



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

DATE: MAY 11, 2011

FROM: FINANCE DIVISION

SUBJECT: RESOLUTION NO. _____ AUTHORIZING THE LOS ANGELES BOARD OF HARBOR COMMISSIONERS TO APPROVE THE ISSUANCE OF THE CITY OF LOS ANGELES HARBOR DEPARTMENT 2011 REFUNDING REVENUE BONDS

SUMMARY:

This proposed Resolution authorizes the issuance of 2011 Refunding Revenue Bonds that will refund all or a portion of the City of Los Angeles Harbor Department's (Department) 2001 Series A and B Bonds (the "2001 Bonds") within ninety days prior to their call date of August 1, 2011 providing that the aggregate refunded bonds would result in a net present value savings of at least three percent. This will be a negotiated sale through Morgan Stanley, De La Rosa & Company, and Siebert Brandford Shank & Company.

RECOMMENDATION:

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

1. Authorize the issuance of the City of Los Angeles Harbor Department 2011 Refunding Revenue Bonds (the "Refunding Revenue Bonds"), in one or more series, through negotiated sale, in a combined principal amount not-to-exceed \$110,000,000 and with a final maturity no later than August 1, 2025;
2. Authorize the current refunding of all or a portion of the Harbor Department's 2001 Series A and B Bonds with the proceeds of the 2011 Refunding Revenue Bonds, subject to the parameters set forth in this Resolution (Transmittal No. 1);

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3. Appoint the team of underwriting firms consisting of Morgan Stanley, De La Rosa & Company, and Siebert Brandford Shank & Company from the authorized pool of underwriters for the negotiated sale of the 2011 Refunding Revenue Bonds;
4. Approve the principal financing documents related to the 2011 Refunding Revenue Bonds, which include the Escrow Agreement (Transmittal No. 2), Indenture of Trust (Transmittal No. 3), Continuing Disclosure Certificate (Transmittal No. 4), Bond Purchase Agreement (Transmittal No. 5), and the Preliminary Official Statement (Transmittal No. 6);
5. Find that the Harbor Department advertised on May 4, 2011 and held a TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) Hearing by Harbor Department staff at 8 AM on May 19. See Transmittal No.7;
6. 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;
7. Adopt Resolution No. _____; and
8. 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.

2001 Harbor Revenue Bonds Series A and B –These bonds were issued by the Harbor Department in 2001 to refund 1995 Bonds that were originally issued to finance a variety of capital projects that included Stage I construction activity at Pier 400 and improvements at Berth 302-305 among others. The maturity of the bonds extends to 2025 for the Series A Bonds and 2022 for the Series B Bonds. The structure of the

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bonds allow for their redemption, otherwise known as a "call", before maturity. The first redemption date for the 2001 Bonds is August 1, 2011, at which time the bonds are callable at their par, or face value.

Details of the Proposed Transaction – Under the Department's Debt Policy, callable bonds may be refunded when a minimum net present value savings of three percent (3%) can be achieved. The Department has determined that given the current level of interest rates, the potential net present value savings may be as great as 6%. The level of savings will depend on the rates of interest on the day of the pricing of the bonds. Interest rate changes between the date of approval of this resolution and the bond pricing date will also affect whether there is a full or partial redemption of the contemplated bonds to be refunded with proceeds of the sale of the 2011 Refunding Revenue Bonds. Currently, there are \$36,180,000 in 2001 Series A Bonds outstanding with coupons of 5.00% and \$64,925,000 of 2001 Series B Bonds outstanding with coupons ranging from 5.25% to 5.50%. Under a current refunding, the refunding bonds may not be issued prior to 90 days before the first call date of the refunded bonds.

This Resolution proposes that the Department issue Refunding Revenue Bonds in one or more series through a negotiated sale, in a combined principal amount not-to-exceed \$110,000,000 and with a final maturity no later than August 1, 2025. In a negotiated sale, the Department and the underwriters reach a deal on the terms of the issue as opposed to having underwriting banks bid competitively to establish the terms. In this manner, the existing bonds with a higher coupon rate will be replaced by new bonds that will carry lower interest rates reflective of today's market conditions. Based upon current market conditions, it is estimated that the total debt service savings will be \$8 million through 2025.

The Refunding Revenue Bonds will only be sold in such an amount necessary to fund the principal and accrued interest, if any, on the Refunded Bonds, to pay for costs of issuance, and to fund the portion of the Common Reserve associated with the Refunding Revenue Bonds, only if the required level of present value savings can be achieved. The proposed transaction will not incur additional debt service but will merely serve to replace more costly debt obligations with less expensive bonds. The aggregate underwriter's discount under the Purchase Contract shall not exceed 0.50% of the principal amount of the bonds. The estimated cost of issuance is to be approximately \$460,000.

