



## AUDIT COMMITTEE

Report to the  
Board of Harbor Commissioners

### “FOR DISCUSSION ONLY”

**DATE: JULY 14, 2016**

**TO: AUDIT COMMITTEE OF THE BOARD OF HARBOR COMMISSIONERS**

**SUBJECT: ISSUANCE OF HARBOR REFUNDING REVENUE BONDS 2016**

Based on the current market for municipal debt, staff is recommending that the Port refund (i.e. refinance) the following bond series in order to take advantage of lower interest rates and save on future debt service payments:

Bond Series	Outstanding Balance	Final Maturity	Coupon
<b><u>Current Refunding</u></b>			
2006A (AMT)	\$ 48,565,000	2024	5.00%
2006B (AMT)	60,420,000	2025	5.00%
2006C (Non-AMT)	10,260,000	2025	5.00%
<b>Subtotal</b>	<b>\$ 119,245,000</b>		
<b><u>Advance Refunding</u></b>			
2009B (Non-AMT)	\$ 100,000,000	2039	5.25%
<b>Grand Total</b>	<b>\$ 219,245,000</b>		

The Department regularly monitors its debt portfolio for opportunities to achieve interest expense savings by refunding previously issued debt with debt carrying lower interest rates. When evaluating refunding opportunities, the staff considers the following:

- Present value savings
- Nominal average annual debt service savings
- True-interest-cost
- Negative arbitrage
- Call date

As summarized in Transmittal 1, the present value savings from the proposed current refunding of only 2006 Series A, B & C Bonds (the “2006 Bonds”) based on interest rates as of July 1<sup>st</sup> would approximate \$13.78 million or 11.56% of value of the bonds to

be refunded. This level of present value savings generates nominal average annual debt savings of \$1.6 million per year through August 2025<sup>1</sup>. Based upon current market conditions, we estimate that the all-in true interest cost for the refunding bonds will approximate 1.35%<sup>2</sup>.

In addition to a current refunding of the 2006 Bonds and due to the historically low current interest rate environment, the Port also has the opportunity to advance refund outstanding 2009 Series B Bonds (the "2009 B Bonds"). Given that the 2009B Bonds are not callable until August 1, 2019, the Port would incur negative arbitrage costs<sup>3</sup> if an advance refunding were to occur. As summarized within Transmittal 2, the present value savings from the proposed advance refunding of 2009 Series B Bonds based on interest rates as of July 1<sup>st</sup> would approximate \$18.97 million or 18.97%. If an advance refunding of the 2009 B Bonds to occur, this level of present value savings implies nominal average annual debt savings of \$1.1 million per year through August 2039. Based upon current market conditions, we estimate that the all-in true interest cost for the advance refunding bonds will approximate 3.15%.

As provided within Transmittal 3, assuming both the current refunding of the 2006 Bonds and the advance refunding of the 2009 B Bonds were to occur simultaneously (the "Combined Transaction"), the present value savings from the Combined Transaction would approximate \$33.7 million or 15.35% of the value of the bonds to be refunded, and average annual savings of \$1.7 million per year would be realized through August 2039. It is estimated that the all-in true interest cost for the combined transaction will approximate 2.72%.

The Harbor Department's Debt Policy requires net present value savings of 3% or greater for any refunding transaction. The new refunding bonds will be issued with the same maturity date as the refunded bonds.

The 2016 refunding bonds to be issued will fund the redemption of the 2006 Series ABC and 2009 Series B Bonds, the call premium of 102% on 2006 Series ABC, and the associated costs of issuance.

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<sup>1</sup> Present value savings adjusts for the time value of money and assumes that \$1 of savings today is worth more than \$1 of savings tomorrow, given that \$1 today could be invested to earn a return. Whereas, nominal average annual debt savings only compares debt service "prior to" and "after" the refunding, on a dollar-for-dollar basis, without adjusting for the time value of money. As part of this transaction, total nominal savings on the 2006 Bonds are expected to be \$14.4 million vs. present value savings of \$13.8 million. In this example, it is assumed that \$13.8 million of savings in today's dollars could be invested such that total nominal savings would amount to \$14.4 million over the life of the debt issuance, or \$1.6 million per year through August 2025.

<sup>2</sup> Similar to how present value savings adjusts for the time value of money, the all-in true interest cost is the time-value adjusted annual rate to be paid on borrowed funds over the life of the bond issuance, inclusive of any premium anticipated to be received at issuance. With respect to the 2006 Bonds, the all-in true interest cost is anticipated to approximate 1.35% based upon available yields as of July 1, 2016.

