AGENDA REPORT

Resolution: Approval of the Issuance of the Port of Oakland Intermediate Lien Refunding Revenue Bonds 2017 Series D (Private Activity/AMT), 2017 Series E (Governmental/Non-AMT), 2017 Series F (Private Activity/Non-AMT), and 2017 Series G (Taxable); Redemption of all or a portion of the Port of Oakland Intermediate Lien Revenue Bonds 2007 Series A (AMT), 2007 Series B (Non-AMT), and 2007 Series C (Non-AMT); and authorization of Certain Related Actions and Documents. **(Finance & Admin.)**

MEETING DATE:	6/8/2017
AMOUNT:	Not to exceed aggregate principal amount of $300 million Choose an item.
PARTIES INVOLVED:	U.S. Bank National Association, San Francisco (Trustee and Escrow Agent); Bank of America Merrill Lynch, San Francisco (Senior Underwriter); Siebert Cisneros Shank & Co., Oakland (Co-Senior Underwriter); J.P. Morgan Securities, San Francisco (Co-Manager Underwriter); Blaylock Beal Van, Oakland (Co-Manager Underwriter) Backstrom McCarley Berry & Co., Oakland (Co-Manager Underwriter)
SUBMITTED BY:	Sara Lee, Chief Financial Officer
APPROVED BY:	J. Christopher Lytle, Executive Director
ACTION TYPE:	Resolution

EXECUTIVE SUMMARY

As presented to and discussed with the Board of Port Commissioners (“Board”) on January 26, 2017 and May 18, 2017, Port staff has been preparing for a bond refinancing transaction to achieve debt service savings. Port staff requests the Board’s approval to (i) issue Refunding Revenue Bonds 2017 Series D (Private Activity/AMT), 2017 Series E (Governmental/Non-AMT), 2017 Series F (Private Activity/Non-AMT), and 2017 Series G (Taxable); (ii) deposit with the Escrow Agent, up to $50 million to pay on November 1, 2017, the principal and interest on the Series 2007 Bonds maturing on November 1, 2017, and the accrued interest on the remaining Series 2007 Bonds; and other amounts as may be required to be in compliance with Internal Revenue Code tax law limitations; (iii) redeem all or a portion of the Revenue Bonds 2007 Series A (AMT), 2007 Series B (Non-AMT), and 2007 Series C (Non-AMT); and (iv) authorize certain related actions and documents. These actions are sometimes collectively referred to herein as “the bond transaction.”

BACKGROUND

The Board is authorized by Section 706(24) of the Charter of the City of Oakland to provide for the financing and refinancing of Port facilities through the issuance and sale of debt instruments payable exclusively from revenues and other assets of the Port.

Due to the low interest rate environment, Port staff has identified an opportunity to achieve debt service savings by refinancing all or a portion of the Port's outstanding Revenue Bonds 2007 Series A (AMT), 2007 Series B (Non-AMT), and 2007 Series C (Non-AMT), collectively referred to herein as the "Series 2007 Bonds." There is currently $324 million of Series 2007 Bonds outstanding.

In order to execute the bond transaction, Port staff has taken a number of actions to date, including: (i) held a public hearing on August 25, 2015 and obtained the Mayor of the City of Oakland's approval to issue revenue bonds and refunding revenue bonds, as required by the Tax Equity and Fiscal Responsibility Act of the 1982; and (ii) prepared a number of financing documents as discussed herein. As discussed in the Analysis section below, certain Board authorizations are now required to complete the bond transaction.

ANALYSIS

Issuance of Refunding Revenue Bonds

In order to achieve debt service savings, the Port proposes to issue Refunding Revenue Bonds 2017 Series D (Private Activity/AMT), 2017 Series E (Governmental/Non-AMT), 2017 Series F (Private Activity/Non-AMT), and 2017 Series G (Taxable), collectively referred to herein as the "Series 2017 Bonds." The proceeds of the Series 2017 Bonds will (i) refund all or a portion of the Series 2007 Bonds, (ii) pay for the costs of issuance related to the bond transaction, and (iii) pay the premium costs for a municipal bond insurance policy or other credit liquidity enhancement, if it is determined that this will result in cost saving. Port cash in an amount not to exceed $50 million will be deposited with the Escrow Agent (U.S. Bank National Association) and will be used to pay on November 1, 2017, the principal and interest on the Series 2007 Bonds maturing on November 1, 2017, and the accrued interest on the remaining Series 2007 Bonds; and other amounts as may be required to be in compliance with Internal Revenue Code tax law limitations.

