AGENDA REPORT

Resolution: Authorization to Extend for Four Years the Letters of Credit Supporting the Port's $200 Million Commercial Paper Program at an Annual Fee of Approximately $980,000; Amend the Commercial Paper Indentures and Supporting Documents. **(Finance & Admin.)**

MEETING DATE:	4/25/2019
AMOUNT:	$3,920,000 (FY 20 through FY 23) Non-Operating Expense
PARTIES INVOLVED:	Bank of America National Association (Letter of Credit Provider)
SUBMITTED BY:	Sara Lee, Chief Financial Officer
APPROVED BY:	J. Christopher Lytle, Executive Director
ACTION TYPE:	Resolution

EXECUTIVE SUMMARY

The two letters of credit issued by Bank of America to support the Port's commercial paper program, amounting to $150 million and $50 million respectively, are set to expire on June 30, 2019. In order to maintain the program, they must be extended or replaced. The subject of this Agenda Report is to request authorization to extend these letters of credit for four years to June 30, 2023 based upon the results of an RFP process undertaken by staff, and make administrative amendments to the commercial paper indentures and associated documents.

BACKGROUND

Since 1998, the Board has authorized a commercial paper (CP) program in an amount of up to $300 million, which has been supported by letters of credit (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 Bank of America National Association (BANA) in the amount of $150 million that supports the Port's Series A, Series B and Series C CP notes (ABC Notes). Another 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. Both LOCs expire on June 30, 2019. In order to maintain the CP program at its current capacity, the Port must either extend or replace the expiring LOCs.

The CP program acts as a short-term financing vehicle that allows the Port to access funds at 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. The CP notes are subordinate to the Port's senior lien revenue bonds, Department of Boating and Waterways (DBW) loan and intermediate lien revenue bonds. As of April 3, 2019, the total amount of CP notes outstanding was $88.3 million.

CP notes have a maturity date ranging from 1 to 270 days. The maturity date established is a function of market conditions and Port requirements. If the CP notes are not repaid on the maturity date, it is remarketed so that it can be "rolled-over" to a new maturity date. The benefits and risks associated with a CP program include:

Benefits	Credit and Price Risk
▪ Historically low interest rates ▪ Short-term liquidity line ▪ Interim financing for capital projects ▪ Flexibility to borrow as needed; no carrying costs ▪ Emergency line of credit	▪ Letter of credit rollover risk – if LOC replacement is not obtained at expiration, must repay outstanding amounts within 3 years or in certain circumstances sooner (current market standards) ▪ Remarketing risk – if there is no buyer for the CP notes at maturity, must repay any amounts drawn under the LOC within 3 years or in certain circumstances sooner (current market standards) ▪ Price risk – new LOC pricing at time of renewal may be substantially higher ▪ Interest rate risk – variable interest rate changes every 1 to 270 days creating long-term cost of funds uncertainty ▪ Termination risk – the LOC banks reserve the right to terminate the LOCs if the Port breaches certain representations and covenants which could result in immediate repayment obligations for outstanding amounts

ANALYSIS

Request for Proposal

On January 18, 2019, the Port issued a Request for Proposal (RFP) to replace the existing LOCs, or obtain an alternative financial product that would allow the Port to retain a short-term variable-rate component to its debt portfolio. The Port posted the RFP document to its website (Port of Oakland Archived Bids & RFPs) and reached out to 25 banks through its financial advisor, Montague, DeRose & Associates, LLC. By the February 11, 2019 deadline, the Port had received five responses from proposing banks, which were subsequently ranked as follows:

Firm	Rank
Bank of America National Association	1
Barclays Capital Inc	2
MUFG Bank	3
JPMorgan Chase Bank	4
Citibank	5

The proposals were evaluated by a committee of 3 staff from the Port's Finance & Administration Department. Criteria included the terms under which the liquidity facility was offered (35%), the overall cost to the Port (50%), 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.