<sup>3</sup> Given that the 2009B Bonds cannot be called (i.e. paid off) until August 1, 2019, refunding proceeds related to the 2009B Bonds will be invested at a rate lower than the rate at which interest will be paid on the 2009B Bonds until they are called. The difference between the interest earned on invested funds and the interest paid on the 2009B Bonds is expected to total approximately \$3.3 million through the August 1, 2019 call date, assuming a Combined Transaction.

The plan of finance as well as the selection of the financing team will be presented to the Board of Harbor Commission on August 4<sup>th</sup>, and the financing documents will be presented to the Board during August 18<sup>th</sup>, 2016 meeting.

**TRANSMITTALS:**

1. Projected Savings from Current Refunding of 2006 Series A, B, and C Bonds
2. Projected Savings from Advance Refunding of 2009 Series B Bonds
3. Projected Savings of the Combined Transactions



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Port of Los Angeles  
 Issuance of Harbor Refunding Revenue Bonds  
 Calculation of Present Value Savings - 2006 Bonds Only

TRANSMITTAL 1

Date	Refunded Information - Outstanding Callable Balance				Debt Service			Savings
	2006A	2006B	2006C	Total	Refunded (Old)	Refunding (New)	Nominal Difference	PV Savings (\$)
2/1/2017	-	-	-	-	2,981,125	1,701,483	1,279,642	1,274,479
8/1/2017	8,930,000	3,095,000	930,000	12,955,000	15,936,125	13,919,975	2,016,150	1,996,169
2/1/2018	-	-	-	-	2,657,250	2,318,525	338,725	333,390
8/1/2018	9,990,000	12,855,000	980,000	23,825,000	26,482,250	24,313,525	2,168,725	2,121,973
2/1/2019	-	-	-	-	2,061,625	1,878,625	183,000	177,999
8/1/2019	-	13,485,000	1,035,000	14,520,000	16,581,625	15,328,625	1,253,000	1,211,566
2/1/2020	-	-	-	-	1,698,625	1,542,375	156,250	150,192
8/1/2020	10,190,000	14,995,000	1,080,000	26,265,000	27,963,625	25,717,375	2,246,250	2,146,422
2/1/2021	-	-	-	-	1,042,000	938,000	104,000	98,792
8/1/2021	-	15,760,000	1,130,000	16,890,000	17,932,000	16,653,000	1,279,000	1,207,781
2/1/2022	-	-	-	-	619,750	545,125	74,625	70,054
8/1/2022	2,740,000	-	1,190,000	3,930,000	4,549,750	3,305,125	1,244,625	1,161,495
2/1/2023	-	-	-	-	521,500	476,125	45,375	42,095
8/1/2023	-	-	1,250,000	1,250,000	1,771,500	1,561,125	210,375	194,014
2/1/2024	-	-	-	-	490,250	449,000	41,250	37,818
8/1/2024	16,715,000	5,000	1,305,000	18,025,000	18,515,250	17,229,000	1,286,250	1,172,265
2/1/2025	-	-	-	-	39,625	29,500	10,125	9,173
8/1/2025	-	225,000	1,360,000	1,585,000	1,624,625	1,209,500	415,125	373,887
<b>Total</b>	<b>48,565,000</b>	<b>60,420,000</b>	<b>10,260,000</b>	<b>119,245,000</b> A	<b>143,468,500</b>	<b>129,116,008</b>	<b>14,352,492</b>	<b>13,779,562</b> B

<b>Avg. Annual Savings</b>	<b>1,594,721</b>
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**Summary**

Total PV Savings (\$)	13,779,562	B
Divided by: Total Outstanding Callable Balance	119,245,000	A
<b>Equals: PV Savings as a % of Original Issuance</b>	<b>11.56%</b>	
All-In True Interest Cost	1.35%	
Negative Arbitrage	68,632	B
<b>Refunding Efficiency [B / (B+C)]</b>	<b>99.50%</b>	

Port of Los Angeles  
 Issuance of Harbor Refunding Revenue Bonds  
 Calculation of Present Value Savings - 2009B Bonds Only