Approximately $38.5 million of the $324 million of Series 2007 Bonds will be refunded with taxable bonds (2017 Series G bonds) rather than tax-exempt bonds in order to provide business flexibility due to tax law limitations associated with certain tax-exempt bonds used to finance Maritime assets.

Based on market conditions at the time of pricing of the Series 2017 Bonds, one or more series of the Series 2017 Bonds may not be issued.

The Series 2017 Bonds will be secured by a lien on the Port's Intermediate Lien Pledged Revenues, as defined in the Intermediate Lien Master Trust Indenture, which generally include all income, receipts, earnings and revenues received by the Port, with limited exceptions[1], remaining after payment of debt service on the Senior Lien Bonds and the Department of Boating and Waterways loan.

The anticipated present value of the debt service savings of the proposed transaction is in the range of $15 to $35 million, as further detailed below in the Budget section of this Agenda Report.

Proposed Parameters of Issuance

Port staff is requesting authorization to issue Series 2017 Bonds with the following parameters:

(i) Aggregate par amount shall not exceed $300 million

(ii) True interest cost[2] shall not exceed 4.0%

(iii) Costs of issuance[3] (including underwriters' discount[4]) shall not exceed 2.0% of the bond proceeds

(iv) Underwriters' discount[4] shall not exceed 0.35% of the aggregate par amount

(v) Final bond maturity shall be no later than November 1, 2029

(vi) Municipal bond insurance policy or other credit liquidity enhancement, if it is determined that this will result in cost savings

Key Documents and Actions

The **Third Supplemental Intermediate Lien Trust Indenture** ("Third Supplemental Indenture") supplements the Intermediate Lien Master Trust Indenture and provides, among other things, for (i) the terms and conditions of the issuance of the Series 2017 Bonds (for example, maturity dates, principal amounts, interest rates, and call provisions), (ii) the Series 2017 Bonds to be secured by the common debt service reserve fund ("Common Reserve Fund") created under the First Supplemental Trust Indenture, and (iii) the following amendments to the Intermediate Lien Master Trust Indenture to clarify the intent of these provisions, provide flexibility to the Board with respect to certain operational covenants, and conform to the Senior Lien Master Trust Indenture:

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[1] For example, Passenger Facility Charges and Customer Facility Charges are not Pledged Revenues.

[2] The true interest cost is the rate that, when used in computing the present value of all payments of debt service to be paid on the Series 2017 Series Bonds, produces an amount equal to the purchase price of the Series 2017 Bonds taking into account original issue discount or premium, and costs of issuance.

[3] Costs of issuance includes, among other things, legal fees, underwriters' discount, financial advisor fees, rating agency fees and trustee fees. Costs of issuance, including underwriters' discount, is estimated to be approximately $1.7 million, or 0.6%. A not to exceed limit of 2% is being requested because if market conditions result in refunding only a portion of the Series 2007 Bonds and the bond transaction size is therefore smaller, the costs of issuance as a percentage of the total transaction will increase because the majority of costs are fixed. Costs of issuance are expressed as a percentage to be consistent with the limitations imposed by the Internal Revenue Code restrictions.

[4] Underwriters' discount is the fee paid to the underwriters and is contingent upon the bond transaction closing.

- Clarifies that leases and concessions at fair market value are not dispositions of Port properties
- Updates the insurance provisions to limit and simplify the Port's requirements to procure and maintain insurance

A substantially final draft of the Third Supplemental Indenture is provided as Attachment A to this Agenda Report.

