

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: August 6, 2014

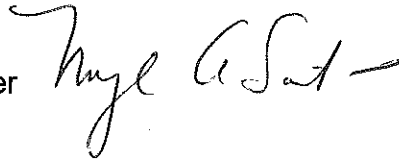
CAO File No. 0670-00012-0002

Council File No.

Council District: ALL

To: The Mayor
The City Council

From: Miguel A. Santana, City Administrative Officer



Reference:

Subject: **REQUEST AUTHORIZATION TO ISSUE UP TO \$200 MILLION IN MUNICIPAL IMPROVEMENT CORPORATION OF LOS ANGELES LEASE REVENUE BONDS, SERIES 2014 (CAPITAL EQUIPMENT), SERIES 2014-A (REAL PROPERTY) AND REFUNDING SERIES 2014-B (REAL PROPERTY)**

SUMMARY

The City Administrative Officer (CAO) requests authority to issue up to \$200 million in Municipal Improvement Corporation of Los Angeles (MICLA) fixed-rate lease revenue bonds (the "Bonds") to: 1) refinance (refund) outstanding MICLA Commercial Paper (CP) notes used for the acquisition of capital equipment and the construction of capital improvements to certain City facilities, and 2) to refund approximately \$51.2 million of outstanding MICLA bonds to achieve interest savings, subject to the refunding parameters in the City's Debt Management Policy. The outstanding MICLA bonds to be refunded are MICLA Series 2002-AT, 2003-AV, and 2003-AW.

The Bonds will be issued in three series: Series 2014 (Capital Equipment), Series 2014-A (Real Property) and Refunding Series 2014-B (Real Property). The Series 2014 (Capital Equipment) will be issued as a private placement with Banc of America Public Capital Corp (BAPCC). A private placement is a method of sale in which a financial institution purchases the bonds directly from the issuer. Currently, the interest rate offered by BAPCC is expected to be lower than the going rate in the bond market. The CAO will continue to monitor the rates to ensure the City receives the lowest overall cost. Series 2014-A and Refunding Series 2014-B (Real Property) will be sold on a negotiated basis. A negotiated sale provides the City with timing flexibility to adjust to market conditions, if necessary, to achieve the lowest cost on the bonds. This is consistent with previous bond issuances.

The total debt service for Fiscal Year 2014-15 is projected to be approximately \$13.4 million for Series 2014, Series 2014-A, and Refunding Series 2014-B. During the life of the bonds, the average annual debt service will be approximately \$8.1 million for Series 2014 over 10 years, \$4.1 million for Series 2014-A over 20 years and \$3.7 million for Refunding Series 2014-B over 18 years. Based on current market rates, the interest savings for the potential refunding of

outstanding MICLA Series 2002-AT, 2003-AV, and 2003-AW bonds is approximately \$9.7 million over the life of the bonds. The average annual savings is approximately \$539,000.

In accordance with the City's Financial Policies, Debt Management Section, the maximum debt service payable in any given year may not exceed six percent of General Fund revenues for non-voter approved debt. The proposed bond issuance will not cause debt service to exceed this limit, as shown in the debt chart outlining the City's projected debt ratio (Attachment A).

To proceed with the sale of the Bonds, the Mayor and Council will need to approve the Authorizing Resolutions (Attachments B and C), which incorporates the Bond Purchase Agreements (Exhibits A and B); Preliminary Official Statement which includes the City's disclosure document (Exhibit C), and several other bond documents.

Additionally, the Mayor and Council will need to approve a Lease/Leaseback Ordinance and a Fund Ordinance which will be submitted by the City Attorney under separate cover.

The MICLA Board is scheduled to consider this bond financing in August 2014.

The anticipated bond sale date for Series 2014-A and Refunding Series 2014-B (Real Property) is September 2014. The anticipated completion date for Series 2014 (Capital Equipment) is October 2014.

These recommendations are in compliance with the City's Financial Policies.

