



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6f

ACTION ITEM

Date of Meeting September 22, 2020

DATE: September 9, 2020

TO: Stephen P. Metruck, Executive Director

FROM: Elizabeth Morrison, Director, Corporate Finance
Scott Bertram, Manager, Corporate Financial Analysis

SUBJECT: Resolution No. 3777, Amending Resolution No. 3456, as Amended - Commercial Paper Authorization

ACTION REQUESTED

Request adoption of Resolution No. 3777, amending Resolution No. 3456, as amended, regarding term, size and certain delegated authority with respect to the Port's Subordinate Lien Revenue Notes (Commercial Paper) program.

EXECUTIVE SUMMARY

As part of its debt management program, the Port uses Commercial Paper (CP) authorized under Resolution No. 3456 to provide interim capital financing and general liquidity. Staff is recommending that the program be updated to extend the expiration date from June 1, 2021, to June 1, 2051, to increase the program size from \$250 million to \$400 million, and to delegate to staff the future selection of letter of credit (LOC) providers that support of the CP program.

JUSTIFICATION

In 1997 the Commission authorized the issuance of up to \$100 million of Commercial Paper (CP) and in 2001 authorized the expansion of that program to \$250 million pursuant to Resolution No. 3456. The program expires June 1, 2021. Over the past twenty-two years, CP has proved to be an effective financial management tool, providing interim funding for the Port's ongoing capital program, as well as access to additional liquidity. CP is a flexible low-cost tool, and the Port can issue CP as needed and repay outstanding CP as it matures. Maturing CP can be paid with cash, the issuance of new CP (roll-over) or with proceeds from a long-term bond issue. CP has been used for bridge financing in anticipation of grant receipts or a bond issuance. It has also been used for longer-term variable rate financing and amortized gradually. The Port pays interest on the outstanding CP only and not on the full authorized program amount, and because CP is a short-term obligation it benefits from the generally lower interest rates at the short end of the yield curve. The Port currently has approximately \$18 million CP outstanding; outstanding amounts have ranged from \$0 to \$186 million over the life of the program.

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Although primarily used for capital funding, it can also provide additional liquidity. For example, the Port has managed the program to maintain \$50 million available for emergencies and has thereby been able to avoid the purchase of costly earthquake insurance. The Port can also use this liquidity layer to help manage temporary cash shortfalls; a potentially important tool as the Port manages through the current business downturn caused by the pandemic.

CP, like the Port's long-term variable rate bonds, are issued on the Port's Subordinate Lien and are secured by a direct pay letter of credit. The current LOC providers are Sumitomo Mitsui Banking Corporation and Bank of America, N.A. These LOCs expire on November 19, 2020 and June 1, 2021, respectively. LOCs are competitively selected and may be extended if terms are favorable to the Port based on market information. Staff recommends extending the CP program prior to its expiration date in order to extend the Sumitomo LOC for a three-year term.

In 2001, when the current CP program was authorized, the Port's annual capital spending averaged \$276 million over the preceding five years (1996-2000); the Port's average annual capital spending over the most recent five years (2015-2019) has increased to \$410 million. Similarly, the Port's operating expenses have increased over the past 20 years, from \$194 million in 2000 to \$443 million in 2019. Due to the increase in capital spending and growth of the organization and the expectation that during the life of the program the Port will continue to grow, staff recommends increasing the CP program from \$250 million to \$400 million. However, due to the high fees currently associated with LOCs and there being no immediate needs to utilize the additional CP capacity, staff does not recommend adding a new LOC provider at this time. As such, there is no cost associated with the additional authorization. A LOC can be added at a future date, as needed, through a competitive selection. Staff further recommends that the selection of any future LOCs in support of the CP program be delegated to staff; this is consistent with the delegation for the management of the Port's other variable rate debt.

DETAILS

Resolution No. 3777 amends resolution No. 3456 in three ways. First, the program term is extended to June 1, 2051. Second, the program size is increased to \$400 million to support the growth of the organization and costs of capital construction. Third, the Resolution amends the delegation to staff to manage the letters of credit in order to be consistent with the Port's other Subordinate Lien variable rate debt. Pursuant to Resolution No. 3456, the amendment requires consent from the existing LOC providers; both have reviewed and provided preliminary consent to this amendment. The amendment will become effective upon final adoption and receipt of the LOC providers' formal consent.

ATTACHMENTS TO THIS REQUEST

- (1) Resolution No. 3777
- (2) Resolution No. 3456, as amended

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PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- Adoption of Resolution No. 3456 on June 26, 2001
- Introduction of Resolution No. 3777 Amendment to Commercial Paper Resolution No. 3456 on September 8, 2020