



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

Board of Harbor Commissioners

DATE: AUGUST 18, 2016

FROM: DEBT & TREASURY MANAGEMENT

SUBJECT: RESOLUTION NO. _____ AUTHORIZING THE LOS ANGELES BOARD OF HARBOR COMMISSIONERS TO APPROVE PRINCIPAL FINANCING DOCUMENTS RELATING TO THE ISSUANCE OF THE CITY OF LOS ANGELES HARBOR DEPARTMENT 2016 REFUNDING REVENUE BONDS

SUMMARY:

Staff requests adoption of the Resolution authorizing approval of the principal financing documents in relation to the issuance of 2016 Refunding Revenue Bonds that will refund (i.e. refinance) all or a portion of the City of Los Angeles Harbor Department's 2006 Series A, B, and C Bonds (the "2006ABC Bonds") which currently have an outstanding balance of \$119.245 million, as well as advance refunding of all or a portion of the Harbor Department's 2009 Series B Bonds (the "2009B Bonds") which currently have an outstanding balance of \$100 million.

The 2006ABC Bonds are redeemable beginning August 1, 2016. The 2006ABC Bonds may be currently refunded and the 2009B Bonds may be advance refunded provided that the aggregate refunded bonds would result in a net present value savings of at least three percent (3%) of the outstanding balance (as required by the Department's Debt Policy).

On August 4, 2016 the Board of Harbor Commissioners approved the issuance of 2016 Refunding Revenue Bonds to current refund all or a portion of the 2006ABC Bonds and advance refund all or a portion of the 2009B Bonds. On August 4, 2016 the Board of Harbor Commissioners also approved the appointment of three investment banks of RBC Capital Markets LLC, as senior manager, and Citigroup Global Markets Inc., and Loop Capital Markets LLC as the co-managers to this transaction.

The 2016 Refunding transaction will not result in additional debt or change the maturity of these bonds, but will replace higher interest debt with lower interest rate debt reducing the future debt service payment obligations for the Harbor Department.

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RECOMMENDATION:

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

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;
2. Approve the principal financing documents related to the 2016 Refunding Revenue Bonds, which include the Resolution, Indenture of Trust, Continuing Disclosure Certificate, Bond Purchase Agreement, the Preliminary Official Statement, the Escrow Agreement, and the Independent Green Bond Certification;
3. This Resolution and approval of the financing documents shall be subject to the City Council oversight pursuant to Section 245 of the Charter, and subject to the City Council approval of the transaction presented to the Board of Harbor Commissioners on August 4th, 2016; and
4. Adopt Resolution No. _____

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 lawful purpose relating to the Harbor Department. These borrowings are to be repaid from the Department's operating fund account, the Harbor Revenue Fund, in a form and manner approved by the Harbor Commission.

On August 4, 2016 the Board of Harbor Commissioners approved the refunding of some or all of the 2006ABC Bonds and the 2009B Bonds and the issuance of the 2016 Refunding Revenue Bonds through a negotiated sale, in an amount not-to-exceed \$240 million. Proceeds of the 2016 Refunding Revenue Bonds would be used to current refund all or a portion of the 2006ABC Bonds as well as advance refund all or a portion of the 2009B Bonds, paying for costs of issuance, funding of a reserve, and to cover any premium on the refunded bonds. The authorized transaction will not result in additional debt, but will serve to replace more costly debt obligations with less expensive bonds.

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On August 4, 2016 the Board of Harbor Commissioners also approved to appoint the investment banking firms of RBC Capital Markets, LLC as the senior manager, and Citigroup Global Markets Inc., and Loop Capital Markets LLC as the co-managers on the transaction.

Refunding of 2006 Series A, B, and C Bonds

The 2006ABC Bonds were issued to refund a portion of each of the bond series 1996A, 1996B, and 1996C Bonds that were issued to finance the cost of projects related to development of Pier 400 and various environmental mitigation measures. The interest on the 2006 Series A and B Bonds is subject to the federal alternative minimum tax ("AMT") since the projects originally funded are for private activity use. However the interest on the 2006 Series C Bonds is not subject to the federal alternative minimum tax ("Non-AMT") since the projects originally funded are available to the general public. The final maturity of the 2006 Series A Bonds is August 1, 2024, and the final maturity of the 2006 Series B and C is August 1, 2025.

Refunding of 2009 Series B Bonds

The 2009B Bonds are not subject to the federal alternative minimum tax ("Non-AMT") since the projects originally funded are available to the general public. These bonds were issued to finance public usage projects such as Cabrillo Way Marina, San Pedro Waterfront Enhancement, Wilmington Waterfront Development, Harry Bridges Boulevard Buffer, and a few other public usage projects. The 2009B Bonds can be advance refunded to take advantage of the historically low current interest rate environment. The final maturity of the 2009B Bonds is August 1, 2039.

