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TRANSMITTAL

TO
Eugene D. Seroka, Executive Director
Harbor Department

DATE
JUL 30 2019

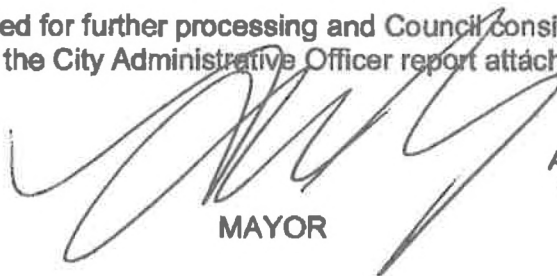
COUNCIL FILE NO.

FROM
The Mayor

COUNCIL DISTRICT
15

**PROPOSED RESOLUTION NO. 19-9497 AUTHORIZING THE HARBOR DEPARTMENT
TO APPROVE THE ISSUANCE OF THE 2019 REFUNDING REVENUE BONDS**

Transmitted for further processing and Council consideration.
See the City Administrative Officer report attached.



Ana Guerrero

MAYOR

RHL:ABN:10190144

REPORT FROM

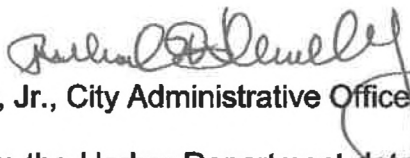
OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 17, 2019

CAO File No. 0220-05636-0000
Council File No.
Council District: 15

To: The Mayor

From: Richard H. Llewellyn, Jr., City Administrative Officer



Reference: Correspondence from the Harbor Department dated June 27, 2019; referred by the Mayor for report dated July 1, 2019

Subject: **PROPOSED RESOLUTION NO. 19-9497 AUTHORIZING THE HARBOR DEPARTMENT TO APPROVE THE ISSUANCE OF THE 2019 REFUNDING REVENUE BONDS**

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed Harbor Department (Port) Board of Harbor Commissioners Resolution No. 19-9497 authorizing the issuance of the 2019 Refunding Revenue Bonds to refund all or part of the Port's outstanding Year 2009 Series A and Series C Bonds to replace the existing bonds with new bonds that are sold at lower interest rates, thereby reducing debt services costs, through a private, negotiated sale, in accordance with the provisions of Charter Section 609 and Article 6.5 of the Los Angeles Administrative Code (LAAC) Sections 11.28.1 through 11.28.9; and,
2. Return the document to the Port for further processing, including Council consideration.

SUMMARY

The Harbor Department (Port) Board of Harbor Commissioners (Board) requests approval of Resolution No. 19-9497 (Resolution) to authorize the issuance and sale of the 2009 Refunding Revenue Bonds to refund (refinance) existing outstanding debt (See Attachment). The Port states that the outstanding principal amount of the 2009 Series A and Series C Bonds (AC Bonds) is \$235,200,000. The Port states that after a debt service payment in August 2019, a balance of \$220,595,000 in principal bond amount will be outstanding. The Port states that \$5,000,000 of the 2009 Series C Bonds is non-callable, which is a security that cannot be redeemed by the issuer prior to maturity. This leaves a balance of \$215,595,000 for the 2019 Refunding Revenue Bonds.

The Port states that the bond refunding is expected to result in present value savings of approximately \$35,467,327 or 16.5 percent of the bonds. The 16.5 percent in present value savings of the original bond issuance exceeds the target rate in the Port's financial policies. The Port states that the interest cost of issuing the bonds for the combined transactions will be approximately 1.87 percent.

A bond refunding is a process by which existing bonds are replaced with new bonds that are sold at lower interest rates, thereby reducing debt service costs. The purpose of the proposed refunding is to refinance a portion of the higher costs of outstanding Port debt in order to reduce the associated borrowing costs. The Port states that the proposed transactions will not result in additional debt and will replace more costly debt obligations with less expensive bonds. Below is a summary of the actions contained in the Board resolution:

- Issue bonds of approximately \$217,000,000, through a private, negotiated sale to expedite the refunding process and reduce debt service costs by refinancing outstanding bonds to take advantage of current favorable interest rates and changing market conditions in one or both of the 2009 Bond Series, and pay the costs to refund and issue the bonds at lower rates. The bond issuance will cover costs for any unexpected increase in interest costs for the refunded bonds;
- Refund the 2009 AC Bonds for an estimated combined present value saving of approximately \$35,467,327 or 16.5 percent of the refunded bonds. The average annual debt service savings from the issuance of the bond proceeds is approximately \$4,190,500 through August 2031 (or about 12 years) for a total debt savings of approximately \$50.3 million, contingent upon interest rates and market conditions;
- Estimate of the True Interest Cost (TIC) for the combined transaction of the AC Bonds will be approximately 1.87 percent. The TIC is described as a single borrowing rate for the financing, including all ancillary fees and costs, such as finance charges or the "actual cost" of issuing a bond. According to the Port, the 1.87 percent is the rate that discounts debt service payments to the purchase price of the bonds. The purchase price borrowed at 1.87 percent will result in the debt service payment over time;
- Certify that the Port's Chief Financial Officer and Board are in compliance with Charter Section 609 and City Bond Procedural Ordinance, as contained in LAAC Sections 11.28;
- Identify the financial or municipal advisor, KNN Public Financial LLC, and the underwriters of Jefferies, LLC, as senior manager, and Siebert Cisneros Shank & Company (Siebert) LLC, and UBS Financial Services Inc., as co-managers, to provide advice, coordination and information to the Port, including for marketing and disclosure documents on Port transactions; and,
- Provide the following principal financial documents related to the 2019 Refunding Revenue Bonds: the Indenture of Trust; Continuing Disclosure Certificate; Bond Purchased Agreement; and Preliminary Official Statement.

REFUNDING REVENUE BOND ISSUANCE

The Port requests to expedite the proposed 2019 refunding revenue bonds to take advantage of current favorable interest rates and market conditions. The original intent of the 2009 AC Bonds was to fund the acquisition, construction, and equipment for various Port-related capital improvements projects, including environmental mitigation measures. The 2019 AC Bonds will continue to be used for capital projects. The Port states that the proposed transactions will not change the maturity of these bonds or result in additional debt, but will replace the current higher interest debt with lower interest rate debt obligations.

The Port has the option to sell bonds on either a competitive basis or private or negotiated basis. The proposed Resolution authorizes the private or negotiated sale of the bonds to one or more underwriting firms selected by the Board pursuant to City Charter Section 609 and LAAC Section 11.28.1 through 11.28.9 (the Procedural Ordinance) governing proprietary department bond authority and resolutions. The private sale proposal will enable the Port to coordinate the timing and sale of the bond issues and provide greater flexibility in marketing, generation of retail sales and structuring the issues for certain institutional investors.

The Board and Council are required to approve the Resolution if bonds are to be sold through a private sale. The Board approved using a private, negotiated sale to refund the revenue bonds. The Port states that the refunding of the proposed 2019 AC Bonds will only be sold in an amount needed to fund the redemption of the 2009 AC Bonds, the costs of issuance, and any additional funds required for the reserve fund.

Both the Port's Chief Financial Officer (CFO) and its financial advisor, KNN Public Finance LLC (KNN Finance), recommend approval of a private sale, as stipulated in the Administrative Code, and contained in the Board Resolution. They have determined that the a negotiated sale of the 2019 Refunding Revenue Bonds will be a benefit to, and in the best interest of the Port and recommended that the Board authorize the sale of the Bonds. KNN Financial provides advice and coordinate the transaction on the bond refunding for the Port. The City Administrative Officer concurs with the Board request to issue and refund the bonds through a private, negotiated sale.

The Port states that the estimated costs of issuing the bonds will be approximately \$535,000 and include: fees for bond and disclosure counsels; rating of the bonds by the three rating agencies; municipal advisor; trustee fees; and, trustee counsel fees. The total cost for the underwriting services has been estimated to be approximately \$358,000 and will include compensation for all three firms, fees for underwriter's counsel, and other miscellaneous costs. The underwriters provide advice and services for general investment banking as following: including bond issuance; structuring; marketing; distribution of debt obligations and refunding; and various a capital markets for the Port to reduce debt services costs. The Port state that these costs will be paid from the proceeds of the bond issuance. The proposed refunding revenue bonds will be an obligation that will be repaid from the Port's operating accounts, in the Harbor Revenue Fund, and will not constitute an obligation to the City's General Fund.

The Port states that its financial advisor, KNN Finance, is classified as a Small Business Enterprise (SBE). The underwriters assigned to this transaction as the senior manager is Jefferies, LLC, and co-managers will include UBS Financial Services and Siebert Cisneros Shank & Company (Siebert). Siebert is a SBE and Minority/Women Business Enterprise (M/WBE). The Port states that the underwriters were selected from the existing pool of underwriters approved by the Board based on a competitive process.

The above referenced Resolution to issue the Refunding Revenue Bonds, and this report, incorporate revised information received from the Port subsequent to the initial request submittal.

