



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JULY 9, 2024

FROM: DEBT & FINANCIAL ANALYSIS

SUBJECT: RESOLUTION NO. _____ AUTHORIZING THE LOS ANGELES BOARD OF HARBOR COMMISSIONERS TO APPROVE THE ISSUANCE OF THE CITY OF LOS ANGELES HARBOR DEPARTMENT 2024 REFUNDING REVENUE BONDS

SUMMARY:

Staff requests adoption of a resolution authorizing the issuance of City of Los Angeles Harbor Department (Harbor Department) 2024 Refunding Revenue Bonds (2024 Refunding Bonds) as part of a bond transaction (Transaction).

Under the proposed Transaction, the 2024 Refunding Bonds will refund (i.e. refinance) all of the Harbor Department's 2014 Series A, B and C Bonds (the 2014 Bonds), which are currently outstanding in a principal amount of \$270,950,000. Following an August 1, 2024 debt service payment, \$264,695,000 in principal will be outstanding. The proposed Transaction will not change the final maturity of the refunded bonds or result in additional debt, but it will replace higher interest rate debt with lower interest rate debt thereby resulting in lower debt service payments for the Harbor Department.

The Transaction is expected to result in combined present value savings of approximately \$27,824,000 or 10.51% of the bonds to be refunded with an average annual debt service savings of \$1,987,000 through August 2044. It is estimated that the all-in, true interest cost of the Transaction will be approximately 4.03%. The Harbor Department will be financially responsible for the payment of debt service associated with the 2024 Refunding Bonds.

RECOMMENDATION:

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

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California

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Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;

2. Authorize the issuance of the City of Los Angeles Harbor Department 2024 Refunding Revenue Bonds, in one or more series, through a negotiated sale in a combined principal amount not-to-exceed \$245,000,000 and with a final maturity no later than August 1, 2044;
3. Authorize the current refunding of the Harbor Department's 2014 Bonds with the proceeds of the 2024 Refunding Bonds, subject to the parameters set forth in this Resolution;
4. Ratify actions taken by officers, employees, and agents of the Harbor Department prior to the date the Resolution becomes final, including holding a public hearing regarding the 2024 Refunding Bonds pursuant to Section 147(f) of the Internal Revenue Code of 1986, as amended, following notice duly given, and printing and distribution of the Preliminary Official Statement, consistent with the Board action;
5. 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; and
6. Adopt Resolution No. _____

DISCUSSION:

Background – Section 609 of the Los Angeles City Charter grants the Harbor Department the power to borrow money, to issue bonds and to refund bonds, notes and other evidence of indebtedness for any purpose relating to the Harbor Department. These borrowings are to be repaid from the Harbor Department's operating account, the Harbor Revenue Fund, in a form and manner approved by the Board of Harbor Commissioners.

Harbor Department staff 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 Harbor Department issue 2024 Refunding Bonds through a negotiated sale, to refund all of the 2014 Bonds (Transmittal 1). The proposed not-to-exceed amount of \$245,000,000 will cover any rise in interest rates as well as all costs associated with the issuance of the refunding bonds. The

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proposed transaction will not result in additional debt, but it will serve to replace more costly debt obligations with less expensive bonds.

Refunding of the 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 outstanding 2006 Series D Bonds. Given the private nature of the projects financed by the 2006 Series D and 2014 Series A Bonds, investors which purchased 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 governmental projects. Governmental projects include Port-related capital improvements which benefit 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, 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 of the 2014 Bonds is August 1, 2044. Following the August 1, 2024 principal payment, the table below summarizes key information regarding the 2014 Bonds:

TABLE 1: 2014 BOND SUMMARY

Bond Series	Refunding Balance	Final Maturity	Coupon
2014A (AMT) New Money & Refunding	\$156,375,000	2044	5.00%
2014B (Non-AMT) Refunding	\$72,280,000	2044	3.00% - 5.00%
2014C (Non-AMT) Refunding	\$36,040,000	2044	5.00%
Total Callable Refunding Bonds	\$264,695,000		

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 an 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% (Transmittal 2).

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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 fees for bond and disclosure counsels, the rating of the bonds by three rating agencies, the municipal advisor, the trustee fees, and trustee counsel fees, and other miscellaneous costs and 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 firms, fees for underwriters' counsel, and other miscellaneous costs. These costs will be paid from the proceeds of the bond issuance.

Method of Sale and Interim Chief Financial Officer Determination – The Harbor Department has the option to sell bonds on either a competitive basis or a negotiated basis. In a competitive sale, the Harbor 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 Harbor 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 financial interest of the Harbor Department.

The Chief Financial Officer for the Harbor Department has determined that a negotiated sale for the 2024 Refunding Bonds is of benefit to and is in the financial interest of the Harbor Department 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. Furthermore, a negotiated sale provides greater flexibility with respect to timing the sale of the bonds. This constitutes the written report of the Chief Financial Officer stating such determination and the reasons therefor referenced in Los Angeles Administrative Code (LAAC) Section 11.28.4.

Future Actions – The principal financing documents related to the 2024 Refunding Bonds, which include the Indenture of Trust, Continuing Disclosure Certificate, Bond Purchase Agreement, and the Preliminary Official Statement 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.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is 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:

Approval of the proposed action will authorize the issuance of the 2024 Refunding Bonds.

The refunding of the 2024 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 an 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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CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the proposed Resolution as to form and legality.

TRANSMITTALS:

1. Resolution No. _____
2. Refunding Analysis

FIS Approval: JS
CA Approval: SO

Matthew Marchese
MATTHEW MARCHESE
Director of Debt and Financial Analysis

Jeffrey Strafford
JEFFREY STRAFFORD
Director of Financial Planning and Analysis
and Interim Chief Financial Officer

APPROVED:

Erica M. Calhoun for

EUGENE D. SEROKA
Executive Director