



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

Board of Harbor Commissioners

DATE: MARCH 8, 2016

FROM: DEBT AND TREASURY

SUBJECT: RESOLUTION NO. _____ APPROVING THE EXECUTION OF CERTAIN DOCUMENTS IN CONNECTION WITH THE ISSUANCE BY THE ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY OF ITS SUBORDINATE LIEN REVENUE REFUNDING BONDS AND SECOND SUBORDINATE LIEN REVENUE REFUNDING BONDS AND AUTHORIZING SUCH OTHER ACTIONS AS ARE NECESSARY TO ASSIST THE AUTHORITY IN THE ISSUANCE OF SUCH REFUNDING BONDS AND MAKING A DETERMINATION RELATING THERETO

SUMMARY:

Staff requests that the Board of Harbor Commissioners approve certain documents related to a proposed bond financing for the Alameda Corridor Transportation Authority (ACTA). Given the Port of Los Angeles' role as a partial guarantor of ACTA's debt along with the Port of Long Beach, it must provide certain financial and operating disclosure to the bond market for any ACTA bond transaction both at the time of the initial offering and for as long as the bonds remain outstanding. ACTA is projecting that future revenues will be insufficient to cover debt service payments starting in FY2017.

The proposed financing would restructure ACTA's 2004 Series A Bonds to substantially reduce projected shortfall advance payments from the two ports from over \$200 million to approximately \$30 million from FY2017 to FY2026.

RECOMMENDATION:

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

1. Find 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 as determined by the Director of Environmental Management;

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2. Authorize the execution and delivery of the Continuing Disclosure Certificate, the Letter of Representation, and other related documents and certificates in connection with the issuance and sale of the 2016 ACTA Bonds;
3. Authorize the City of Los Angeles Harbor Department's Executive Director or Chief Financial Officer, each of them acting individually, to comply with the terms and intent of the Board's Resolution, to assist ACTA in the issuance of the 2016 ACTA Bonds, to execute and deliver any documents or instruments related thereto and to take such other actions as may be deemed necessary or desirable in order to carry out the purposes of the Board's Resolution subject to: (i) approval of the issuance of the 2016 ACTA Bonds by ACTA; and (ii) the conditions set forth in the Resolution;
4. Approve certain disclosure relating to the finances and operations of the City of Los Angeles Harbor Department to be contained in the Preliminary Official Statement and the Official Statement for the 2016 ACTA Bonds under the caption entitled "THE PORT OF LOS ANGELES" set forth in "APPENDIX B, INCLUDING AUDITED FINANCIAL STATEMENTS" previously provided to the Harbor Department, with such changes thereto as the Executive Director or the Chief Financial Officer may require or approve; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background/Context – ACTA is a joint exercise of powers authority created by the City of Los Angeles and the City of Long Beach in 1996 to construct, finance, and operate a freight expressway corridor connecting the rail system near downtown Los Angeles to the Ports of Los Angeles (POLA) and Long Beach (POLB). Since its formation, ACTA has issued several series of revenue bonds for this purpose. ACTA is projecting that future revenues will be insufficient to cover debt service payments starting in FY 2017 and therefore intends to restructure a portion or all of its Series 2004 A Bonds by redeeming and/or defeasing the outstanding bonds and deferring the repayment of principal on the previously issued bonds. By extending the payment of principal that would have matured in FY 2017 through 2026 into a later period, projected shortfall advance payments by the Ports in those years will be either eliminated or reduced. This restructuring will increase the amount of the debt service on the bonds overall, however it is expected to generate significant relief from projected shortfall payments for the two ports through FY 2026.

Both POLA and POLB are obligated under the terms of the Alameda Corridor Use and Operating Agreement to make certain payments known as Shortfall Advances, if

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ACTA's use fees and container charges are not sufficient to meet scheduled debt service payments on ACTA's bonds. The Shortfall Advances are limited to 40% of the debt service on ACTA's bonds, with each port obligated to pay 20%. ACTA is projecting that revenues will be insufficient to cover debt service due to less than expected cargo being transported through the two ports and on the Rail Corridor. The primary purpose of issuing the 2016 ACTA Bonds is to better match debt service with anticipated revenue thereby reducing the projected amount of Shortfall Advances payable by POLA and POLB in the future. Previously, the Harbor Department and POLB each paid ACTA a Shortfall Advance of \$2.95 million in September 2011 and the same amount again in September 2012. Shortfall Advances paid by POLA and POLB will be reimbursed with interest at the 6-month Treasury Bill rate by ACTA.

