

Transportation Infrastructure Finance and Innovation Act Loan Interest Rate Reset

Background

- In April 2015, the Orange County Transportation Authority (OCTA) Board of Directors (Board) approved the Interstate 405 (I-405) Improvement Project, which included the construction of the 405 Express Lanes
- In July 2017, 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)

Key Provisions of TIFIA Loan

- Interest rate fixed at 2.91 percent for the life of the loan
- Loan is secured by and payable solely from net toll revenues of the 405 Express Lanes, estimated to open in 2023
- Annual debt service payments are not required until five years after substantial completion
 - Interest-only payments are required for the first five years (years five through ten after substantial completion)
 - Principal payments for the loan commence in year ten after substantial completion

Recent Communications

- Bureau communicated willingness to consider an interest rate reset on OCTA's TIFIA Loan
 - Process not formalized for interest rate reset yet, however OCTA was invited to submit letter of interest (LOI)
 - OCTA submitted LOI on August 31, 2020 requesting to reset the 2.91 percent interest rate on the 2017 TIFIA Loan
- On October 6, 2020, the Bureau notified OCTA that the LOI was approved and OCTA could move to the creditworthiness phase, which will require a formal loan application

Potential Savings

- Substantial savings could be achieved if the loan is reset at current market rates (interest rate is one basis point above prevailing 30-year United States Treasury bond yields at the time of closing)
 - Based on current rates, the 2017 TIFIA Loan interest rate could be reduced by approximately half
 - 2017 TIFIA Loan - 2.91 percent
 - New TIFIA Loan - 1.41 percent
 - Estimated savings of approximately \$190 million

Recommendations

- Direct staff to proceed with pursuing an interest rate reset of OCTA's TIFIA Loan for the I-405 Improvement Project, and authorize staff to execute necessary amendments to agreements for financial advisory and bond counsel services
- Authorize the payment of fees and expenses required by the Bureau
- Direct staff to return to the Board for approval of the financing documents required to execute the closing of the transaction

Next Steps

- Seek Board approval on October 26, 2020, to pursue an interest rate reset of the 2017 TIFIA loan
- Receive investment grade ratings by early January 2021
- Receive Secretary of Transportation approval of the new loan in January 2021
- Return to the Board for approval of financing documents in January 2021
- Loan closing estimated to occur in January 2021