OCTA

June 9, 2021

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Authorize the Issuance of Bond Anticipation Notes as a Short-Term Interim Financing to Support the Construction of the Interstate 405 Improvement Project and Selection of Underwriting Team

Overview

This item requests authorizations required for the issuance of Bond Anticipation Notes to support the construction of the Interstate 405 Improvement Project and achieve interest cost savings. If a financing is approved, the selection of an underwriting team is recommended.

Recommendations

A. Authorize the issuance of Bond Anticipation Notes as a short-term interim financing to support the construction of the Interstate 405 Improvement Project.

B. Authorize staff to utilize a third-party bridge loan pending issuance of the Bond Anticipation Notes if to do so will generate additional savings over using cash to repay the 2017 Transportation Infrastructure Finance and Innovation Act Loan.

C. Authorize the selection of Bank of America Securities, Barclays Capital, Inc., Citigroup Global Markets, Inc., and Wells Fargo Securities, from the Orange County Transportation Authority's underwriting pool, to assist with the issuance.

D. Authorize the selection of Bank of America Securities and Barclays Capital, Inc., from the Orange County Transportation Authority's underwriting pool, to serve as the senior manager and co-senior manager, respectively, for the issuance.

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

2017 Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan

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 TIFIA Loan for $628.9 million (2017 TIFIA Loan) as a direct borrowing for the Interstate 405 (I-405) Improvement Project (Project).

The interest rate on the 2017 TIFIA Loan is 2.91 percent fixed for the life of the loan. 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.

TIFIA Loan Interest Rate Reset

Since August 2020, OCTA staff has been working with the Bureau regarding the possibility of lowering the interest rate on the 2017 TIFIA Loan, as a result of historically low United States (U.S.) Treasury rates. It is expected that savings could be achieved if the 2017 TIFIA Loan is replaced with a new TIFIA Loan (2021 TIFIA Loan), by resetting the 2.91 percent interest rate based on current 30-year U.S. Treasury bond yields.

On October 26, 2020, the OCTA Board of Directors (Board) authorized staff to proceed with pursuing an interest rate reset on the 2017 TIFIA Loan, and on March 22, 2021, the Board approved the substantially final form of the financing documents for the proposed transaction. Based on the estimated timeline provided by the Bureau, OCTA was targeting a financial close for the 2021 TIFIA Loan in late March 2021. However, the approval process for resetting TIFIA Loans was put on hold while internal discussions occurred between the U.S. Department of Transportation (DOT) and Office of Management and Budget (OMB).

On May 20, 2021, the Bureau notified OCTA that an agreement had been reached after several internal discussions between the DOT and OMB, and therefore the Council on Credit and Finance voted to approve the

2021 TIFIA Loan on May 19, 2021. The Bureau has set a tentative closing date for the transaction for June 22, 2021.

Discussion

Summary of the Proposed Short-Term Interim Financing

In addition to the opportunity to refinance the existing 2017 TIFIA Loan, OCTA has an opportunity to complete a short-term interim financing to lock in low-cost funding during the remaining construction period of the Project, as a result of short-term tax-exempt rates remaining near all-time lows while long-term rates have risen. This can be accomplished through the issuance of Bond Anticipation Notes (BANs).

BANs are a short-term financing vehicle used during the construction of projects that create flexibility by cost-effectively delaying draws on and repayment of the TIFA loan, while taking advantage of lower short-term interest rates on the borrowed amounts.

Pursuant to the TIFIA statute, borrowers are not required to draw on a TIFIA Loan until one year beyond substantial completion. Based on the Project's substantial completion date of October 31, 2023, OCTA can issue BANs out to October 2024 at a rate lower than TIFIA rates, providing interest cost savings during the construction of the Project.