Of the proposing banks, BANA offered facility amounts that would remain consistent with the current LOCs ($150 million and $50 million, respectively) and the most competitive and flexible pricing, with options to extend the LOCs for periods ranging between two and four years, and at prices ranging from 35 basis points of the total stated amount[1] (two years) to 45 basis points (four years). A breakdown of the term(s) and fee(s) of each bank is provided in the table on the following page. For reference, the Port's current LOC fee (expiring on June 30, 2019) is 55 basis points.

[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				
Two Years	$200 million	0.35%	$762,000	$1,524,000
Three Years	$200 million	0.39%	$850,000	$2,550,000
Four Years	$200 million	0.45%	$980,000	$3,920,000
Barclays				
Three Years	$100 million	0.57%	$621,000 ($100 million LOC)	$1,863,000 ($100 million LOC)
Four Years	$100 million	0.59%	$642,000 ($100 million LOC)	$2,568,000 ($100 million LOC)
MUFG				
Three Years	$200 million	0.39%	$850,000	$2,550,000
JPMorgan Chase				
Two Years	$200 million	0.87%	$1,895,000	$3,790,000
Three Years	$200 million	0.95%	$2,069,000	$4,138,000
Citibank				
Two Years	$100 million	0.77%	$1,677,000 ($100 million LOC)	$3,354,000 ($100 million LOC)
Three Years	$100 million	0.83%	$1,807,000 ($100 million LOC)	$3,614,000 ($100 million LOC)

The terms of the reimbursement agreement proposed by BANA were also the most competitive and would essentially amount to an extension of the existing agreement. The reimbursement agreement is the contract between the Port and BANA, establishing the terms of the CP notes issuance, as well as drawings from and reimbursements 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.

Staff is proposing to extend its current facilities with BANA for an additional four years to June 30, 2023, in order to lock in the proposed competitive rate and to schedule future LOC expirations to occur after potential bond refundings expected in 2021 and 2022.

Fee Letter

The Port will also enter into Amended and Restated Fee Letter agreements, describing credit facility fees as specified above. Copies of the 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 in commercial paper notes providing relevant disclosure information. A copy of the offering memorandum in substantially final form is provided as Attachment B.

Amendments to the CP Indentures

Staff also proposes to make administrative amendments to the CP Indentures dated October 1, 1998 and September 1, 1999 to modify the permissible uses for proceeds of the Notes. Specifically, the amendments would permit the use of proceeds from the issuance of ABC Notes to pay debt service of maturing DEF Notes and vice versa, as well as any other permissible uses under the applicable tax certificate.

These amendments reflect existing capital market practices. Under the CP indentures the consent of Noteholders is not required because the amendments will take effect only with respect to the Notes issued on or after the effective date of the amendments accompanied by appropriate disclosure of the amendments. The amendments require the consent of the LOC bank, which has been obtained. Copies of the amendment documents in substantially final form are provided as Attachment C(1) and Attachment C(2).

Amendments to the Issuing & Paying Agent Agreements

Several amendments have been proposed for the agreements between the Port and the Issuing & Paying Agent (IPA) who administers the Notes on behalf of the port. These have been made in order to implement the above proposed amendments to the CP indentures, and to align the agreements with current practice in the issuance of CP Notes. Copies of the IPA agreement amendments in substantially final form are provided as Attachment D(1) and Attachment D(2).

BUDGET & STAFFING

The fees required to extend the BANA LOCs to June 30, 2023 amount to 0.45% of the combined Stated Amount of $217,753,000 and represents a decrease from the current fee level of 0.55% of the Stated Amount, which results in $218,000 in annual savings. A summary of the current and proposed fees on an annual basis is provided in the table below.

	Fee %	Annual Facility Fee	Estimated Annual Draw-Down and Wire Fees	Total Annual Fees
Current Facility	0.55%	$1,198,000	$10,000	$1,208,000
Proposed Facility	0.45%	980,000	10,000	990,000

The proposed action has no staffing impact.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The matters included 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

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Business Plan (2018-2022).

https://www.portofoakland.com/wp-content/uploads/Port-of-Oakland-Strategic-Plan.pdf

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Business Plan (2018-2022).

