

DATE: JULY 31, 2024

FROM: DEBT & FINANCIAL ANALYSIS

SUBJECT: RESOLUTION NO. _____ AUTHORIZING THE LOS ANGELES BOARD OF HARBOR COMMISSIONERS TO APPROVE A CASH DEFEASANCE OF THE CITY OF LOS ANGELES HARBOR DEPARTMENT 2015 SERIES A (NON-AMT) AND 2016 SERIES B (NON-AMT) AND SERIES C (NON-AMT) (GREEN) REFUNDING REVENUE BONDS

SUMMARY:

Staff requests adoption of a Resolution authorizing the cash defeasance of the 2015 Series A (\$7,395,000), 2016 Series B (\$60,750,000) and 2016 Series C (\$35,205,000) Refunding Revenue Bonds (Series 2015 & 2016 Bonds) with a total outstanding balance of up to \$103,350,000. The proposed defeasance will be executed after August 1, 2024 with available funds from the Harbor Revenue Fund in an amount not-to-exceed \$94,000,000. Approval of the proposed cash defeasance of the Series 2015 & 2016 Bonds will result in interest savings of \$35,545,850 on the Harbor Department's (Department) outstanding debt over a 15-year period through August 2039.

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 Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Authorize the cash defeasance of some or all of the 2015 Series A and 2016 Series B and Series C Refunding Revenue Bonds with funds from the Harbor Revenue Fund and other funds available under the respective bond indentures;
3. Authorize the redemption of the 2015 Series A and 2016 Series B and Series C Refunding Revenue Bonds that are subject to redemption;

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- 4. Approve the Escrow Agreements related to the cash defeasance of the 2015 Series A and 2016 Series B and Series C Refunding Revenue Bonds in the form presented to the Board with such changes as are approved by the officer executing the final versions of such agreements;
- 5. Ratify actions taken by officers, employees, and agents of the Harbor Department prior to the date the Resolution becomes final; and
- 6. Adopt Resolution No. _____ .

DISCUSSION:

Background – Section 609 of the Los Angeles City Charter enables the Harbor Department to borrow money, to issue bonds and refunding 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.

As of August 1, 2024, the outstanding balance of the Series 2015 & 2016 Bonds is \$103,350,000. Assuming the proposed defeasance occurs, and the Series 2015 & 2016 Bonds are redeemed on the first available redemption dates (August 1, 2025 for the Series 2015 Bonds and August 1, 2026 for the Series 2016 Bonds) or repaid at maturity if on or before the applicable redemption date, future interest of \$8,675,150 will be due through August 1, 2026, summarized as follows:

Series	Principal Outstanding as of 8/1/24	Interest Due 8/1/24 – 7/31/25	Interest Due 8/1/25 – 7/31/26	Total Principal and Interest Due
2015A*	\$ 7,395,000	\$ 369,750	\$ -	\$ 7,764,750
2016B	\$ 60,750,000	\$ 2,773,250	\$ 2,715,750	\$ 66,239,000
2016C	\$ 35,205,000	\$ 1,408,200	\$ 1,408,200	\$ 38,021,400
Total	\$ 103,350,000	\$ 4,551,200	\$ 4,123,950	\$ 112,025,150

* If the proposed defeasance is approved, the Series 2015A Bonds’ outstanding principal of \$7,395,000 would be repaid and/or redeemed on August 1, 2025; therefore, no interest would be due thereafter.

The Department regularly monitors its debt portfolio for opportunities to achieve interest rate savings. The proposed Resolution seeks approval to defease the Series 2015 & 2016 Bonds with cash due to the opportunity to generate increased savings relative to a refunding (i.e. refinancing) and the Department’s strong cash position. The cash defeasance would also release \$11,688,464 from the Series 2015 and 2016 Bonds’ Debt Service Reserve Fund that will be used toward the defeasance of the bonds. Payment using monies from the Debt Service Reserve Fund as well as interest projected to be earned on the funds while in escrow are anticipated to reduce the payment from the Harbor

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Revenue Fund for the defeasance to approximately \$92,094,612, summarized as follows:

	\$ Amount
Total Principal and Interest Due	\$112,025,150
Less: Debt Service Reserve Fund Release*	(\$11,688,464)
Less: Interest Earned on Escrowed Funds*	(\$8,242,074)
Equals: Harbor Revenue Fund Contribution*	\$92,094,612

* Figures are preliminary and subject to change

Due to anticipated fluctuations in market interest rates, the figures provided above are preliminary and subject to change. Therefore, staff is requesting approval of a Harbor Revenue Fund transfer in an amount not-to-exceed \$94,000,000 in support of a successful execution of the proposed defeasance.

Defeasance and Projected Savings – The 2015 Series A Refunding Revenue Bonds were issued to refund the 2005 Series A and Series B Refunding Revenue Bonds as well as pay costs of issuance. The 2015 Series A Refunding Revenue Bonds have a final maturity date in August 2026.

The 2016 Series B and Series C Refunding Revenue Bonds were issued to current refund the 2006 Series C Refunding Revenue Bonds, advance refund the 2009 Series B Bonds, and pay costs of issuance. The 2016 Series B Refunding Revenue Bonds have a final maturity date in August 2036, and the 2016 Series C Refunding Revenue Bonds have a final maturity date in August 2039.