The **Preliminary Official Statement** ("POS") provides potential investors with information about the terms of the bonds; security and sources of payment for the bonds; Port operations, finances and capital plans; and investor considerations. The POS also includes the Port's audited financial statements for fiscal years, ending June 30, 2015 and June 30, 2016, as well as unaudited financial information for nine months, ending March 31, 2017. A substantially final draft of the POS is provided as Attachment B to this Agenda Report.

The **Official Statement** ("OS") will be prepared after pricing of the Series 2017 Bonds to reflect the final size, structure, and interest rates associated with the bond transaction. Aside from inclusion of the information related to pricing of the Series 2017 Bonds, Port staff expects the OS to be in substantially the form of the POS. The Official Statement will be delivered to the purchasers of the Series 2017 Bonds.

The **Bond Purchase Contract** sets forth the terms of the purchase and sale of the Series 2017 Bonds between the Port and the underwriters. A substantially final draft of the Bond Purchase Contract is provided as Attachment C to this Agenda Report. The underwriters are:

Senior Manager	Bank of America Merrill Lynch
Co-Senior Manger	Siebert Cisneros Shank & Co., LLC
Co-Manager	J.P. Morgan Securities, LLC
Co-Manager	Backstrom McCarley Berry & Co., LLC
Co-Manager	Blaylock Robert Van, LLC

A **Continuing Disclosure Certificate** that sets forth the annual disclosure obligations of the Port to provide certain financial information and operating data will be executed to comply with the Securities and Exchange Commission disclosure laws. A substantially final form of this certificate is provided as Attachment D to this Agenda Report.

Other various actions are also required to execute the bond transaction, including execution of a **Tax and Non-Arbitrage Certificate** to comply with provisions of the Internal Revenue Code, and execution of an **Escrow Agreement** with US Bank National Association, serving as Escrow Agent and Trustee, to hold the funds until the redemption date of the Series 2007 Bonds.

Schedule

The anticipated remaining schedule for the bond transaction is as follows:

Receive Ratings	June 8, 2017
Mail Preliminary Official Statement	June 9, 2017
Marketing Period	Week of June 12, 2017
Price Bonds	June 20-21, 2017 *subject to market conditions*
Close Transaction[5]	August 3, 2017
Call Series 2007 Bonds	November 1, 2017

BUDGET & STAFFING

Over the last several months, present value debt service savings have ranged from approximately $25 to $32 million. Based on interest rates as of May 1, 2017 plus 25 basis points, present value debt service savings that could be achieved through a refunding of the Series 2007 Bonds is approximately $26 million, net of all costs of issuance. However, actual present value and annual debt service savings realized by the Port will depend upon interest rate levels at the time of bond pricing and could be lower or higher than shown in the table on the following page.

Port staff proposes to structure the annual debt service savings as presented in the table on the following page. The debt service savings are structured to both lower and level the Port's aggregate annual debt service, which provides the Port with budgetary relief, minimizes cash flow fluctuations, and maintains long-term flexibility and debt capacity for future Port capital projects. Debt service savings are achieved in every fiscal year from FY 2018 through FY 2030; there is no year in which debt service payments are higher than currently scheduled.

[5] August 3 is the earliest possible date to refund the Port's Series 2007 bonds, based on the optional redemption provisions of the Series 2007 bonds and tax law considerations.

Debt Service Savings
Assuming Interest Rates as of May 1, 2017 Plus 25 Basis Points

Fiscal Year	Annual Savings ($millions)
2018	1.8
2019	7.7
2020	2.3
2021	1.7
2022	3.3
2023	1.4
2024	2.8
2025	2.8
2026	3.1
2027	3.1
2028	0.5
2029	-
2030	0.6
Total Gross Savings	**31.2**
Total Present Value	**26.7**
True Interest Cost	**3.1%**

The proposed action has no staffing impact.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The matters contained in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

STRATEGIC PLAN

- Goal D: Objective 1: Improve cash position and debt service coverage ratio (DSCR).
- Goal D: Objective 4: Pursue refunding of Port debt for interest rate savings

LIVING WAGE

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), do not apply because the requested action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage Regulations.

