



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: MAY 31, 2022

FROM: DEBT AND TREASURY

SUBJECT: RESOLUTION NO. _____ APPROVING THE EXECUTION OF CERTAIN DOCUMENTS IN CONNECTION WITH THE ALAMEDA CORRIDOR TRANSPORTATION AUTHORITY'S ISSUANCE OF ITS 2022 AND 2023 REVENUE REFUNDING BONDS AND A TENDER (BUY BACK) OF CERTAIN PREVIOUSLY ISSUED BONDS, AND AUTHORIZING SUCH OTHER ACTIONS AS ARE NECESSARY TO ASSIST THE AUTHORITY IN THE ISSUANCE OF 2022 AND 2023 REFUNDING REVENUE BONDS AND MAKING A DETERMINATION RELATING THERETO

SUMMARY:

Staff requests approval of certain documents related to a proposed bond financing for the Alameda Corridor Transportation Authority (ACTA) including certain disclosures required from the Port of Los Angeles. 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 disclosures 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 FY 2023, and that shortfall advance payments would be required from the two ports to help make up the difference.

This transaction is expected to eliminate shortfall advances from the two ports from FY 2023 through FY 2026. The transaction amount is estimated to be \$400,000,000 at minimum, with a maximum amount that is contingent on the success of the tender (buy back) process.

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;

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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 2022 and 2023 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 2022 and 2023 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 2022 and 2023 ACTA Bonds by ACTA; and (ii) the conditions set forth in the Resolution;
4. Approve the Reimbursement Resolution Waiver allowing ACTA to delay reimbursement of any amounts due to the Port of Los Angeles and Port of Long Beach until 2026;
5. Approve certain disclosure relating to the finances and operations of the Harbor Department to be contained in the Preliminary Official Statement and the Official Statement for the 2022 and 2023 ACTA Bonds including the Audited Financial Statements of the Harbor Department, with such changes thereto as the Executive Director or the Chief Financial Officer may require or approve; and
6. 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. Currently ACTA has approximately \$2.7 billion in outstanding bonds, and is projecting that future revenues will be insufficient to cover debt service payments starting in FY 2023 and therefore intends to current refund the 2022 maturity of the 2013A Bonds, refund all remaining 2013A Bonds on a forward delivery basis, and refund the 2022 to 2025 maturities of the 1999C Bonds on a taxable basis. Additionally ACTA intends to conduct a tender or open market buyback program that will target 1999A Bonds, 1999C Bonds, and 2016 Bonds. The tender or exchange can be combined with a traditional advance refunding to allow existing investors to choose between cash or pre-refunded bonds. A tender and exchange is an

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invitation to bondholders with success rates varying greatly in terms of the number of bonds tendered or exchanged, and the ultimate investor participation and transaction success is unknown at time of launch.

ACTA plans to have a second transaction in 2026 to target reducing Shortfall Advances for the two Ports from FY 2026 to FY 2037 by restructuring and refunding the remaining outstanding bonds at that time. This restructuring is expected to generate significant relief from projected shortfall payments for the two ports through FY 2037.

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 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 as a result of less than expected cargo being transported through the Rail Corridor. The primary purpose of issuing the 2022 and 2023 ACTA Bonds is to better match debt service with anticipated revenues, thereby reducing the projected amount of Shortfall Advances payable by POLA and POLB from 2023 through 2026. A subsequent transaction in 2026 will restructure the existing bonds at that time and postpone the Shortfall Advances required by the two Ports to 2037. Previously, POLA and POLB each paid ACTA a Shortfall Advance of \$2.95 million in September 2011 and the same amount again in September 2012. In March 2022 the two Ports were notified by ACTA that a Shortfall Advance of \$2.5 million from each Port may be required in September 2022. Unless certain actions are taken prior to September 2022, the two Ports will also be requested to provide a Voluntary Port Advance in the amount of \$6.5 million by each Port. Both the Shortfall and Voluntary 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 three occasions in 2012, 2013, and in 2016.

