OCTA

*October 14, 2020*

***To:*** Finance and Administration Committee

***From:*** Darrell E. Johnson, Chief Executive Officer

***Subject:*** Transportation Infrastructure Finance and Innovation Act Loan Interest Rate Reset

## *Overview*

On July 26, 2017, the Orange County Transportation Authority and the United States Department of Transportation Build America Bureau Credit Programs Office executed a Transportation Infrastructure Finance and Innovation Act Loan for up to $628.93 million for the Interstate 405 Improvement Project. Over the past two months, staff has had several successful discussions with the Build America Bureau regarding the possibility of lowering the interest rate on the existing 2017 Transportation Infrastructure Finance and Innovation Act Loan. Staff is seeking approval to pursue lowering the current fixed rate of 2.91 percent interest rate based on current market conditions.

## *Recommendations*

A. Direct staff to proceed with pursing an interest rate reset of Orange County Transportation Authority's Transportation Infrastructure Finance and Innovation Act Loan for the Interstate 405 Improvement Project.

B. Authorize staff to execute Amendment No. 1 to Agreement No. C-7-2137 between the Orange County Transportation Authority and Sperry Capital, Inc. in the amount of $170,000, to provide financial advisory services to the Orange County Transportation Authority for the interest rate reset transaction. The total contract amount will increase to $665,000.

C. Authorize staff to execute Amendment No. 1 to Agreement No. C-0-2021 between the Orange County Transportation Authority and Nossaman LLP, in the amount of $65,000, to provide bond counsel services to the Orange County Transportation Authority for the interest rate reset transaction. The total contract amount will increase to $301,000.

D. Authorize the payment of fees and expenses required by the Build America Bureau to facilitate the interest rate reset.

E. Direct staff to return to the Board of Directors for approval of the financing documents required to execute the closing of the transaction.

***Background***

On July 26, 2017, the Orange County Transportation Authority (OCTA) and the United States Department of Transportation Build America Bureau Credit Programs Office (Bureau) executed a Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan for $628.9 million (2017 TIFIA Loan) as a direct borrowing for the Interstate 405 (I-405) Improvement Project. The interest rate on the 2017 TIFIA Loan is 2.91 percent fixed for the life of the loan.

The 2017 TIFIA Loan is non-recourse debt issued on a senior lien basis secured solely by net toll revenues of the I-405 Express Lanes, which is estimated to open in 2023. Annual debt service payments are not required until five years after substantial completion, and interest-only payments are required for the first five years Principal payments for the loan commence in year ten after substantial completion. As of June 30, 2020, OCTA had drawn $287 million on the 2017 TIFIA Loan. The amount outstanding under the 2017 TIFIA loan on June 30, 2020, including capitalized interest, was $302.7 million.

***Discussion***

Over the past two months, OCTA staff has had several successful discussions with the Bureau regarding the possibility of lowering the interest rate on the 2017 TIFIA Loan. During these discussions, the Bureau stated that the process for an interest rate reset was in the initial stages but invited OCTA to submit a Letter of Interest (LOI). OCTA submitted the LOI on August 31, 2020, requesting to reset the 2.91 percent interest on the 2017 TIFIA Loan. OCTA anticipates that the LOI will meet the Bureau's requirements and OCTA will be asked to move to the next step in the process, which is to submit a formal loan application.

It is expected that substantial savings could be achieved if the new TIFIA loan is reset based on current 30-year United States Treasury bond yields. If successful, it is anticipated that the current interest rate of 2.91 percent could be reduced by approximately half, resulting in significant debt service savings. Based on current United States Treasury bond yields, it is anticipated that a new TIFIA loan will result in net present value savings of approximately 25 percent, or approximately $190 million.

Interest Rate Reset Requirements and Timing

OCTA has submitted a LOI and will be required to submit a formal loan application based on an invitation by the Bureau to go to the next step in the process. OCTA will also be required to receive credit ratings by at least two rating agencies and the loan would then be subject to approval by the United States Department of Transportation.

Pursuant to TIFIA statutory requirements, the 2.91 percent interest rate cannot be reset through an amendment. The reset can only be achieved by terminating the existing loan and executing a new loan with a new interest rate. The new interest rate would be set at one basis point above the prevailing 30-year United States Treasury bond yield at the time of closing. Other terms of the loan will remain unchanged.

Prior to closing, OCTA would be required to initiate the cancellation process for the existing 2017 TIFIA Loan by paying off the existing loan. OCTA would repay $287 million, the total TIFIA loan disbursements to date, plus capitalized interest, at least ten days prior to closing the new TIFIA Loan. Simultaneously with the closing of the new loan, OCTA would submit a reimbursement request for the $287 million in order to be immediately reimbursed. The $287 million reimbursement request would be supported by eligible project expenditures as identified by staff.

To close the new TIFIA loan and lock in the new interest rate, the Bureau will need to get approval from the Council on Credit and Finance, which is anticipated to meet in November 2020. If approved at that meeting, the Council on Credit and Finance will make a recommendation to the Secretary of Transportation (Secretary). The Secretary makes the final determination on approving the new TIFIA loan. Based on the estimated timeline provided by the Bureau, OCTA is targeting a financial close for the TIFIA loan in January 2021. Prior to execution of the transaction, staff would return to the Board of Directors (Board) for approval of the new TIFIA Loan financing documents.

TIFIA Loan Interest Rate Reset Estimated Fees and Expenses

Fees and expenses for the transaction are estimated at $755,000 and are necessary to cover the costs for credit ratings, financial advisory services, bond counsel, and Bureau costs.

Pursuant to statutory requirements, OCTA is required to submit at least two investment grade ratings to the Bureau at financial close. Since Moody’s is the rating agency responsible for providing an annual rating for the existing 2017 TIFIA Loan, OCTA representatives discussed the background, importance of the new TIFIA loan interest rate reset, and expected schedule for closing with Moody’s. Staff expects to have similar calls with other rating agencies including Fitch Ratings, Standard & Poor’s, and Kroll Bond Rating Agency. The estimated cost to obtain two ratings is approximately $400,000. Actual costs will be determined upon formal engagement with the rating agencies.

To successfully carry-out the transaction, OCTA will need the support of Sperry Capital, Inc. (OCTA’s financial advisory firm), and Nossaman, LLP, (OCTA’s bond counsel firm). The contracts for both firms must be amended in order to cover the additional fees and expenses to be incurred for the transaction. The cost for financial advisory services for the transaction is estimated at $170,000, and for bond counsel services the estimate is $65,000.

Additionally, the Bureau requires borrowers seeking financing to pay all fees and expenses of the Bureau. For this transaction, the Bureau has communicated that they will require outside legal counsel. The estimated fees and expenses to be paid by OCTA is approximately $120,000. The Bureau is conducting the procurement process for outside legal counsel and expects to finalize the engagement by the end of October 2020. OCTA may be required to pay additional fees and expenses if the Bureau requires additional consultant support during the transaction.

***Summary***

The Orange County Transportation Authority is requesting approval to pursue resetting the interest rate on its existing 2017 TIFIA Loan. Given current market conditions, it is anticipated that an interest rate reset could result in significant debt service savings for the I-405 Improvement Project. Staff will return to the Board for approval of financing documents for the new TIFIA loan should OCTA receive loan approval from the Bureau.

***Attachment***

None.

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