PORT OF OAKLAND

5/25/2023

AGENDA REPORT

<u>PROPOSED ACTION</u>: Resolution: Approve the Extension of the Letters of Credit Supporting the Port's Commercial Paper Program for Three and One-Half Years at an Annual Fee of Approximately $840,000; Authorize the Executive Director and Chief Financial Officer to Amend the Reimbursement Agreements and Fee Agreements with Bank of America National Association; and Execute Supporting Documents. **(Finance & Admin)**	
<u>Submitted By</u>: Julie Lam, CFO; Danny Wan, Executive Director	
<u>Parties Involved</u>: Bank of America National Association	<u>Amount</u>: $2,935,000 (FY 2024 through December 31, 2026) (Non-Operating Expense)
<u>EXECUTIVE SUMMARY</u>: The Port of Oakland's (Port's) two commercial paper (CP) programs are supported by two letters of credit LOCs) issued by Bank of America National Association (BANA) and are set to expire on June 30, 2023. To keep the CP program past the expiry date, the two letters of credit must be extended or replaced. Board approval is requested to authorize the Executive Director and Chief Financial Officer to extend each of the letters of credit with BANA for three and one-half years to December 31, 2026, and to approve certain amendments to the related reimbursement agreements and fee agreements and associated documents.	

BACKGROUND & ANALYSIS

Since 1998, the Board has authorized a CP program in an amount not-to-exceed $300 million. The CP program has been supported by LOCs issued by different banking institutions at different times. The Port's current CP program is limited to $200 million and is supported by two LOCs, one issued on June 13, 2016 by BANA in the amount of $150 million that supports the Port's Series A, Series B and Series C CP notes (ABC Notes). A second LOC issued on June 13, 2017, also issued by BANA, supports the Port's Series D, Series E and Series F CP notes (DEF Notes, and collectively with the ABC Notes, the Notes), in the amount of $50 million. In 2019, both LOCs were extended to June 30, 2023.

The CP program acts as a short-term financing vehicle that allows the Port to access funds on short notice for a variety of needs. The Port's CP notes are issued under two trust indentures dated as of October 1, 1998 and September 1, 1999, each between the Board and U.S. Bank Trust, N.A. as paying agent. The CP notes are subordinate to the Port's senior lien revenue bonds, Department of Boating and Waterways (DBW) loans, if any, and intermediate lien revenue bonds. As of May 11, 2023, the total amount of CP notes outstanding is $32.5 million.

To continue the CP program beyond the current expiry date, the Port must either extend or replace the LOCs. On February 7, 2023, the Port issued a Request for Proposal (RFP) to either replace the existing LOCs, or to enter into a different short-term financial product that would allow the Port to continue to have a short-term variable-rate component to its debt portfolio. The RFP was posted at (https://www.portofoakland.com/business/bids-rfps/) and instructed its municipal advisor, Montague DeRose and Associates LLC (MDA), to distribute the RFP to 19 separate banks. By the February 28, 2023 deadline, the Port had received six responses from proposing banks. The RFP proposals submitted by the six banks were scored, and subsequently ranked from highest to lowest as follows:

Firm	Rank
Bank of America National Association (BANA)	1
Barclays Bank PLC	2
U.S. Bank	3
Bank of the West	4
Citibank, N.A.	5
JPMorgan Chase Bank, N.A.	6

The proposals were evaluated by a committee comprised of two Port Staff from the Port's Finance & Administration Department and one municipal advisor from MDA. Criteria included the terms under which the liquidity facility was offered (40%), the overall cost to the Port (45%), and adherence to the Non-Discrimination & Small Local Business Utilization Policy (NDSLBUP) (15%). A staff member from the Port's Social Responsibility Division evaluated the banks' compliance with the Port's NDSLBUP.

All the proposing banks offered the Port letter credit facilities which would continue the commercial paper program, while two of the banks further offered a direct purchase alternative in which the Port could draw funds from the bank itself. Of the proposers, BANA offered facility amounts that would remain consistent with the current LOCs ($150 million and $50 million, respectively). BANA's offer also was among the most competitively and flexibly priced with options to extend the LOCs for periods ranging between two and four years, and at prices ranging from 37 basis points (0.37%) of the total stated amount[1] for three years to 40 basis points (0.40%) for four years. A breakdown of the letter of credit term(s) and fee(s) of each bank is provided in the table on the following page. For reference, the Port's current three-year LOC expiring on June 30, 2023 has a fee of 45 basis points (0.45%).

