



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

DATE: JUNE 11, 2015

FROM: DEBT & TREASURY

SUBJECT: RESOLUTION NO. _____ TO RENEW THE COMMERCIAL PAPER PROGRAM

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) staff requests approval of several documents to facilitate renewal of the Commercial Paper (CP) Program for a period of three years in an amount not-to-exceed \$200 million. The Harbor Department uses the CP Program to provide short-term financing for capital projects and other short-term liquidity needs. The current documents for the existing CP Program will expire in July 2015.

The Harbor Department is financially responsible for payment of the fees incurred under the commercial paper program. All associated fees have been budgeted in fiscal years 2014-15 and 2015-16 budgets.

RECOMMENDATION:

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

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 the following principal documents related to the Harbor Department's Commercial Paper Program: Two Dealer Agreements with Ramirez & Co., Inc. and US Bancorp; First Supplement to the Amended and Restated Issuing and Paying Agent Agreement with US Bank National Association; First Amendment to the Line of Credit (LOC) Agreement and Consent to Replacement of Dealers with Mizuho Bank; the Amended and Restated Fee Letter with Mizuho Bank; and an Offering Memorandum;
2. Direct the Executive Director or his designees to jointly and severally do any and all actions necessary consistent with the Resolution to establish and implement the issuance and remarketing of the Commercial Paper Notes, subject to the right of the

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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, the Office of the City Administrative Officer, and the City Council; and
4. Adopt Resolution No. _____.

DISCUSSION:

Background – 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 may be used to meet short-term liquidity needs. The use of CP Notes is advantageous because it provides: 1) quick access to capital markets in the form of just-in-time financing to fund capital improvement projects; 2) bridge funding prior to being either paid off with cash from operations or refunded by long-term bonds; and 3) a lower cost of capital as a form of short-term borrowing tool relative to long-term debt financing in the form of revenue bonds.

On August 22, 2001, the Board of Harbor Commissioners adopted Resolution 6021 authorizing the Harbor Department Commercial Paper Program at a not-to-exceed limit of \$375 million, and on October 4, 2001 the Harbor Commissioners adopted Resolution No. 6035 approving documents and agreements related to the CP Program.

Since 2001, the Harbor Department has issued CP Notes to provide short-term financing of capital projects such as China Shipping, Trapac, Alternative Maritime Power (AMP), and various transportation projects. The maximum amount of CP Notes the Harbor Department has had outstanding at any given time was \$150 million. Currently there are no CP Notes outstanding as all prior CP Notes have been retired with long-term bonds or cash from operations.

The following parties are involved in facilitating the CP Program:

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- Financial Advisor: Provides advice to the Harbor Department and coordinates the transaction from start to closing. Frasca & Associates, LLC (Frasca) a Very Small Business Enterprise (VSBE) and a Woman Business Enterprise (WBE) financial advisory firm was selected from the Harbor Department's existing pool of Financial Advisors based on competitive fees and experience.
- Note Counsel: Prepares the legal agreements and advises the Department on legal issues. They also prepare the Offering Memorandum which serves as the primary marketing and disclosure document. Kutak Rock, LLP was selected from the City Attorney's existing pool of Bond Counsel based on competitive fees and experience.
- Dealers: Engage in the sale and marketing of the CP Notes. Ramirez & Co. a Minority Business Enterprise (MBE) and US Bancorp were selected from the Harbor Department's existing pool of investment bankers approved by the Board of Harbor Commissioners on April 23, 2015, based on competitive fees of 0.045% and experience.
- Issuing and Paying Agent: Acts as depository or trustee for safekeeping of the CP Notes, makes payments of principal and interest on the maturity of the Notes on behalf of the Department to investors. US Bank National Association continues its role with the First Supplement to the Amended and Restated Issuing and Paying Agent Agreement.
- Liquidity Facility Provider: Provides liquidity support to make the payments on the CP Notes in the event that the issuer is unable to pay on the maturity date of the Notes, or if there is a failed remarketing due to market conditions. Any such advances would then be repaid by the Department to the bank. Because CP Notes are an unsecured type of debt, investors require an LOC in support of the Program. Mizuho Bank was selected as the LOC provider based on a survey among LOC provider banks. Mizuho has offered to provide the Harbor Department with the most competitive fee of 0.29% for \$200 million program, per First Amendment to the existing Line of Credit Agreement and the Amended and Restated Fee Letter.

Governmental issuers of bonds and notes are given ratings by the rating firms of Moody's, Standard & Poor's, and Fitch. These ratings are based on multiple factors including management expertise, capital facilities, customer base, revenues and expenses, amount of outstanding debt, debt policies, among other factors. Ratings differ for long-term bonds and short-term debt. These ratings are used by investors to assist

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with their decisions. The Harbor Department's long-term debt ratings are currently Aa2, AA and AA by Moody's, Standard & Poor's, and Fitch, respectively. Historically, the Department's CP Notes have been rated P-1/A-1/F1, the highest ratings category, based upon the liquidity facility provider's short-term ratings. Ratings will be sought upon the approval of this Resolution and favorable results are expected.