Given the Port's role as a partial guarantor of ACTA's debt, it must provide certain financial and operating disclosure to the bond market for any ACTA bond transaction both at the time of the initial offering and for as long as the bonds remain outstanding. The Board has approved documents for ACTA financing transactions on two occasions in recent years. In 2012 the Board of Harbor Commissioners approved a Surety Agreement in relation with ACTA's 2012 transaction, by which ACTA obtained a Railroad Rehabilitation and Improvement Financing (RRIF) Loan in the amount of \$83.7 million. Federal Railroad Administration (FRA) required the two ports serve as the funding source for ACTA's debt service reserve requirement for a period of seven years, until ACTA fully cash funds the reserve fund.

Subsequently, in 2013 the Board of Harbor Commissioners approved a Continuing Disclosure Certificate and other documents and disclosure related to POLA and the Harbor Department in relation with ACTA's 2013 Refunding transaction, by which ACTA refunded \$288 million of its Series 1999A Bonds.

On March 10, 2016, it is expected that ACTA's Governing Board (ACTA Board) will approve the restructuring of the Series 2004 A Bonds. Furthermore, it is expected that on March 14, 2016 the Board of Harbor Commissioners of the City of Long Beach will approve a continuing disclosure certificate and other documents and disclosure related to POLB and the Harbor Department of the City of Long Beach in relation to ACTA's 2016 Restructuring. It is anticipated that the closing on the transaction will take place during the month of May 2016.

Restructuring Transaction – In light of projected revenue shortfalls, ACTA has put together a financing team and after much deliberation has opted to restructure the non-callable and callable Series 2004 A Bonds maturing from 2016 to 2025 by issuing refunding bonds up to an amount not to exceed \$715 million. ACTA plans to purchase

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insurance for a portion of the 2016 ACTA bonds and a surety policy in lieu of cash funding a debt service reserve fund.

Without the restructuring transaction and assuming growth assumptions provided for in the San Pedro Bay Long-term Cargo Forecast, which has been commissioned by both ports, the total projected shortfall advances required by the ports will be in excess of \$200 million, with each port sharing half of that amount from FY2017 through FY2026. Undertaking this restructuring is projected to reduce the shortfall payments to approximately \$30 million, with each port sharing half of this amount.

Implications of this Action – By taking this action, the Board authorizes the Harbor Department staff to: (a) carry out and comply with the terms and intent of the Resolution (Transmittal 1) and to assist ACTA in the issuance of the 2016 ACTA Bonds, subject to the conditions set forth in the Resolution; and (b) execute and deliver the Continuing Disclosure Certificate (Transmittal 2), the Letter of Representation included in the Bond Purchase Agreement (Transmittal 3), certain disclosures concerning the finances and operations of the Port of Los Angeles and the Harbor Department to be contained in the Preliminary Official Statement and the Official Statement (Transmittal 4).

The Continuing Disclosure Certificate would obligate the Harbor Department to update and disclose annually certain information about the Harbor Department finances and operations contained in the Preliminary Official Statement and the Official Statement for the 2016 ACTA Bonds and to provide notice of certain enumerated events in accordance with Securities and Exchange Commission regulations for as long as the bonds remain outstanding. The letter of Representation provides a certification from the Department that the information it is providing is accurate and complete.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval to execute and deliver documents and certificates in connection with the 2016 ACTA Bonds, which is an administrative activity. As such, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Without the proposed debt restructuring and assuming growth assumptions provided for in the San Pedro Bay Long-term Cargo Forecast, ACTA's projected Shortfall Advance requirements from the Harbor Department and the POLB are projected to be in excess

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of \$200 million starting in FY2017 through FY2026, with each port's share at approximately \$100 million in Shortfall Advances.

As a result of the proposed restructuring, it is projected that there will be approximately \$30 million in Shortfall Advance requirements from fiscal years 2017 to 2026, with each port's share of the Shortfall Advances about \$15million.

CITY ATTORNEY:

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

TRANSMITTALS:

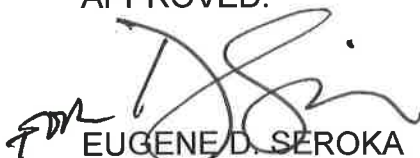
1. Resolution No. _____
2. Continuing Disclosure Certificate
3. Letter of Representation
4. Certain Disclosure Concerning the Finances and Operations of the Port of Los Angeles and the Harbor Department to be contained in the Preliminary Official Statement and the Official Statement

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


SOHEILA SAJADIAN
Director, Debt & Treasury


MARLA BLEAVINS
Deputy Executive Director and
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APPROVED:


EUGENE D. SEROKA
Executive Director