



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JULY 25, 2024

FROM: DEBT & FINANCIAL ANALYSIS

SUBJECT: RESOLUTION NO. _____ APPROVAL OF A RESOLUTION AUTHORIZING THE LOS ANGELES BOARD OF HARBOR COMMISSIONERS APPROVING THE PRINCIPAL FINANCING DOCUMENTS RELATING TO THE ISSUANCE OF THE CITY OF LOS ANGELES HARBOR DEPARTMENT 2024 REFUNDING REVENUE BONDS

SUMMARY:

Staff requests adoption of the Resolution authorizing approval of the principal financing documents in relation to the issuance of 2024 Refunding Revenue Bonds that will refund (i.e. refinance) all or a portion of the City of Los Angeles Harbor Department's (Harbor Department) 2014 Series A, B and C Bonds (the 2014 Bonds) which are currently outstanding in the principal amount of \$264,695,000.

On July 25, 2024, the Board of Harbor Commissioners (Board) approved the issuance of 2024 Refunding Revenue Bonds to refund the 2014 Bonds. On July 25, 2024, the Board also approved the appointment of three investment banks: Jefferies LLC as senior manager, and Samuel A. Ramirez & Company, Inc., a Minority Business Enterprise (MBE), and Loop Capital Markets LLC, an MBE, as co-managers to this transaction.

The 2024 Refunding transaction will not result in additional debt or change the maturity of these bonds, but will replace higher interest rate debt with lower interest rate debt reducing the future debt service payment obligations for the Harbor Department.

RECOMMENDATION:

It is recommended that the 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. Approve the principal financing documents related to the 2024 Refunding Revenue Bonds, which include the Resolution, Indenture of Trust, Continuing Disclosure Certificate, Bond Purchase Agreement, the Preliminary Official Statement, the TEFRA (Tax Equity and Fiscal Responsibility Act) Document, the Independent Green Bond Certification, and the Escrow Agreement;
3. Find that the Harbor Department published a TEFRA Notice on July 26, 2024 and held a TEFRA Hearing at 10:00 AM on August 5, 2024. Pursuant to Section 147(f) of the Internal Revenue Code of 1986, there must be a Public Hearing for the financing or refinancing of Capital Improvement Program (CIP) projects with proceeds from the sale of tax-exempt obligations; and
4. 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 Harbor Department’s operating fund account, the Harbor Revenue Fund, in a form and manner approved by the Board.

On July 25, 2024, the Board approved the refunding of the 2014 Bonds and the issuance of the 2024 Refunding Revenue Bonds through a negotiated sale, in a principal amount not-to-exceed \$245,000,000. Proceeds of the 2024 Refunding Revenue Bonds would be used to refund all of the 2014 Bonds, paying for costs of issuance, and to cover any premium on the refunded 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 25, 2024, the Board also approved the appointment of investment banking firms Jefferies LLC as senior manager, and Samuel A. Ramirez & Company, Inc., and Loop Capital Markets LLC as co-managers on the transaction.

Refunding of 2014 Bonds – The 2014 Bonds were issued to: (i) finance certain capital projects, (ii) current refund and defease previously issued bonds, (iii) generate debt service savings, (iv) refund Commercial Paper Notes, (v) make a deposit to the Reserve Fund, and (vi) pay costs of issuance related to the 2014 Bonds.

Proceeds from the sale of 2014 Series A Bonds were used to finance certain private activity projects as well as refund and defease all of the Harbor Department’s

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outstanding Series 2006 Series D Bonds. Given the private nature of the projects financed by the 2006 Series D and 2014 Series A Bonds, investors purchasing these bonds were subject to the Alternative Minimum Tax (AMT).

Proceeds from the sale of the 2014 Series B Bonds were used to refund \$100,000,000 of then-outstanding Commercial Paper Notes, and proceeds from the sale of the 2014 Series C Bonds were used to finance certain government projects. Government projects include Port-related capital improvements benefiting the general public, including road, infrastructure, and various parking and park improvements. Given the public nature of the projects financed by the 2014 Series B and 2014 Series C Bonds, these bonds were issued on a tax-exempt, or “Non-AMT” basis.

Subject to bond counsel concurrence, the 2014 Series A Bonds will be refunded on an AMT-basis, while the 2014 Series B and 2014 Series C Bonds will be refunded on a Non-AMT basis. The final maturity date of the 2014 Bonds is August 1, 2044.