ENVIRONMENTAL

CEQA Determination: The proposals to authorize issuance of the Series 2017 Bonds, redemption of the Series 2007 Bonds, and take related actions was reviewed in accordance with the requirements of the California Environmental Quality Act (CEQA), and the Port CEQA Guidelines. The general rule in Section 15061(b)(3) of the CEQA Guidelines states that CEQA applies only to activities that have a potential for causing a significant effect on the environment. It can be seen with certainty that there is no possibility that taking these actions will result in a physical change in the environment, and therefore they are not subject to CEQA and no further environmental review is required.

GENERAL PLAN

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)/ PROFESSIONAL LIABILITY INSURANCE PROGRAM (PLIP)

This action is not subject to the Port's Owner Controlled Insurance Program (OCIP) as it is not a capital improvement construction.

OPTIONS

The options for the Board's consideration are as follows:

1. Approve the issuance of Series 2017 Bonds and redemption of Series 2007 Bonds, and authorize related actions and documents as described in this Agenda report and as itemized below under "Recommendation."
2. Do not approve the issuance of Series 2017 Bonds and redemption of Series 2007 Bonds, and do not authorize related actions and documents. Under this option, Series 2007 Bonds will remain outstanding and debt service savings will not be achieved at this time.

RECOMMENDATION

Port staff recommends that the Board:

1. Authorize the issuance of the Series 2017 Bonds in order to (i) refund all or a portion of the 2007 Bonds; (ii) pay costs of issuance; and (iii) pay the premium costs for a municipal bond insurance policy or other credit liquidity enhancement, if it is determined that this will result in cost savings.
2. Authorize the deposit with the Escrow Agent of Port cash in an amount not to exceed $50 million to pay on November 1, 2017, the principal and interest on the Series 2007 Bonds maturing on November 1, 2017, and the accrued interest on the

remaining Series 2007 Bonds, and other amounts as may be required to be in compliance with Internal Revenue Code tax law limitations.

3. Authorize execution of the Third Supplemental Indenture in substantially the form provided as Attachment A with the following parameters for the Series 2017 Bonds:
    (i) Aggregate par amount shall not exceed $300 million
    (ii) True interest cost shall not exceed 4.0%
    (iii) Costs of issuance shall not exceed 2.0% of the bond proceeds
    (iv) Underwriters' discount shall not exceed 0.35% of the aggregate par amount
    (v) Final bond maturity shall be no later than November 1, 2029
    (vi) Municipal bond insurance policy or other credit liquidity enhancement if it is determined that this will result in cost savings
4. Authorize approval of the pledge of the Intermediate Lien Pledged Revenues, as such term is defined in the Intermediate Lien Master Trust Indenture, and the other security provided in the Granting Clause of the Intermediate Master Lien Trust Indenture and in the Granting Clause of the Third Supplemental Indenture.
5. Authorize the distribution of the Preliminary Official Statement in substantially the form provided as Attachment B.
6. Authorize the execution of the Official Statement in substantially the form of the draft POS.
7. Authorize the Bond Purchase Contract in substantially the form provided as Attachment C.
8. Authorize the execution of a Continuing Disclosure Certificate, to comply with the Securities and Exchange Commission disclosure laws, in substantially the form provided as Attachment D.
9. Authorize the execution of a Tax and Non-Arbitrage Certificate to comply with provisions of the Internal Revenue Code.
10. Authorize the execution of an Escrow Agreement with U.S. Bank National Association to hold the funds until the redemption date of the Series 2007 Bonds.
11. Approve and ratify the appointment of U.S. Bank National Association as Trustee under the terms of the Third Supplemental Indenture.
12. Authorize any notices required to be given in connection with the redemption of the Series 2007 Bonds, or the amendment of the Intermediate Lien Master Trust Indenture.
13. Authorize the investment of any moneys held in the funds or accounts under the Third Supplemental Indenture in any "Permitted Investments" under the Intermediate Lien Master Trust Indenture.

14. Authorize the Executive Director or his/her designee and the Chief Financial Officer or his/her designee as Authorized Board Representatives.
15. Authorize the Authorized Board Representatives to take all other actions as necessary and appropriate to effect the issuance, execution and delivery of the Series 2017 Bonds, subject to the approval of the Port Attorney.