Other Required Approvals - On June 16, 2022, it is expected that ACTA's Governing Board (ACTA Board) will approve the refunding of the 2022 maturity of the 2013A Bonds, the forward refunding of all of the remaining 2013A Bonds, and refunding of the 2022 to 2025 maturities of the 1999C Bonds. Additionally ACTA Board will approve the Tender offer with respect to the 1999A Bonds, the 1999C Bonds, and 2016 Bonds. Furthermore, it is expected that on June 13, 2022 the Board of Harbor Commissioners of the City of Long Beach will approve a continuing disclosure certificate and other

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documents and disclosure related to POLB in relation the 2022 and 2023 ACTA Bonds. It is anticipated that the closing on the transaction will take place during the month of July 2022.

To facilitate this refinancing, ACTA requests that POLA and POLB waive their rights to receive payments for reimbursement from ACTA in years 2022 through 2026 for their initial investment in the development of the corridor and prior shortfall advance payments. This would allow remaining revenues after ACTA's debt service payments and reserve funding to be used to prepay or retire outstanding ACTA debt. This approach will maximize the economic benefit of the anticipated 2026 refinancing transaction, thereby reducing the need for additional payments from the Ports to ACTA in future years. The amount of the reimbursement the Ports are being asked to postpone is \$70 million. The Ports will be reimbursed from available ACTA revenues after 2026.

Restructuring Transaction – In light of projected revenue shortfalls, ACTA has put together a financing team and after much deliberation has opted to refund the 2022 maturity of the 2013A Bonds, forward refunding of all remaining 2013A Bonds, and advance refund the 2022 to 2025 maturities of the 1999C Bonds. Additionally ACTA Board will approve the Tender offer with respect to the 1999A Bonds, the 1999C Bonds, and the 2016 Bonds. ACTA plans to purchase insurance for 2022 and 2023 ACTA bonds.

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 2022 and 2023 ACTA Bonds, subject to the conditions set forth in the Resolution; and (b) execute and deliver the Continuing Disclosure Certificate (Transmittal 2), approve the Letter of Representation included in the Bond Purchase Agreement (Transmittal 3), execute the Reimbursement Resolution Waiver allowing ACTA to postpone reimbursement of any payments to the Ports until 2026 (Transmittal 4), approve certain disclosures concerning the finances and operations of the POLA to be contained in the Preliminary Official Statement and the Official Statement (Transmittal 5).

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 2022/2023 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.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval to execute and deliver documents and certificates in connection with 2022/2023 ACTA Bonds, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

This transaction is expected to eliminate Shortfall Advance requirements from POLA and POLB from FY 2023 to FY 2026.

However, without the proposed restructuring, ACTA's projected mandatory Shortfall Advance requirements from the Harbor Department and POLB are projected to be in excess of \$96 million starting in FY 2023 through FY 2026, with each Port's share at approximately \$48 million in Shortfall Advances.

In addition, without the proposed restructuring, ACTA's projected voluntary Port Advance requirements from the Harbor Department and POLB are projected to be in excess of \$52 million starting in FY 2023 through FY 2026, with each Port's share at approximately \$26 million in Port Advances.

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CITY ATTORNEY:

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

TRANSMITTALS:

1. Resolution No. _____
2. Continuing Disclosure Certificate 2022 Bonds
3. Continuing Disclosure Certificate (forward delivery) 2023 Bonds
4. Letter of Representation
5. POLA Resolution Reimbursement Waiver
6. 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: *JC* (initials)

Soheila Sajadian
Digitally signed by
Soheila Sajadian
Date: 2022.05.31
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SOHEILA SAJADIAN
Director, Debt & Treasury

Marla Bleavins

MARLA BLEAVINS
Deputy Executive Director and
Chief Financial Officer

APPROVED:

Marla Bleavins For

EUGENE D. SEROKA
Executive Director