[1] The LOC supports both the principal and interest component of outstanding CP notes. The stated amount of the LOC is for the maximum possible principal and interest rate exposure on the Port's outstanding CP notes, or $217.753 million. The maximum principal exposure is $200 million and the maximum interest rate exposure is defined to be an interest rate of 12% for 270 days, or $17.753 million (industry standard).

Bank/Term	Total Facility Amount	Fee %	Annual Facility Fee	Total Fee Over Facility Term
BANA				
Three Years	$200 million	0.37%	$806,000	$2,418,000
Four Years	$200 million	0.40%	$872,000	$3,485,000
Barclays				
Three Years	$100 million	0.35%	$382,000 ($100 million LOC)	$1,144,000 ($100 million LOC)
Four Years	$100 million	0.45%	$490,000 ($100 million LOC)	$1,960,000 ($100 million LOC)
Five Years	$100 million	0.49%	$534,000 ($100 million LOC)	$2,668,000 ($100 million LOC)
US Bank				
Two and One-Half Years	$200 million	0.42%	$915,000	$2,287,000
Three and One-Half Years	$200 million	0.475%	$1,035,000	$3,621,000
Four and One-Half Years	$200 million	0.52%	$1,133,000	$5,096,000
Bank of the West				
Three Years	$100 million	0.55%	$599,000 ($100 million LOC)	$1,797,000 ($100 million LOC)
Four Years	$100 million	0.575%	$627,000 ($100 million LOC)	$2,505,000 ($100 million LOC)
Citibank N.A.				
Three Years	$100 million	0.77%	$839,000 ($100 million LOC)	$2,516,000 ($100 million LOC)
JP Morgan				
One Year	$200 million	0.75%	$1,634,000	$1,634,000
Two Years	$200 million	0.825%	$1,797,000	$3,593,000
Three Years	$200 million	0.90%	$1,960,000	$5,880,000

The terms of the reimbursement agreement proposed by BANA were also the most competitive and would essentially amount to an extension of the Port's existing agreements with the bank under existing terms with some minor amendments as further discussed below. The reimbursement agreement is the contract between the Port and BANA, establishing the terms of the CP notes issuance, including the mechanisms for drawing and reimbursing funds under the LOCs. Among the main provisions proposed by the different banks, BANA's terms were either as competitive or more competitive than the others.

A summary of the terms of the BANA proposal that would be adopted into the CP program is listed in the table below.

<table>
<tr><th>Proposal Term</th><th>Description</th></tr>
<tr><td>LOC Amount</td><td>Up to $200,000,000 plus applicable interest</td></tr>
<tr><td>Term</td><td>Three and one-half years</td></tr>
<tr><td>Security</td><td>Direct pay letter of credit</td></tr>
<tr><td>Pricing</td><td>38.5 basis points per annum

In the event the Port’s senior lien unenhanced long-term rating is downgraded from its current level of A+/A1/A+ (Fitch/Moody’s/S&P), the facility fee shall increase by the following amounts:

<table>
<tr><th>Downgrade from Current Rating (Notch)l</th><th>Fee Increase</th></tr>
<tr><td>1</td><td>20 bps</td></tr>
<tr><td>2</td><td>40 bps</td></tr>
<tr><td>3</td><td>65 bps</td></tr>
<tr><td>4</td><td>115 bps</td></tr>
<tr><td>During an event of default</td><td>150 bps in addition to the amount above.</td></tr>
</table></td></tr>
<tr><td>Bank Base Rate

(Rate charged in the event of an unreimbursed LOC draw)</td><td>The higher of:
• Bank of America Prime Rate plus 1.00%
• Federal Funds Rate plus 2.00%
• 7.00%</td></tr>
<tr><td>Bank Term Loan Rate

(Rate charged if an LOC draw converts to a term loan)</td><td>Bank Base Rate plus 1.00%</td></tr>
<tr><td>Default Rate</td><td>Bank Base Rate plus 3.00%</td></tr>
<tr><td>Early Termination Fee</td><td>None</td></tr>
</table>