TRANSMITTAL 2

Date	2009B Outstanding	Debt Service			Savings
		Refunded (Old)	Refunding (New)	Nominal Difference	PV Savings (\$)
2/1/2017	-	2,625,000	1,542,710	1,082,290	1,074,969
8/1/2017	-	2,625,000	2,257,625	367,375	361,284
2/1/2018	-	2,625,000	2,257,625	367,375	357,713
8/1/2018	-	2,625,000	2,257,625	367,375	354,178
2/1/2019	-	2,625,000	2,257,625	367,375	350,678
8/1/2019	-	2,625,000	2,257,625	367,375	347,212
2/1/2020	-	2,625,000	2,257,625	367,375	343,780
8/1/2020	-	2,625,000	2,257,625	367,375	340,383
2/1/2021	-	2,625,000	2,257,625	367,375	337,019
8/1/2021	-	2,625,000	2,257,625	367,375	333,688
2/1/2022	-	2,625,000	2,257,625	367,375	330,390
8/1/2022	-	2,625,000	2,257,625	367,375	327,125
2/1/2023	-	2,625,000	2,257,625	367,375	323,892
8/1/2023	-	2,625,000	2,257,625	367,375	320,691
2/1/2024	-	2,625,000	2,257,625	367,375	317,521
8/1/2024	-	2,625,000	2,257,625	367,375	314,383
2/1/2025	-	2,625,000	2,257,625	367,375	311,276
8/1/2025	-	2,625,000	2,257,625	367,375	308,200
2/1/2026	-	2,625,000	2,257,625	367,375	305,154
8/1/2026	-	2,625,000	2,257,625	367,375	302,138
2/1/2027	-	2,625,000	2,257,625	367,375	299,152
8/1/2027	-	2,625,000	2,257,625	367,375	296,196
2/1/2028	-	2,625,000	2,257,625	367,375	293,268
8/1/2028	-	2,625,000	2,257,625	367,375	290,370
2/1/2029	-	2,625,000	2,257,625	367,375	287,500
8/1/2029	-	2,625,000	2,257,625	367,375	284,659
2/1/2030	-	2,625,000	2,257,625	367,375	281,846
8/1/2030	7,860,000	10,485,000	9,447,625	1,037,375	787,996
2/1/2031	-	2,418,675	2,077,875	340,800	256,315
8/1/2031	8,270,000	10,688,675	9,622,875	1,065,800	793,664
2/1/2032	-	2,201,588	1,889,250	312,338	230,288
8/1/2032	8,705,000	10,906,588	9,814,250	1,092,338	797,427
2/1/2033	-	1,973,081	1,691,125	281,956	203,799
8/1/2033	9,160,000	11,133,081	10,006,125	1,126,956	806,518
2/1/2034	-	1,732,631	1,483,250	249,381	176,708
8/1/2034	9,645,000	11,377,631	10,213,250	1,164,381	816,912
2/1/2035	-	1,479,450	1,265,000	214,450	148,968
8/1/2035	10,150,000	11,629,450	10,430,000	1,199,450	824,965
2/1/2036	-	1,213,013	1,035,875	177,138	120,629
8/1/2036	10,680,000	11,893,013	10,650,875	1,242,138	837,521
2/1/2037	-	932,663	795,500	137,163	91,569
8/1/2037	11,240,000	12,172,663	10,890,500	1,282,163	847,505
2/1/2038	-	637,613	543,125	94,488	61,839
8/1/2038	11,835,000	12,472,613	11,143,125	1,329,488	861,502
2/1/2039	-	326,944	278,125	48,819	31,322
8/1/2039	12,455,000	12,781,944	11,403,125	1,378,819	875,896
<b>Total</b>	<b>100,000,000 A</b>	<b>199,331,313</b>	<b>174,921,835</b>	<b>24,409,477</b>	<b>18,966,008 B</b>

**Avg. Annual Savings 1,061,282**

**Summary**

Total PV Savings (\$)	18,966,008 B
Divided by: Total Outstanding Callable Balance	100,000,000 A
<b>Equals: PV Savings as a % of Original Issuance</b>	<b>18.97%</b>
All-In True Interest Cost	3.15%
Negative Arbitrage	3,979,491 C
<b>Refunding Efficiency [B / (B+C)]</b>	<b>82.66%</b>

Port of Los Angeles  
 Issuance of Harbor Refunding Revenue Bonds 2016  
 Calculation of Present Value Savings - 2006 Bonds & 2009B Bonds