CITY COMPLIANCE ISSUES

The City Attorney has approved the proposed Resolution and financial documents as to form and legality. The Resolution is subject to City Council review and approval pursuant to Charter Section

609. Upon consideration and approval by the Council and Mayor, the previous approval by the Board will become final and this Resolution will take effect immediately upon adoption. The Port has determined that this is an administrative action is therefore exempt from the requirements of the California Environmental Quality Act (CEQA) under Article 11, Section 2(f) of the Los Angeles City CEQA Guidelines.

FISCAL IMPACT STATEMENT

Approval of the proposed request by the Harbor Department (Port) to replace or refund the existing bonds with new bonds will lower interest rates and reduce debt service costs. The refunding of the 2009 Series A and C Bonds (AC Bonds) is expected to result in a combined present value savings of approximately \$35,467,327 or 16.5 percent of the bonds to be refunded with an average annual debt service savings of \$4,190,500. The Port estimates that the interest cost of issuing the bonds for the combined transactions will be approximately 1.87 percent. Authorize the issuance of not to exceed amount of \$217,000,000 in refunding for the combine bond series to cover any rise in interest costs as well as costs associated with the issuance of the refunding bonds. The proposed bond transactions will not change the maturity of these bonds or result additional debt. All transactions-related costs will be paid from the bond proceeds. There is no impact to the City or General Fund.

RHL:ABN:10190144

Attachment

ATTACHMENT

RESOLUTION NO. 19-9498

A RESOLUTION OF THE BOARD OF HARBOR COMMISSIONERS OF THE CITY OF LOS ANGELES AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$217,000,000 AGGREGATE PRINCIPAL AMOUNT OF HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES REFUNDING REVENUE BONDS IN ONE OR MORE SERIES OR SUBSERIES; AUTHORIZING A PRIVATE SALE OF SUCH BONDS; AUTHORIZING THE PREPARATION OF ALL RELATED DOCUMENTATION; AND AUTHORIZING CERTAIN OTHER MATTERS AND ACTIONS IN CONNECTION THEREWITH

WITNESSETH:

WHEREAS, the City of Los Angeles, California (the "City") is a chartered city duly organized and existing under and pursuant to the provisions of the Constitution of the State of California (the "State") and the Charter of the City (the "Charter"); and

WHEREAS, the Harbor Department (the "Department") is a Proprietary Department (as defined in the Charter) of the City, established and provided for by the Charter, having control of its own revenues and funds and under the management and control of a Board of Harbor Commissioners (the "Board"); and

WHEREAS, pursuant to Section 609 of the Charter ("Section 609") and the Charter implementation ordinance (the "Procedural Ordinance") relating to the procedures for issuance and sale of revenue bonds by the Department under Section 609, which Procedural Ordinance is codified at Division 11, Chapter 1, Article 6.5, Sections 11.28.1 through 11.28.9, of the City Administrative Code, the Department has the power to borrow money and to issue bonds, refunding bonds, notes and other evidences of indebtedness for any lawful purpose relating to the Department payable from the revenues of the Department and from any other money lawfully available to the Department or under its control, in the form and manner approved by the Board; and

WHEREAS, on July 9, 2009, the Department issued \$100,000,000 aggregate principal amount of its Harbor Department of the City of Los Angeles Revenue Bonds, 2009 Series A (the "2009A Bonds") and \$230,160,000 aggregate principal amount of its Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2009 Series C (the "2009C Bonds"); and

WHEREAS, the Department has determined that it is in its best interests at this time to provide for the refunding of all or a portion of the 2009A Bonds and/or the 2009C Bonds as determined by the Chief Financial Officer of the Department (referred to herein as the "Deputy Executive Director, Finance & Administration/CFO"), the Executive Director or either of their respective designees (the portion thereof refunded, the "Refunded Bonds"); and

WHEREAS, the Department now plans to authorize the exercise of the power pursuant to Section 609 to issue certain Harbor Department of the City of Los Angeles Refunding Revenue

Bonds in one or more series or subseries (the "Bonds"), for the purpose of refunding the Refunded Bonds and paying the costs incidental to the issuance of the Bonds and the refunding of the Refunded Bonds; and

WHEREAS, the Board is required, pursuant to Section 11.28.1 of the Procedural Ordinance, to adopt a resolution authorizing the issuance of the Bonds; and

