



October 13, 2021

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer 

Subject: Transportation Infrastructure Finance and Innovation Act Debt Service Savings

Overview

To support the construction of the Interstate 405 Improvement Project, staff has used a combination of Transportation Infrastructure Finance and Innovation Act loans and interim short-term financing to substantially reduce debt service costs. This staff report provides an overview of the financing strategies utilized and their contribution to the total debt service savings of \$482 million.

Recommendation

Receive and file as an information item.

Background

In April 2015, the Orange County Transportation Authority (OCTA) Board of Directors (Board) approved the Interstate 405 (I-405) Improvement Project, which included construction of the 405 Express Lanes. The Board also directed staff to utilize the most effective financing available to support the construction of the 405 Express Lanes.

Staff has used a combination of Transportation Infrastructure Finance and Innovation Act (TIFIA) loans and interim short-term financing to substantially reduce debt service costs for the I-405 Improvement Project. The net present value (NPV) savings generated totals approximately \$482 million. The financing strategies implemented by staff, including savings levels, are presented below.

Discussion

2017 TIFIA Loan

In February 2016, OCTA began working with the United States Department of Transportation Build America Bureau Credit Programs Office (Bureau) to pursue

a TIFIA loan due to the lower interest rate and flexible terms offered through the TIFIA program. On July 26, 2017, OCTA and the Bureau executed a TIFIA loan for \$628.9 million (2017 TIFIA loan) as a direct borrowing for the I-405 Improvement Project. The interest rate on the 2017 TIFIA loan was 2.91 percent fixed for the life of the loan. The NPV savings generated from utilizing the TIFIA loan instead of issuing toll road revenue bonds is estimated to be \$300 million.

2021 TIFIA Loan

In August 2020, OCTA staff initiated 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 begin the application process by submitting 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 had made two draws on the 2017 TIFIA loan totaling \$287 million.

In March 2021, the Board approved the financing documents for the rate reset of the 2017 TIFIA loan. The rate reset closed on September 9, 2021, establishing OCTA as the first agency to close a rate reset loan (2021 TIFIA loan) for a loan that had been drawn upon. The rate reset resulted in an interest rate of 1.95 percent and NPV savings of \$158 million.

TIFIA Bond Anticipation Notes

Due to short-term interest rates reaching historic lows, staff determined that additional debt service savings could be realized if OCTA pursued short-term interim financing in lieu of immediately drawing on the 2021 TIFIA loan. On June 14, 2021, the Board approved the issuance of three-year Bond Anticipation Notes (2021 BANs) as a short-term interim financing to support the construction of the I-405 Improvement Project.

The 2021 BANs were issued on September 21, 2021, allowing OCTA to borrow at a reduced interest rate of 0.34 percent over the next three years instead of drawing on the 2021 TIFIA loan at a rate of 1.95 percent. The NPV savings from using the 2021 BANs to instead of drawing on the 2021 TIFIA loan is \$24 million.

Positive Impact on the 405 Express Lanes

The lower debt cost stemming from the financing strategies utilized by OCTA provides OCTA with flexibility in toll policy by allowing the following: use of congestion pricing instead of revenue maximization, high-occupancy

vehicle (HOV) of two people to be free during off peak periods for the first three years, and HOV of three or more to be free at all times. Additional benefits include an earlier payback of the 2021 TIFIA loan, and the generation of excess revenues earlier which can be used for projects in the corridor.

Summary

To support the construction of the I-405 Improvement Project, staff has used a combination of TIFIA loans and interim short-term financing to substantially reduce debt service costs.

Attachment

None.

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