The fees for the LOC Facility as well as the CP Dealers since 2009 are listed below:

| Board Action | Period | LOC Providers | Dealers & Fees |
|----------------|-----------|----------------------------------|--|
| 09-6753 | 2009-2010 | \$100M JP Morgan at 1.35% | Loop Capital & Morgan Stanley at 0.10% |
| 10-6946 & 6958 | 2010-2012 | \$200M JP Morgan at 0.775% | Loop Capital & Morgan Stanley at 0.10% |
| | | \$125M Mizuho Bank at 0.40% | |
| 12-7319 & 7320 | 2012-2015 | \$125M Wells Fargo Bank at 0.40% | Loop Capital & Morgan Stanley at 0.07% |
| Proposed: | 2015-2018 | \$200M Mizuho Bank at 0.29% | Ramirez & Co. and US Bancorp at 0.045% |

The Harbor Department's CP Program allows for the maximum principal amount of \$375 million which may be outstanding at any one time under this Program. However, staff is recommending a credit amount of up to \$200 million based on historical utilization of the CP Program, as well as an assessment of potential funding and liquidity requirements during the next three years.

Currently, CP Notes with maturities of up to 90 days are expected to be issued at rates that are under 0.15% per annum. The rates are reset every time these notes mature or are remarketed. The interest paid by the Harbor Department on the CP Notes that it proposes to issue may be, for the investor that purchases them, (a) tax exempt but subject to the Alternative Minimum Tax (AMT), (b) tax exempt and not subject to the AMT (Non-AMT), or (c) taxable, depending on the purpose for which the borrowing was incurred, such as working capital needs.

By adopting this Resolution (Transmittal 1), the Board of Harbor Commissioners will approve:

(a) Dealer Agreements with Ramirez & Co., and US Bancorp to periodically market CP Notes (Transmittal 2);

(b) First Supplement to Amended and Restated Issuing and Paying Agent Agreement with U.S. Bank National Association to modify the total amount of Commercial Paper Notes the Harbor Department may issue (Transmittal 3);

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(c) First Amendment to Line of Credit Agreement and Consent to Replacement of Dealers with Mizuho Bank to support the Harbor Department's ability to remarket the commercial paper when due (Transmittal 4);

(d) Amended and Restated Fee Letter with Mizuho Bank (Transmittal 5);

(e) Offering Memorandum which provides potential commercial paper investors with information about the Harbor Department and the Program (Transmittal 6); and,

(f) Such other documents and actions as may be necessary or desirable from time to time to implement the Harbor Department's Commercial Paper Program.

ENVIRONMENTAL ASSESSMENT:

The proposed action is to establish the 2015 Harbor Department Commercial Paper Program. 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 employment impact.

FINANCIAL IMPACT:

Once the Commercial Paper Liquidity Facility is in place, the annual cost to the Harbor Department will be approximately \$632,200. Additionally, if there is any borrowing under the facility, the interest on any notes outstanding will be in addition to the above stated fee. Currently, commercial paper rates are about 0.15% for 90-day paper and if any notes are issued, the Dealer fees will be 0.045% per annum. All associated expenses for the program including financial advisory fees, credit facility fees, broker/dealer fees, and issuing and paying agent fees have been budgeted under the FY2014/15 and FY2015/16 Operating and Non-Operating expense budgets. The annual cost for the Liquidity Facility is budgeted in general ledger account No.89075 of cost center 6000; interest expense that results from borrowing under the facility is budgeted in general ledger account No. 83110 of cost center 6000.

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CITY ATTORNEY:


The Office of the City Attorney has reviewed and approved as to form and legality the Resolution, Dealer Agreements, the First Supplement to Amended and Restated Issuing and Paying Agent Agreement, and the First Amendment to Line of Credit Agreement and the Amended and Restated Fee Letter with Mizuho Bank.

TRANSMITTALS:

1. Resolution No. _____
2. Form of Dealer Agreement
3. First Supplement to Amended and Restated Issuing and Paying Agent Agreement
4. First Amendment to the Line of Credit Agreement and Consent to Replacement of Dealers
5. Amended and Restated Fee Letter
6. Offering Memorandum

FIS Approval:  (initials)
CA Approval:  (initials)


SOHEILA SAJADIAN
Director of Debt and Treasury


MARLA BLEAVINS
Deputy Executive Director and
Chief Financial Officer

APPROVED:


EUGENE D. SEROKA
Executive Director