WHEREAS, pursuant to Section 11.28.1(a) of the Procedural Ordinance, such resolution must, at a minimum, specify, (i) the purposes for which the proposed Bonds are to be issued, (ii) the maximum principal amount of the Bonds proposed to be issued, (iii) the maximum term for which any of said Bonds are to run, and (iv) the maximum interest rate or cost, to be determined in the manner specified in said resolution, to be incurred through the issuance of such Bonds; and

WHEREAS, pursuant to Section 11.28.4(a) of the Procedural Ordinance, the Board may, by resolution, authorize the sale of its Bonds pursuant to private sale if the Deputy Executive Director, Finance & Administration/CFO determines that a private sale of such Bonds will be of benefit to, and in the financial interest of, the Department and has prepared a written report (the "CFO Report") stating such determination and the reasons therefor, and the Department submits the matter to the City Council of the City as set forth in Section 11.28.4(a) of the Procedural Ordinance; and

WHEREAS, the Deputy Executive Director, Finance & Administration/CFO of the Department has determined that a private sale of the Bonds will be of benefit to, and in the financial interest of, the Department and has prepared such CFO Report (such written report being included in the board report relating to this Resolution under the heading "Discussion-Method of Sale,"); and

WHEREAS, the Department now desires to notify the City Administrative Officer (the "CAO") in writing that the Department intends to issue the Bonds pursuant to private sale, and to provide a copy of the above-mentioned CFO Report to the offices of the Mayor, of the CAO and of the City Clerk of the City (the "City Clerk"); and

WHEREAS, the Department further desires to request (a) the City Clerk to present forthwith this resolution and the CFO Report to the City Council; (b) the CAO to deliver to the City Council the report of the CAO required by Section 609(d) of the Charter; and (c) the City Council, by at least a majority vote of its members, and the Mayor to approve such authorizing resolution within the Time Period (as defined in the Procedural Ordinance) specified in Section 11.28.2 of the Procedural Ordinance; and

WHEREAS, all acts, conditions and things required by the laws of the State and by the Charter and Procedural Ordinance to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the Department is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, BE IT RESOLVED by the Board of Harbor Commissioners of the City of Los Angeles, as follows:

Section 1. Findings. The Board hereby determines that the foregoing recitals are true and correct.

Section 2. Authorization of Bonds. The Board hereby authorizes the issuance of the Harbor Department of the City of Los Angeles Refunding Revenue Bonds in one or more series or subseries, to be sold at par, premium or discount, on a taxable or tax-exempt basis and all or a portion or none as "private activity bonds", on the terms and conditions to be determined by the Board, subject to the following specified parameters:

- (i) the Bonds are to be issued for the purpose of refunding the Refunded Bonds (including the payment of redemption premium and paying the costs incidental to such refunding and to the issuance of the Bonds;
- (ii) the maximum principal amount of the Bonds shall not exceed \$217,000,000;
- (iii) none of the Bonds shall have a final maturity date later than August 1, 2031;
- (iv) no Bonds issued under this Resolution shall bear interest at a rate exceeding five percent (5.00%) per annum;
- (v) the maximum aggregate true interest cost, as calculated by KNN Public Finance, LLC, a California limited liability company, Municipal Advisor to the Department (the "Municipal Advisor"), and submitted to the Deputy Executive Director, Finance & Administration/CFO, to be incurred through the issuance of the Bonds, shall be 2.60%;
- (vi) the resulting present value savings from refunding the Refunded Bonds, as calculated by the Municipal Advisor and submitted to the Deputy Executive Director, Finance & Administration/CFO, shall be not less than such minimum savings amount determined by the Deputy Executive Director, Finance & Administration/CFO with the assistance of the Municipal Advisor in compliance with the Department's financial policies; and
- (vii) the aggregate principal amount of the Bonds, together with any net premium, if any, shall be no greater than the amount reasonably necessary, as determined by the Deputy Executive Director, Finance & Administration/CFO with the assistance of the Municipal Advisor, to refund the Refunded Bonds and provide for the other purposes set forth in (i) above.

As provided in Section 609 of the Charter, the Bonds authorized hereby shall not constitute or evidence an indebtedness of the City, or a lien or charge on any property or the general revenues of the City, but shall constitute and evidence an obligation of the Department, payable as to principal and interest, and as to any premiums upon the redemption thereof, only

from revenues of the Department, and not out of any other fund or moneys of the Department or of the City, but the provisions of this Section shall not preclude:

(a) the payment of any principal of or interest or premiums on the Bonds through appropriate reserve funds or special trust accounts, including such funds and accounts established with the proceeds of refunding bonds;

(b) the payment of interest on or principal of the bonds out of sums received as premiums or accrued interest on the sale thereof; or

(c) the payment of any such principal or purchase price of or premiums or interest on the Bonds from amounts drawn under any credit enhancement, liquidity agreements or surety bonds or from amounts made available by any entity, public or private, other than the City, the Department, or any other department of the City, in any case where any such entity may have guaranteed such payment.