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. **ADOPT** the Authorizing Resolutions, including various documents required for the execution of the bonds, which authorizes the issuance of up to \$200 million in Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds;
2. **AUTHORIZE** the City Administrative Officer to pay Fiscal Year 2014-15 debt service on the bond issuance from monies in the Capital Finance Administration Fund (Fund 100/Department 53); and
3. **INSTRUCT** the Controller to create three new accounts in the Capital Finance Administration Fund that will be used to pay for future debt service: "MICLA 2014 (Commercial Paper Capital Equipment Refinancing)", "MICLA 2014-A (Commercial Paper Real Property Refinancing)", "MICLA 2014-B (Refunding of MICLA Series 2002-AT, 200-AV, and 2003-AW)".

FISCAL IMPACT STATEMENT

The issuance of up to \$200 million in Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds Series 2014 (Capital Equipment), Series 2014-A (Real Property) and Refunding Series 2014-B (Real Property) will be an obligation of the General Fund and the resulting debt service will be paid from funds in the Capital Finance Administration Fund (CFAF). The total debt service for Fiscal Year 2014-15 is projected to be approximately \$13.4 million for Series 2014 (Capital Equipment), Series 2014-A (Real Property) and Refunding Series 2014-B (Real Property) which is budgeted in the 2014-15 CFAF.

DEBT IMPACT STATEMENT

The issuance of up to \$200 million in Municipal Improvement Corporation of Los Angeles Lease Revenue Bonds Series 2014, Series 2014-A and Refunding Series 2014-B will not cause the City's debt service payments to exceed six percent of General Fund revenues for non-voter approved debt as established in the City's Financial Policies, Debt Management Section. The debt service for Fiscal Year 2014-15 is projected to be approximately \$13.4 million for Series 2014 (Capital Equipment), Series 2014-A (Real Property) and Refunding Series 2014-B (Real Property). During the life of the bonds, the average annual debt service will be approximately \$8.1 million for Series 2014 (Capital Equipment) over 10 years, \$4.1 million for Series 2014-A over 20 years and \$3.7 million for Refunding Series 2014-B over 18 years. Based on current market rates, the interest savings for the potential refunding of outstanding MICLA Series 2002-AT, 2003-AV, and 2003-AW bonds is approximately \$9.7 million over the life of the bonds. The average annual interest savings from the potential refunding is approximately \$539,000.

FINDINGS

1. Background – Municipal Improvement Corporation of Los Angeles (MICLA)

MICLA is a non-profit financing corporation established by the City in 1984 to assist in the financing of capital projects and equipment. MICLA is directed by a five-person board whose members are self-appointed and confirmed by the City Council. In accordance with the City's Financial Policies, Debt Management Section, all items financed through MICLA must be a capital asset and have a useful life of at least six years.

2. Background – MICLA Commercial Paper (CP) Program

In June 2004, the Mayor and Council approved a MICLA CP program to be used as temporary financing for approved capital construction projects and capital equipment purchases. Based on the capital needs of the City, MICLA CP Program's size has expanded from \$200 million to \$335 million. CP is a short-term borrowing mechanism for construction financing, real property acquisition or the purchase of capital equipment. CP notes have maturities ranging from one to 270 days. Upon maturity, the CP notes are either re-sold in the market or refinanced into long-term bonds. As of August 1, 2014, the outstanding MICLA CP notes were approximately \$255 million.

3. Use of Bond Proceeds

The proposed bond issuance will be used to: 1) refinance MICLA CP notes used for the acquisition of capital equipment (e.g. fleet vehicles, servers, radios) and construction of capital improvements to certain City facilities such as City Hall East, Vine Parking Garage, various asphalt plants, and Figueroa Plaza; and 2) in accordance with the City's Debt Management Policy, to refund approximately \$51.2 million of outstanding MICLA bonds if it results in interest savings of at least 3% at the time of the bond sale.