Based on its competitive pricing and favorable terms, Staff is proposing to extend each of its current LOC facilities with BANA for an additional three and one-half years to December 31, 2026. This 3 ½ year term, though not included in BANA’s proposal, was agreed to by the bank during negotiations and represents the midpoint between the 3-year and 4-year LOC fee bid by BANA. As a result, BANA’s fee is increased to 0.385% of the combined LOC stated amount of $217,753,000, and remains lower than the current LOC fee of 0.45%. In dollar-terms, the proposed fee equates to $838,350 in LOC fee per year, and compared to the current LOC fee of 0.45%, it results in an annual reduction in LOC fee of $142,000 at the same LOC stated amount.

Amendments to the Reimbursement Agreements and Fee Letters

The Port will also enter into two agreements (one each for the ABC Notes and DEF Notes) to amend both existing reimbursement agreements as well as existing fee letters. The reimbursement agreement amendments consist largely of regulatory updates to reflect changes in the financial industry and to remove provisions from the existing Reimbursement Agreements requiring the Port to pay a fee to BANA upon the early termination or reduction of the letters of credit at the Port's option, while the fee letter amendments are meant to reflect the new fee schedule specified above. Copies of agreements in substantially final form are provided as Attachment A(1) and Attachment A(2).

Offering Memorandum

In connection with the extensions to the letters of credit, Port staff will be distributing an updated offering memorandum. The offering memorandum is the document distributed to investors of commercial paper notes and provides relevant disclosure information on Port and BANA operations and finances. A copy of the offering memorandum in substantially final form is provided as Attachment B.

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OTHER FINDINGS AND PROVISIONS

ENVIRONMENTAL REVIEW

The proposed action was analyzed under the California Environmental Quality Act (CEQA) and was found to be:

☐ Categorically exempt under the following CEQA Guidelines Section:

Choose an item.

☒Not a "Project" under CEQA, as defined in Public Resources Code § 21065.

☐ Other/Notes:

BUDGET

☐ Administrative (No Impact to Operating, Non-Operating, or Capital Budgets); OR

☐ Operating ☒ Non-Operating ☐ Capital

Analysis:

Based on a combined LOC facility with a stated amount of $217,753,000, the proposed fee for a 3½ year LOC facility is 0.385%. Table below compares the annual facility fee of the current LOC facility and the proposed new LOC facility. There is no impact to the adopted FY 2023 budget. Budget to cover the annual fee of the proposed new LOC facility will be included in future Non-Operating Budgets.

	Fee %	Annual Facility Fee
Current Facility	0.450%	$979,888
Proposed New Facility	0.385%	$838,350

STAFFING

☒ No Anticipated Staffing Impact.

☐ Anticipated Change to Budgeted Headcount.

Reason:

☐ Other Anticipated Staffing Impact (e.g., Temp Help).

Reason:

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<td><u>MARITIME AND AVIATION PROJECT LABOR AGREEMENT (MAPLA)</u>:

<u>Applies?</u> No (Not Aviation or Maritime CIP Project) – proposed action is not covered work on Port’s Capital Improvement Program in Aviation or Maritime areas above the threshold cost.

☒ <u>Additional Notes</u>:</td>
<td><u>LIVING WAGE</u> (City Charter § 728):

<u>Applies?</u>

No (No Covered Agreement) – proposed action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage requirements.

☐ <u>Additional Notes</u>:</td>
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<td><u>SUSTAINABLE OPPORTUNITIES</u>:

<u>Applies?</u> No.

<u>Reason</u>: There are no sustainability opportunities related to this proposed action because it does not involve a development project, purchasing of equipment, or operations that present sustainability opportunities.</td>
<td><u>GENERAL PLAN</u> (City Charter § 727):

<u>Conformity Determination</u>:

No Project – conformity determination not required because proposed action does not change use of or make alterations to an existing facility, or create a new facility.</td>
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<td colspan="2"><u>STRATEGIC PLAN</u>. The proposed action would help the Port achieve the following goal(s) and objective(s) in the Port’s Strategic Business Plan:

☒ Grow Net Revenues
☒ Modernize and Maintain Infrastructure
☐ Improve Customer Service
☐ Pursue Employee Excellence
☐ Strengthen Safety and Security
☐ Serve Our Community
☐ Care for Our Environment</td>
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