Section 3. Authorization of Private Sale. The Board hereby authorizes the sale of the Bonds, subject to the parameters set forth above, pursuant to a private sale, and submits the matter to the City Council as set forth in Section 11.28.4(a) of the Procedural Ordinance. The Board hereby notifies the CAO that the Department intends to issue the Bonds pursuant to private sale, and directs Department staff to transmit certified copies of this resolution authorizing the sale of the Bonds by private sale together with a copy of the CFO Report to the offices of the Mayor, of the CAO and of the City Clerk.

Section 4. Approval by City Council and Mayor. The Board hereby requests (a) the City Clerk to present forthwith this resolution and the CFO Report to the City Council, (b) the CAO to deliver to the City Council the report of the CAO required by Section 609(d) of the Charter, and (c) the City Council, by at least a majority vote of its members, and the Mayor to approve this resolution within the Time Period (as defined in the Procedural Ordinance) specified in Section 11.28.2 of the Procedural Ordinance.

Section 5. Good Faith Estimates. In accordance with Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature), good faith estimates of the following have been obtained from the Municipal Advisor and are set forth on Exhibit A attached hereto: (a) the true interest cost of the Bonds, (b) the finance charge of the Bonds, which is the sum of all fees and charges paid to third parties with respect to the Bonds, (c) the amount of proceeds of the Bonds to be received by the Department for sale of the Bonds less the finance charge of the Bonds described in clause (b) above and any reserves or capitalized interest paid or funded with proceeds of the Bonds, and (d) the total payment amount, which is the sum total of all payments the Department will make to pay debt service on the Bonds calculated to the final maturity of the Bonds plus the finance charge of the Bonds described in clause (b) above not paid with the proceeds of the Bonds. These estimates are based on market interest rates prevailing at the time of preparation of this information. The actual interest cost, finance charges, amount of proceeds and total payment amount are subject to market interest rates at the time of sale of the Bonds and may vary from the estimates set forth on Exhibit A attached hereto due to the sale date of Bonds, the principal amount of the Bonds sold, the amortization of the Bonds, the actual interest rates on

the Bonds and other factors. The Department has approved the issuance of the Bonds with a maximum true interest cost not to exceed 2.60%.

Section 6. Authorization to Proceed with Documents. The officers, employees and agents of the Department are each hereby authorized, empowered and directed, jointly and severally, for and on behalf of the Department, to do any and all things and to prepare, for subsequent presentation to and approval by the Board pursuant to Section 11.28.5 of the Procedural Ordinance, any and all documents which they may deem necessary or advisable to effect the execution, sale and delivery of the Bonds and the refunding of the Refunded Bonds and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution and the transactions contemplated hereby, including, but not limited to, the preparation of one or more indentures, continuing disclosure certificates and escrow agreements, the preparation of one or more preliminary official statements with respect to the Bonds, the preparation of one or more purchase contracts to be entered into by the Department with the underwriters to be selected by the Board, the engagement of a verification agent, the engagement of a consultant to deliver a report verifying some or all of the Bonds as "green bonds," the publication of a notice of public hearing in compliance with the requirements of Section 147(f) of the Internal Revenue Code of 1986, as amended, the application for bond ratings and the publication and sending of any notices regarding the refunding of the Refunded Bonds. The Authorized Officers and other officers, employees and agents of the Department are directed to take the actions specified herein or necessary to effect the purposes hereof, and all such actions by such officers, employees and agents or their designees are hereby deemed to be non-discretionary and ministerial.

Section 7. Ratification of Prior Actions. All actions heretofore taken by the officers, employees, and agents of the Department prior to the date this Resolution becomes final as described in Section 7 hereof in connection with or related to the issuance and sale of the Bonds or the refunding of the Refunded Bonds are hereby approved, ratified and confirmed.

Section 8. Effective Date. This Resolution shall take effect upon approval by the Mayor and City Council in the manner and at the time set forth in the Charter, including Sections 11.28.1, 11.28.2, 11.28.4 and 11.28.7 of the City Administrative Code.

APPROVED AS TO FORM AND LEGALITY

_____, 2019
MICHAEL N. FEUER, City Attorney
JANNA B. SIDLEY, General Counsel

By HEATHER M. MCCLOSKEY, Deputy

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