initials)



SOHEILA SAJADIAN
Director, Debt & Treasury Management
Division



MARLA BLEAVINS
Deputy Executive Director and Chief
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APPROVED:



EUGENE D. SEROKA
Executive Director