BANs for projects with TIFIA loans currently have three-year yields below one percent, which is significantly lower than the current cost of OCTA's 2017 TIFIA Loan of 2.91 percent, and the requested 2021 TIFIA Loan of approximately 2.32 percent (rate estimate as of May 24, 2021). By using the BANs proceeds to pay for Project construction draws, delaying draws on the TIFIA loan until October 2024 and paying off the BANs with TIFIA loan proceeds, OCTA can save approximately $25 million based on today's short-term yields. These yields are estimates and the actual yields will be determined at the time of pricing. Even though TIFIA Loan proceeds will be used to repay the BANs, in order to achieve the lowest possible yields for the issuance, OCTA is pledging other available revenues, including Measure M2 sales tax revenue, to back the BANs.

OCTA may have the opportunity to generate additional savings by using a bridge loan in lieu of using its own funds to pay off the 2017 TIFIA loan. Staff will work with its underwriters to pursue bridge loan opportunities and determine if it would generate additional savings for OCTA.

Once the underwriting team is approved, OCTA staff will work with the financing team to develop a detailed financing plan to be provided to the Board when staff returns for approval of the financing documents.

Underwriting Team

In order to proceed with the recommended financing approach, OCTA will need to select underwriters for a BANs issuance.

On March 11, 2021, OCTA's contracted financial advisory consultant, Sperry Capital, Inc. (Sperry), issued a request for proposals to the 11 firms from the Board-approved underwriting pool, which was established in September 2016, for the short-term financing. On March 24, 2021, nine proposals were received.

On April 2, 2021, a Best and Final Offer was issued by Sperry and all nine firms responded. With the assistance of the Contracts Administration and Materials Management Department, an evaluation committee consisting of OCTA staff from the Express Lanes Programs, Finance and Administration, as well as external representatives from Sperry, met to review all proposals received. The evaluation committee recommends four firms to serve on the underwriting team for the BANs issuance. The recommended firms are Bank of America Securities (Bank of America), Barclays Capital, Inc. (Barclays), Citigroup Global Markets, Inc. (Citigroup), and Wells Fargo Securities (Wells Fargo).

The evaluation committee also recommends naming Bank of America as the senior manager, and Barclays as the co-senior manager for the proposed BANs issuance. Bank of America will be responsible for maintaining the underwriting books for the debt transaction, while Barclays will assist Bank of America with the financing. Bank of America proposed the lowest overall cost for the BANs issuance, while Barclays proposed the second lowest overall cost. The other two firms: Citigroup and Wells Fargo, will serve as co-managers on the transaction.

In their proposals, Bank of America and Barclays highlighted their respective firms' extensive experience with short-term capital markets financings and understanding of OCTA's debt structure. Both firms' technical proposals included work plans with supporting recommendations and a detailed discussion on moving forward with OCTA's BANs issuance.

Anticipated Cost of Issuance Expenses and Underwriting Fees

Cost of issuance expenses for debt issuances are paid at the closing of a financing transaction. These costs include legal fees, financial advisory fees, trustee fees, credit rating fees, printing, roadshow, and other miscellaneous expenditures. The estimated cost of issuance expenses for the TIFIA BANs will total approximately $500,000. In addition to these costs, the projected underwriting fees for the transaction are estimated at approximately $500,000. Staff will determine a more precise estimate for the cost of issuance in coordination with the underwriting firms and will provide the estimate with the financing documents in the early August timeframe.

Next Steps

If the Board approves the recommended financing and selection of underwriters, staff will work with its financing team to develop the documents required for the transaction. Prior to execution of the transaction, staff would return to the Board for approval of the financing documents.

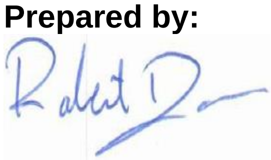
Summary

Board of Directors' approval is requested for the issuance of Bond Anticipation Notes as interim financing for the Interstate 405 Improvement Project to achieve interest cost savings. If the financing is approved, the selection of an underwriting team is recommended.

Attachment

None.

Prepared by:



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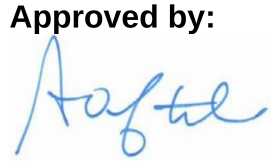

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