Under the proposed defeasance, the Harbor Department will establish two escrow accounts related to the respective 2015 Series A Refunding Revenue Bonds and the 2016 Series B and Series C Refunding Revenue Bonds. Funds would then be withdrawn from the Harbor Revenue Fund and the Debt Service Reserve Fund and deposited into the newly established escrow accounts. The escrow accounts would then be utilized to execute debt service payments and redeem outstanding principal balances either upon maturity or upon the earliest call date.

An alternative to the proposed defeasance would be to perform a current refunding once the 2016 Series B and Series C Refunding Revenue Bonds become callable in August 2026.

Benefits of a cash defeasance versus a public sale current refunding bond transaction are:

- Less costly transaction – a defeasance has no underwriting fees, no rating agency fees, no printer fees, and lower municipal advisory and legal expenses.
- Simpler transaction – a defeasance does not require disclosure documents, a ratings process, or investor marketing.
- Faster transaction – the future redemptions arising from the defeasance require only

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30 days prior written notice of the redemption to existing bondholders.

- Greater interest savings – a defeasance would ultimately result in the early redemption of outstanding bonds and full avoidance of interest payments which would arise from issuing new current refunding bonds.

After the debt service payment on August 1, 2024, the Department had \$450.355 million in outstanding debt. After the cash defeasance, total outstanding debt will be reduced by \$103.350 million to \$347.005 million. By defeasing the Series 2015 & 2016 Bonds, outflows for the Department's total debt service obligations in Fiscal Years 2026 – 2040 will decrease by \$35.5 million in aggregate.

Outside Advisors – KNN Public Finance (KNN or Municipal Advisor) will serve as the municipal advisor for the proposed defeasance under Agreement No. 23-9943. KNN was selected on a competitive basis from the Department's existing pool of Municipal Advisors as part of a separate transaction related to a current refunding of 2014 Series A, B and C Refunding Revenue Bonds (2024 Refunding). While the proposed defeasance is distinct from the 2024 Refunding, staff determined that KNN was best positioned to advise upon the proposed defeasance and ensure that any potential ancillary benefits accruing to the 2024 Refunding as a result of the proposed defeasance are realized.

Nixon Peabody (Bond Counsel) will serve as bond counsel for the proposed defeasance under Agreement No. 23-9940. Nixon Peabody is currently in the Department's existing pool of outside bond counsel firms and was selected to provide services based upon a competitive process.

Causey Demgen & Moore P.C. will serve as verification agent and U.S. Bank Trust N.A. will serve as Trustee using on-call contracts to provide required services.

Future Actions – Staff is also requesting authorization to take all further actions to execute the defeasance, including working with the Municipal Advisor, Bond Counsel, the City Attorney, the verification agent, as well as U.S. Bank Trust N.A. (Trustee) to prepare required documents to defease and, where applicable, redeem the Series 2015 & 2016 Bonds as well as execute and deliver such documentation.

Approval of this Resolution is subject to review by the City Council as set forth in Los Angeles City Charter Section 245, and it shall become effective immediately upon compliance with Section 245.

ENVIRONMENTAL ASSESSMENT:

The proposed action is authorization of the defeasance of Series 2015 & 2016 Bonds with funds from the Harbor Revenue Fund, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is

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administratively exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA guidelines.

FINANCIAL IMPACT:

Approval of the proposed defeasance would reduce the Harbor Department’s outstanding debt by \$103,350,000 from \$450,355,000 currently to \$347,005,000 as proposed. If the proposed defeasance is approved, then the Harbor Department would save \$35,545,850 in interest expenses over a 15-year period from August 2025 through August 2039, summarized as follows:

Series	Principal Outstanding as of 8/1/2024	Final Maturity	Aggregate Interest Savings	Annual Average Interest Savings
2015A	\$ 7,395,000	August 2026	\$ 160,750	\$ 160,750
2016B	\$ 60,750,000	August 2036	\$ 18,661,700	\$ 1,866,170
2016C	\$ 35,205,000	August 2039	\$ 16,723,400	\$ 1,286,415
Total	\$ 103,350,000		\$ 35,545,850	

If the proposed defeasance is approved, then escrow accounts will be established with the Trustee, and a one-time transfer not-to-exceed \$94,000,000 will be made from Account 11010 (Harbor Revenue Fund), Center 7000, Program 000 to the Trustee.

Additional costs include municipal advisory, bond counsel, verification agent and escrow fees.

Fiscal Year (FY) 2025 funding in an amount not-to-exceed \$35,000 is available within Account 54490 (Financial Services), Center 0620, Program 000 for payment of municipal advisory, verification agent and escrow fees.

FY 2025 funding in the amount of \$25,000 is available within Account 54410 (Legal Fees & Services), Center 0120, Program 000 for payment of bond counsel fees associated with the proposed defeasance of Series 2015 & 2016 Bonds.

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CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved the Escrow Agreements as to form and legality.

TRANSMITTALS:

1. Escrow Agreement – 2015 Series A Bonds
2. Escrow Agreement – 2016 Series B & C Bonds

FIS Approval: JS (initials)
CA Approval: GC (initials)

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APPROVED:

Erica M. Calhoun for

EUGENE D. SEROKA
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