



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: JULY 7, 2015

FROM: DEBT & TREASURY

SUBJECT: RESOLUTION NO. _____ AUTHORIZING THE LOS ANGELES BOARD OF HARBOR COMMISSIONERS TO APPROVE THE ISSUANCE OF THE CITY OF LOS ANGELES HARBOR DEPARTMENT 2015 REFUNDING REVENUE BONDS

SUMMARY:

Staff requests adoption of a resolution authorizing the issuance of the 2015 Refunding Revenue Bonds that will refund (i.e. refinance) all of the City of Los Angeles Harbor Department's (Harbor Department) 2005 Series A Bonds in an outstanding amount of \$22.74 million and 2005 Series B Bonds in the amount of \$21.19 million (the "2005AB Bonds"). The Resolution also authorizes the cash redemption of the 2005 Series C-1 Bonds with an outstanding balance of \$7.41 million with available funds. The refunding of the 2005AB Bonds, as well as the redemption of 2005 Series C-1 Bonds will result in interest savings on outstanding debt.

RECOMMENDATION:

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

1. Authorize the issuance of the City of Los Angeles Harbor Department 2015 Refunding Revenue Bonds (the "Refunding Revenue Bonds"), in one or more series, through a negotiated sale in a combined principal amount not-to-exceed \$55 million, and with a final maturity no later than August 1, 2026,
2. Authorize the redemption of the 2005 Series C-1 Bonds with funds from the Harbor Revenue Fund;
3. Authorize the current refunding of all or a portion of the Harbor Department's 2005 Series A and B Bonds with the proceeds of the 2015 Refunding Revenue Bonds, subject to the parameters set forth in this Resolution (Transmittal 1);

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4. 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 printing and distribution of the Preliminary Official Statement;
5. Adopt Resolution No. _____; and
6. 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 all related documents 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 rate savings by refunding previously issued debt with debt carrying lower interest rates. This Resolution proposes that the Department 1) redeem the 2005 Series C-1 Bonds and 2) issue 2015 Refunding Revenue Bonds through a negotiated sale, in an amount not-to-exceed \$55,000,000 to refund the 2005AB Bonds. The proposed transaction will not result in additional debt, but will serve to replace more costly debt obligations with less expensive bonds.

Redemption of 2005 Series C-1 Bonds

The 2005 Series C-1 Bonds were issued to refund a portion of the 1996A and 1996B Bonds related to wharf and terminal upgrades and are subject to the alternative minimum tax ("AMT"). The bonds are scheduled to mature on August 1, 2017. Issuing debt at current interest rates to refund these bonds will not generate savings. However, by paying off the bonds prior to the maturity date, the Department will save approximately \$486,096 by not having to make the final interest payments in 2016 and 2017. The table below summarizes the savings resulting from the redemption of the 2005 Series C-1 Bonds by comparing what the department would pay if it took no action to what the Department would pay by redeeming the bonds two years prior to the maturity date.

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	Base Case (No Action Taken)	Proposed Scenario (Redeem 2005 C-1)	Nominal Difference
Principal paid at closing	-	7,410,000	
Call premium @ 102% in 2015	-	148,200	
Interest to be paid in 2016 & 2017	741,000	-	
Less: Interest earned on Harbor funds (Estimated)	(106,704)	-	
Principal to be paid on 8/1/2017	7,410,000	-	
Total cash outflows	8,044,296	7,558,200	486,096

Refunding of 2005 Series A and B Bonds

The 2005 A and B Bonds were issued to refund the portion of 1996A and 1996B Bonds that were issued to finance the cost of public access projects related to developing Pier 400 and various environmental mitigation measures. The interest on the 2005AB Bonds is not subject to the federal alternative minimum tax ("Non-AMT") since the projects originally funded are available to the general public on the same basis as private users. The final maturity of the 2005AB Bonds is August 1, 2026.

Projected Savings

To achieve debt service savings, the existing bonds will be refunded by new bonds that will carry lower interest rates reflective of today's market conditions. Total interest cost for the Refunding Bonds is expected to be about 2.3% based upon current market conditions. Current interest rates are expected to generate present value savings of approximately \$5.7 million. The average annual debt service savings on a nominal basis are estimated to be \$538,000 through 2026.

The 2005 Series A Bonds in the amount of \$22,740,000 and the 2005 Series B Bonds in the amount of \$21,190,000, are callable (i.e. redeemable) beginning August 1, 2015. Under the Department's Debt Policy, callable bonds may be refunded when a minimum net present value savings of three percent (3%) of the outstanding bonds can be achieved. The Department estimates that given the current level of interest rates, the potential net present value savings would be about 12.88% on refunding the 2005AB Bonds (Transmittal 2). Per the Department's Debt Policy, if interest rates increase such that the 3% savings threshold cannot be met, the Department will not carry out the refunding. The actual level of savings will depend on the rates of interest on the day of the pricing of the refunding bonds.

Uses of Bond Proceeds

The Refunding Revenue Bonds will only be sold in such an amount necessary to fund the redemption of the 2005AB Bonds, the call premium on the 2005AB Bonds, the costs of issuance, and any additional funds required for the reserve fund for the bonds. Costs of issuing the bonds include fees for bond and disclosure counsel, financial advisor and trustee counsel fees, as well as underwriters' fees and are estimated to be approximately \$400,000.

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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 underwriter 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 2015 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.

Financing Team

Frasca & Associates, LLC (Frasca) will serve as the financial advisor on the transaction. 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.

The selection of attorneys to serve as disclosure counsel and bond counsel was made in consultation with the City Attorney's office and chosen from the established City Attorney's outside counsel pool. That pool had been established through a competitive process. The firm of Kutak Rock LLP will serve as disclosure counsel as well as the bond counsel on this transaction on the basis of competitive fees and experience.

Future Actions

The principal financing documents related to the 2015 Refunding Revenue 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 is 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.

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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 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:

Based on current interest rates, the refunding is expected to reduce the Department's debt service cost by an average of approximately \$538,000 annually through 2026. On a present value basis, the total savings would be \$5.7 million. The redemption of the 2005 C bonds with cash will save the department approximately \$486,096 in interest payments by redeeming the bonds early.

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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: [Signature] (initials)



SOHEILA SAJADIAN
Director, Debt & Treasury Division



MARLA BLEAVINS
Deputy Executive Director and Chief
Financial Officer

APPROVED:

FOR 
EUGENE D. SEROKA
Executive Director