Projected Savings

The current refunding of the 2006ABC Bonds and advance refunding of 2009B Bonds is expected to result in combined present value savings of approximately \$33.7 million or 15.35% of the bonds to be refunded with average annual debt service savings of \$1.7 million through August 2039. It is estimated that the all-in true interest cost for the combined transaction will be approximately 2.72%.

Uses of Bond Proceeds

The Refunding Revenue Bonds will only be sold in such an amount necessary to fund the redemption of the 2006ABC Bonds, the call premium on these Bonds, the costs of issuance, any additional funds required for the reserve fund, and the redemption of 2009B Bonds. The costs associated with issuing the bonds is estimated to be \$600,000 that would cover fees for bond and disclosure counsels, the trustee and trustee counsel, the rating of the bonds by three rating agencies, and the financial advisor. Total cost for the underwriting services will be approximately \$420,000 which would include compensation for all three firms, fees for underwriters' counsel, and other miscellaneous costs. These costs will be paid from the proceeds of the bond issuance.

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The 2016 Refunding Revenue Bonds are anticipated to be issued in three series. Series A will be issued to redeem 2006 Series A and B Bonds. Series B will be issued to redeem 2006 Series C Bonds, and Series C will be issued as Green Bonds to redeem 2009 Series B Bonds. The 2009 Series B Bonds were issued to finance capital projects open to the public as well as being classified as sustainable and environmentally-focused such as development of Cabrillo Way Marina, San Pedro Waterfront Enhancement, Wilmington Waterfront Development, and Harry Bridges Boulevard Buffer. The Department will be seeking independent certification for classifying the 2016 Series C Bonds as Green Bonds.

Required Documents

Resolution - This authorizes approval of the principal financing documents described below and ratifies all actions taken by officers, employees and agents of the Department related to the issuance and sale of the Bonds (Transmittal 1).

Indenture of Trust – This agreement is made between the Harbor Department and the Trustee that represents the bondholder's interests by highlighting the rules and responsibilities that each party must adhere to and sets forth the terms and the security of the bonds. It also indicates where the income stream for the bonds is derived from (Transmittal 2).

Continuing Disclosure Certificate – This Certificate is executed and delivered by the Harbor Department for the benefit of the bond holders, and in order to assist the underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) requiring the Harbor Department to provide annual disclosure reports and notice of certain enumerated events (Transmittal 3).

Bond Purchase Agreement – This agreement is made between the Harbor Department and the underwriters' syndicate establishing the terms of a bond sale. The terms of a bond purchase agreement will include sale conditions, sale price, bond interest rate, bond maturity, bond redemption provisions, sinking fund provisions and conditions under which the agreement may be canceled (Transmittal 4).

Official Statement – The Official Statement is a disclosure document that discloses material information on the Harbor Department and the Port of Los Angeles as well as the offering of such securities. Official statements typically include information regarding the purposes of the issue, how the securities will be repaid, and the financial and economic characteristics of the Harbor Department. This document is utilized by the underwriters to market the bonds (Transmittal 5).

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Escrow Agreement – An agreement or agreements made between the Harbor Department and a third party to invest the refunding bonds' proceeds until the closing date of the transaction to redeem the refunded bonds (Transmittal 6).

Independent Green Bond Certification – A third party opinion in reference to the original use of the bond proceeds for projects promoting environmental sustainability and conservation (Transmittal 7).

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of principal financing documents relating to the issuance of the Harbor Department 2016 Refunding Revenue Bonds. 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.

FINANCIAL IMPACT:

Authorizing the issuance of the Harbor Department's 2016 Refunding Revenue Bonds under the current market conditions will result in expected aggregate present value savings of about 15.35% of the outstanding principal of the bonds, and will exceed the 3% minimum requirement established by the Department's Debt Management Policy. Any cost incurred for this transaction will be paid from the proceeds of the bond issuance.

Based upon current market conditions, it is estimated that the present value savings will be about \$33.7 million. The refunding is expected to reduce the Department's debt service cost by an average of approximately \$1.7 million annually through 2039.

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CITY ATTORNEY:

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

TRANSMITTALS:

- 1. Resolution No. _____
- 2. Form of Indenture of Trust
- 3. Form of Continuing Disclosure Certificate
- 4. Form of Bond Purchase Agreement
- 5. Form of Preliminary Official Statement
- 6. Escrow Agreement
- 7. Form of Green Bond Framework and Opinion

FIS: MB (initials)
 CA: JS (initials)

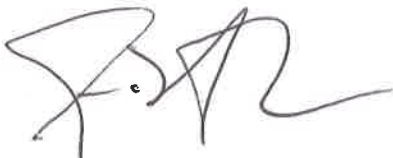


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