- Goal: Grow Net Revenues. Extension of the CP program will allow the Port to retain a short-term, variable rate component to its debt portfolio, thereby reducing the cost of debt service.

- Goal: Modernize and Maintain Infrastructure. Extension of the CP program will allow the Port to maintain access to capital markets to fund large projects that could not otherwise be accommodated using available cash.

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.

SUSTAINABILITY

Port staff have reviewed the Port's 2000 Sustainability Policy and did not complete the Sustainability Opportunities Assessment Form. There are no sustainability opportunities related to this proposed action because it does not involve a development project, purchasing of equipment, or operations that presents sustainability opportunities.

ENVIRONMENTAL

The proposal to extend letters of credit 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 those actions related to a letter of credit and related agreements 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)

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

OPTIONS

1. Authorize the letter of credit extensions provided by BANA for the amounts of $150 million and $50 million respectively (plus applicable interest coverage) for a four year term to June 30, 2023; approve the proposed amendments to the commercial paper indentures; approve the proposed amendments to the IPA agreements; approve the proposed amended and restated fee letter agreements with BANA; approve distribution of the offering memorandum; authorize the Executive Director and the Chief Financial Officer and other officers and employees with authority to execute all papers, documents, certificates and other instruments that may be required in order to carry out the transactions contemplated herein, subject in each case to the approval, if necessary, of the Port Attorney or his authorized designee, and ratify prior actions taken by such persons in connection with the transactions contemplated herein. This is the recommended option.

2. Authorize the letter of credit extensions provided by BANA for the amounts of $150 million and $50 million respectively (plus applicable interest coverage), but for one of the alternative terms proposed (either 2 years or 3 years); approve the proposed amendments to the commercial paper indentures; approve the proposed amendments to the IPA agreements; approve the proposed amended and restated fee letter agreements with BANA; approve distribution of the offering memorandum; authorize the Executive Director and the Chief Financial Officer and other officers and employees with authority to execute all papers, documents, certificates and other instruments that may be required in order to carry out the transactions contemplated herein, subject in each case to the approval, if necessary, of the Port Attorney or his authorized designee, and ratify prior actions taken by such persons in connection with the transactions contemplated herein.

   This option would reduce the fee amounts paid by the Port during their terms (either two or three years). However, market conditions for LOCs may change in the future, resulting in higher fees after the LOC extensions expire and the Port attempts to replace them. Shorter terms may also increase rollover risk, as staff would have to replace the LOCs sooner than would otherwise be the case.

3. Reject the letter of credit extensions provided by BANA for the amounts of $150 million and $50 million respectively (plus applicable interest coverage) and direct staff to negotiate with one or more of the other proposers.

   The effect of this option would be to increase the administrative cost of the transaction as it would require the Port to negotiate a new agreement with the prospective LOC provider(s). It is also unlikely that this option would result in lower fees or better terms, and it is possible that the opposite would occur.

4. Do not extend the Port's current LOCs and associated documents; do not approve the proposed indenture or IPA agreement amendments; do not approve the distribution of the offering memorandum.

   Under this option, the current LOCs would expire and the Port would have to pay the remaining CP balance of $88.3 million all at once, or the balance would be converted into a term loan under the provisions of the Port's current agreement with BANA. In this latter case, the $88.3 million would have to be repaid with interest over a period of three years.

RECOMMENDATION

Adopt a resolution authorizing the letter of credit extensions provided by BANA for the amounts of $150 million and $50 million respectively (plus applicable interest coverage) for a four year term to June 30, 2023 at a fee of $980,000 annually; approve the proposed amendments to the commercial paper indentures; approve the proposed amendments to the IPA agreements; approve the proposed amended and restated fee letter agreements with BANA; approve distribution of the offering memorandum; authorize the Executive Director and the Chief Financial Officer and other officers and employees with authority to execute all papers, documents, certificates and other instruments that may be required in order to carry out the transactions contemplated herein, subject in each case to the approval, if necessary, of the Port Attorney or his authorized designee, and ratify prior actions taken by such persons in connection with the transactions contemplated herein.