Method of Sale – The Department has determined that a negotiated sale is preferable for the sale of the Refunding Revenue Bonds as opposed to the standard competitive sale. In order to optimize the economic savings in the current market, a negotiated sale of the bonds is recommended in order to allow for pre-marketing of the issue by

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underwriters, flexibility in terms of the pricing date, and increased retail participation. See the Chief Financial Officer's Letter, Transmittal No. 8.

The Underwriting Team – In July 2008, the Board of Harbor Commissioners approved Resolution No. 08-6574, which established a pool of eight bond underwriters, valid for three years. On March 5, 2009, the Board adopted Resolution No. 09-6686, which added JP Morgan to the pool of underwriters replacing the bankrupt Lehman Brothers. The other seven underwriter banks are comprised of Citigroup Global Markets, De La Rosa & Co., Goldman, Sachs & Company, Loop Capital Markets, Morgan Stanley & Co., Siebert Brandford Shank & Co., and Stone & Youngberg, all of whom were selected through a Request for Qualification (RFQ) process.

Recommended for approval to underwrite this transaction are the firms of Morgan Stanley, which will act as the senior managing underwriter and book runner, De La Rosa & Co., which will serve as a co-senior managing underwriter, and Siebert Brandford Shank & Co., which will act as a co-manager. A letter will be sent to the Securities Data Company designating both Morgan Stanley and E. J. De La Rosa as senior managers for league table purposes. Both De La Rosa and Siebert Brandford Shank are considered minority business enterprises. De La Rosa is based in Los Angeles while Siebert Brandford Shank is based in Oakland with an office in Los Angeles. Morgan Stanley is headquartered in New York with a Los Angeles office and, through its retail network, has an extensive system of offices throughout California.

The above team was selected from the existing pool of underwriters based on their responses to a written questionnaire. Among the criteria were qualitative and quantitative factors with the cost of issuance being one major factor. A selection panel, comprised of three Harbor employees and one Los Angeles World Airports staff member evaluated, ranked and selected the three highest scoring firms.

Since the inception of the underwriters' pool in 2008, the proposed transaction would be the third bond transaction for the existing pool. In the prior transactions in 2009 the selected underwriters were JP Morgan as senior manager, Loop Capital as co-senior on 2009 Series A and B. De La Rosa & Co. acted as senior manager with Goldman Sachs as co-senior on 2009 Series C. The remaining four firms of Citi, Morgan Stanley, Siebert Brandford, Shank & Co. and Stone & Youngberg were co-managers on both transactions. Each of the underwriters has certified that they have no conflict of interest in this transaction. See Transmittal No. 9.

From the time the 2001 bonds are refunded within ninety days prior to their call date on August 1, 2011, the proceeds of the 2011 Refunding Revenue Bonds will be held in an escrow account by the Department's trustee, U.S. Bank. See Transmittal No. 2. Staff expects the bond issue to go to market during the first or second week of June.

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The Financial Advisor – The firm of Frasca & Associates (Frasca) serves as the financial advisor on the transaction. Frasca is a member of the Harbor's financial advisory pool, which was established through an Request for Proposal (RFP) proposal in 2010. Frasca, a registered WBE and SBE, is based in New York with an office in Orinda, California.

The Attorney Team – The choice 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 under a RFP process. Given the quality of the firms in the pool as a result of an earlier RFP selection process, the designations were made on the basis on lowest cost. Kutak Rock LLP will serve as disclosure counsel and Nixon Peabody LLP will serve as bond counsel. Kutak Rock is based in Denver, Colorado with an office in Los Angeles while the corporate headquarters of Nixon Peabody is based in Boston, it also has an office in Los Angeles.

This Resolution shall take effect immediately upon its adoption.

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.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the issuance of Revenue Bonds by the 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 direct employment effect in the five-country region.

FINANCIAL IMPACT:

Authorizing the issuance of the Harbor Department's Refunding Revenue Bonds will result in aggregate present value savings to the Harbor Department of not less than 3% of the principal amount of the bonds being refunded. The actual dollar amount of

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present value savings and the amount of actual savings will depend on the final amount, structure and interest rate of the bonds as well as the cost of issuance.

Based upon current market conditions, it is estimated that the total debt service savings will be \$8 million through 2025. On a net present value basis, savings are estimated to be 6%, which exceeds the Department's 3% aggregate savings target.

CITY ATTORNEY:

The Office of the City Attorney has reviewed and approved as to form and legality the Resolution, Indenture of Trust, Bond Purchase Agreement, and the Escrow Agreement.

TRANSMITTALS:

1. Resolution No. _____
2. Escrow Agreement
3. Form of Indenture of Trust
4. Form of Continuing Disclosure Certificate
5. Form of Bond Purchase Agreement
6. Form of Preliminary Official Statement
7. TEFRA Approval Certificate
8. Chief Financial Officer Letter
9. Underwriters' (3) Certifications of Conflict of Interest

FIS: IKB
CA: TR


KARL K. Y. PAN
Chief Financial Officer


MOLLY CAMPBELL
Deputy Executive Director

APPROVED:


GERALDINE KNATZ, Ph.D.
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