4. Underwriters

The CAO sent out a Request for Information to several underwriters from the City's approved qualified list (C.F. 10-1763) to submit specific information in connection with the MICLA bond financing. The CAO requested the underwriters to submit information on its experience, retail capabilities, underwriting capacity, marketing strategy, and proposed fees.

The CAO selected Banc of America Public Capital Corp (BAPCC) as the Private Placement Agent for the Series 2014 (Capital Equipment) because BAPCC offered more favorable interest rates than the current rates in the bond market. The CAO has selected Merrill Lynch, Pierce, Fenner, & Smith Inc., Loop Capital Markets, LLC and Ramirez & Co. Inc. to serve as Underwriters for Series 2014-A and Series 2014-B (Real Property). The Bonds will be sold on a negotiated basis as this methodology will give the City flexibility to sell the Bonds when the underwriting team believes it will receive the lowest true interest rate.

6. Financing Team

The Financial Advisor for this bond issuance is Public Resources Advisory Group (PRAG). PRAG was previously approved by the Mayor and Council to provide financial advisory services for the City's various bond programs (C.F. 14-0412).

Bond Counsel and Disclosure Counsel for the Bonds are Squire Patton Boggs (US) LLP (Squire) and Fulbright & Jaworski LLP (Fulbright), respectively. Squire and Fulbright are on the City's approved qualified list for legal bond services for the City's various bond programs (C.F. 12-0917).

7. Required Documents

To proceed with the recommended bond issuance of up to \$200 million, the Mayor and Council will need to approve the Authorizing Resolutions (Attachments B and C), which incorporates the Bond Purchase Agreements (Exhibits A and B), Assignment and Purchase Agreement (Exhibit M) and the Preliminary Official Statement, which includes the City's disclosure document (Exhibit C) and several other bond documents, including:

- Assignment Agreement, which is an agreement between the City and MICLA whereby MICLA assigns its rights to a Trustee bank for the benefit of the bondholders (Exhibit D);
- Indenture, which is an agreement between the City, MICLA and the Trustee for the benefit of the bondholders (Exhibit E). The Trustee administers the bond proceeds in a fiduciary capacity on behalf of the bondholders;
- Equipment, Facility and Site Lease Agreements (Exhibits F, G, H, I and N), which are agreements between the City and MICLA indicating that the City will lease the capital equipment and real property items to MICLA, and subsequently MICLA will sublease these items back to the City;
- Escrow Deposit Agreement (Exhibits J, K, and L), which provides for the administration of the refunded bonds;
- Disbursing Agent Agreement (Exhibit O) is an agreement between the City and the Disbursing Agent for the administration of certain duties such as make costs of issuance and basic lease payments under the instructions of the City.

Attachments

Attachment A – Non Voter Approved Debt Chart

Attachment B – Authorizing Resolution for Series 2014-A and Refunding Series 2014-B (Real Property)

Exhibit A – Bond Purchase Agreement for Series 2014-A

Exhibit B – Bond Purchase Agreement for Refunding Series 2014-B

Exhibit C – Preliminary Official Statement
Exhibit D – Assignment Agreement
Exhibit E – Indenture
Exhibit F – Facility Lease Agreement for Series 2014-A
Exhibit G – Facility Lease Agreement for Series 2014-B
Exhibit H – Site Lease for Series 2014-A
Exhibit I – Site Lease for Series 2014-B
Exhibit J – Escrow Deposit Agreement for Series 2002-AT
Exhibit K – Escrow Deposit Agreement for Series 2003-AV
Exhibit L – Escrow Deposit Agreement for Series 2003-AW
Attachment C – Authorizing Resolution for Series 2014 (Capital Equipment)
Exhibit M – Purchase and Assignment Lease Agreement
Exhibit N – Equipment Lease Agreement
Exhibit O – Disbursing Agent Agreement

MAS:HTT:09150023