TRANSMITTAL 3

Date	Refunded Information - Outstanding Callable Balance				Total	Debt Service			Savings
	2006A	2006B	2006C	2009B		Refunded (Old)	Refunding (New)	Nominal Difference	PV Savings (\$)
2/1/2017	-	-	-	-	-	5,606,125	3,237,428	2,368,697	2,354,756
8/1/2017	8,930,000	3,095,000	930,000	-	12,955,000	18,561,125	16,137,700	2,423,425	2,388,440
2/1/2018	-	-	-	-	-	5,282,250	4,566,700	715,550	699,155
8/1/2018	9,990,000	12,855,000	980,000	-	23,825,000	29,107,250	26,526,700	2,580,550	2,499,734
2/1/2019	-	-	-	-	-	4,686,625	4,127,500	559,125	536,956
8/1/2019	-	13,485,000	1,035,000	-	14,520,000	19,206,625	17,557,500	1,649,125	1,570,117
2/1/2020	-	-	-	-	-	4,323,625	3,791,750	531,875	502,038
8/1/2020	10,190,000	14,995,000	1,080,000	-	26,265,000	30,588,625	27,926,750	2,661,875	2,490,937
2/1/2021	-	-	-	-	-	3,667,000	3,188,375	478,625	444,037
8/1/2021	-	15,760,000	1,130,000	-	16,890,000	20,557,000	18,873,375	1,683,625	1,548,522
2/1/2022	-	-	-	-	-	3,244,750	2,796,250	448,500	408,962
8/1/2022	2,740,000	-	1,190,000	-	3,930,000	7,174,750	5,536,250	1,638,500	1,481,205
2/1/2023	-	-	-	-	-	3,146,500	2,727,750	418,750	375,294
8/1/2023	-	-	1,250,000	-	1,250,000	4,396,500	3,812,750	583,750	518,671
2/1/2024	-	-	-	-	-	3,115,250	2,700,625	414,625	365,232
8/1/2024	16,715,000	5,000	1,305,000	-	18,025,000	21,140,250	19,460,625	1,679,625	1,466,812
2/1/2025	-	-	-	-	-	2,664,625	2,281,625	383,000	331,596
8/1/2025	-	225,000	1,360,000	-	1,585,000	4,249,625	3,456,625	793,000	680,663
2/1/2026	-	-	-	-	-	2,625,000	2,252,250	372,750	317,194
8/1/2026	-	-	-	-	-	2,625,000	2,252,250	372,750	314,466
2/1/2027	-	-	-	-	-	2,625,000	2,252,250	372,750	311,761
8/1/2027	-	-	-	-	-	2,625,000	2,252,250	372,750	309,080
2/1/2028	-	-	-	-	-	2,625,000	2,252,250	372,750	306,421
8/1/2028	-	-	-	-	-	2,625,000	2,252,250	372,750	303,785
2/1/2029	-	-	-	-	-	2,625,000	2,252,250	372,750	301,173
8/1/2029	-	-	-	-	-	2,625,000	2,252,250	372,750	298,582
2/1/2030	-	-	-	-	-	2,625,000	2,252,250	372,750	296,014
8/1/2030	-	-	-	7,860,000	7,860,000	10,485,000	9,427,250	1,057,750	832,772
2/1/2031	-	-	-	-	-	2,418,675	2,072,875	345,800	269,908
8/1/2031	-	-	-	8,270,000	8,270,000	10,688,675	9,597,875	1,090,800	844,082
2/1/2032	-	-	-	-	-	2,201,588	1,884,750	316,838	243,066
8/1/2032	-	-	-	8,705,000	8,705,000	10,906,588	9,789,750	1,116,838	849,428
2/1/2033	-	-	-	-	-	1,973,081	1,687,125	285,956	215,618
8/1/2033	-	-	-	9,160,000	9,160,000	11,133,081	9,982,125	1,150,956	860,383
2/1/2034	-	-	-	-	-	1,732,631	1,479,750	252,881	187,412
8/1/2034	-	-	-	9,645,000	9,645,000	11,377,631	10,189,750	1,187,881	872,776
2/1/2035	-	-	-	-	-	1,479,450	1,262,000	217,450	158,394
8/1/2035	-	-	-	10,150,000	10,150,000	11,629,450	10,402,000	1,227,450	886,402
2/1/2036	-	-	-	-	-	1,213,013	1,033,500	179,513	128,520
8/1/2036	-	-	-	10,680,000	10,680,000	11,893,013	10,628,500	1,264,513	897,525
2/1/2037	-	-	-	-	-	932,663	793,625	139,038	97,837
8/1/2037	-	-	-	11,240,000	11,240,000	12,172,663	10,863,625	1,309,038	913,214
2/1/2038	-	-	-	-	-	637,613	541,875	95,738	66,214
8/1/2038	-	-	-	11,835,000	11,835,000	12,472,613	11,116,875	1,355,738	929,593
2/1/2039	-	-	-	-	-	326,944	277,500	49,444	33,611
8/1/2039	-	-	-	12,455,000	12,455,000	12,781,944	11,377,500	1,404,444	946,495
<b>Total</b>	<b>48,565,000</b>	<b>60,420,000</b>	<b>10,260,000</b>	<b>100,000,000</b>	<b>219,245,000</b>	<b>342,799,813</b>	<b>303,384,778</b>	<b>39,415,034</b>	<b>33,654,852</b>

Avg. Annual Savings 1,713,697

<b>Summary</b>	
Total PV Savings (\$)	33,654,852 B
Divided by: Total Outstanding Callable Balance	219,245,000 A
<b>Equals: PV Savings as a % of Original Issuance</b>	<b>15.35%</b>
All-In True Interest Cost	2.72%
Negative Arbitrage	3,319,725 C
<b>Refunding Efficiency [B / (B+C)]</b>	<b>91.02%</b>