Projected Savings – The refunding of the 2014 Bonds is expected to result in combined present value savings of approximately \$27,824,000 or 10.51% of the bonds to be refunded with average annual debt service savings of \$1,987,000 through August 2044. It is estimated that the all-in true interest cost for the combined transaction will be approximately 4.03%.

Uses of Bond Proceeds – The 2024 Refunding Bonds will only be sold in such an amount necessary to fund the redemption of the 2014 Bonds, the costs of issuance and any additional funds required for the reserve fund, if necessary. The costs associated with issuing the bonds include bond and disclosure counsel fees, rating agency fees, municipal financial advisor fees, trustee fees, and trustee counsel fees, along with other miscellaneous costs, which combined are estimated to be approximately \$1,100,000. Total costs for the underwriting services will be approximately \$400,000 and includes compensation for all three investment banking firms, fees for underwriters’ counsel, and other miscellaneous costs. These costs will be paid from the proceeds of the bond issuance.

A few of the projects financed by 2014 Bonds could be classified as sustainable and environmentally-focused such as Alternative Maritime Power (AMP), construction of the Trapac Administration Building as LEED (Leadership in Energy and Environmental Design), installation of solar panels, and construction of certain park improvements. The Harbor Department is seeking independent certification to classify certain 2024 Refunding Revenue Bonds as Green Bonds to attract investors who prioritize investing in bonds that support environmentally focused projects, with the goal of increasing the investor base for the Harbor Department bonds. Greater demand for Harbor Department bonds could lower the borrowing cost of the transaction.

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As a result of structuring the 2024 Refunding Revenue Bonds to obtain the highest present value savings, the maturities of some of the bond series changed, either increasing or decreasing their average maturity, requiring the Harbor Department to hold a TEFRA Hearing. The final maturity for the 2024 Refunding Revenue Bonds will stay the same as the 2014 Bonds at 2044.

Required Documents

Resolution – This resolution authorizes approval of the principal financing documents described below and ratifies all actions taken by officers, employees and agents of the Harbor Department related to the issuance and sale of the Bonds (Transmittal 1).

Indenture of Trust – This agreement is 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. Certain provisions of the Indenture of Trust, including Sections 5.02, 6.02, and 6.11 thereof, have been updated for clarity and to allow flexibility, as well as to enable the Harbor Department to issue or incur subordinate lien obligations in the future, if the need arises. The Indenture also indicates the source from where the income stream for the bonds is derived (Transmittal 2).

Continuing Disclosure Certificate – This Certificate is executed and delivered by the Harbor Department for the benefit of the bondholders, and to assist the underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) requiring the Harbor Department to provide annual disclosure reports and notice if and when certain enumerated events occur (Transmittal 3).

Bond Purchase Agreement – This agreement is 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).

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TEFRA Approval Certificate – Pursuant to Section 147(f) of the Internal Revenue Code of 1986, there must be a Public Hearing for the financing or refinancing of Capital Improvement Program (CIP) projects with proceeds from the sale of tax-exempt obligations (Transmittal 6).

Independent Green Bond Certification – This certification is a third-party opinion in reference to the original use of the bond proceeds for projects promoting environmental sustainability and conservation (Transmittal 7).

Escrow Agreement – This agreement is made between the Harbor Department and a third party to invest the refunding bonds' proceeds until the redemption date of the refunded bonds and to provide for payment for the defeased refunded bonds (Transmittal 8).

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of principal financing documents relating to 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.

FINANCIAL IMPACT:

The refunding of the 2014 Bonds is expected to result in combined present value savings of approximately \$27,824,000 or 10.51% of the bonds to be refunded with average annual debt service savings of \$1,987,000 through August 2044. It is estimated that the all-in true interest cost for the combined transaction will be approximately 4.03%. All transaction related costs will be paid from the bond proceeds.

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ISSUANCE OF THE CITY OF LOS ANGELES HARBOR DEPARTMENT
2024 REFUNDING REVENUE BONDS

CITY ATTORNEY:

The Office of the City Attorney has approved the Resolution as to form and legality and, as set forth in the Resolution, will approve the financing documents relating to the issuance of the 2024 Refunding Revenue Bonds when in final form.

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
6. TEFRA Certificate
7. Form of Green Bond Framework and Opinion
8. Escrow Agreement

FIS: JS
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