



FEBRUARY 26, 2015

AGENDA ITEM # 12

REPLACEMENT OF ONE LIQUIDITY FACILITY ASSOCIATED WITH THE MEASURE A DEBT PORTFOLIO

Action Requested: Approve attached resolution

Key Staff: Brian Williams, Executive Director

Recommendation

Approve the attached resolution and related documents to:

1. Authorize the issuance of the Series 2015A Measure A sales tax revenue refunding bonds in an aggregate principal amount not to exceed \$106,100,000 to refund the outstanding Series 2009B Bonds.
2. Authorize and facilitate the implementation of a liquidity facility relating to the Series 2015A Bonds.
3. Authorize the amendments to the liquidity facility relating to the Series 2009C Bonds and the continuing covenant agreement relating to the Series 2014A Bonds.

Discussion

STA's outstanding variable-rate debt portfolio was issued in 2009 in three equal series of \$106.1 million. Series 2009A was refunded in 2014 and is no longer outstanding. Series 2009B and 2009C are supported by Standby Bond Purchase Agreements (SBPAs). The SBPAs provide liquidity for these variable-rate bonds in that the bank counterparties agree to purchase and hold the bonds if there is insufficient demand for them among investors in the public capital markets. The SBPA associated with the Series 2009B Bonds is with JP Morgan Chase. This agreement expires on April 1, 2015. In October, your Board approved the negotiated terms for a new SBPA with Mizuho Bank, Ltd., acting through its New York Branch ("Mizuho"), to replace JP Morgan Chase. The objective of this replacement is to preserve liquidity on the affected bonds and reduce annual and long-term borrowing costs. Annual fees associated with liquidity and remarketing will be reduced from 0.92% to 0.45%, saving the STA about \$1,496,000 in borrowing costs over the three-year term of the SBPA. JP Morgan Securities will act as the underwriter and the remarketing agent for the Series 2015A Bonds.

Typically, the replacement of an SBPA does not require that the underlying bonds be refunded. A secondary objective of this transaction, however, is to release approximately \$9 million that was required to be placed in a debt service reserve account when the 2009B Bonds were originally issued. Upon refunding the Series 2009B Bonds with the proceeds of the Series 2015A Bonds, the STA plans to re-direct the released reserve funds to pay for eligible Measure A capital project expenses today. The \$9 million will not represent additional borrowing, but rather

the release of previously borrowed funds from reserve. The cumulative amount of outstanding Measure A sales tax bonds following this transaction will not change.

The following table provides an overview of the STA's variable-rate debt portfolio following issuance of the Series 2015A Bonds:

Summary of Measure A Variable-Rate Debt Portfolio

| SERIES | REMARKETING AGENT | SBPA | OUTSTANDING PAR | SBPA EXPIRATION DATE | SBPA RATE | MATURITY DATES |
|--------|----------------------|-------------------------|-----------------|----------------------|-----------|----------------|
| 2009B | JP Morgan Securities | JP Morgan Chase Bank NA | \$106,100,000 | 4/1/2015 | 0.82% | 10/1/2038 |
| 2015A | JP Morgan Securities | Mizuho Bank, Ltd | \$106,100,000 | 4/1/2018 | 0.35% | 10/1/2038 |
| 2009C | US Bank | US Bank | \$106,100,000 | 4/1/2017 | 0.34% | 10/1/2038 |

| SERIES | REMARKETING AGENT | DIRECT PURCHASE | OUTSTANDING PAR | Direct Purchase MANDATORY TENDER DATE | Spread on Direct Purchase | MATURITY DATE |
|--------|-------------------|-----------------|-----------------|---------------------------------------|---------------------------|---------------|
| 2014A | None | Wells Fargo | \$106,100,000 | 9/1/2017 | 0.35%* | 10/1/2038 |

* Spread is subject to change if STA's long-term bond rating declines

In connection with the new SBPA for the Series 2015A Bonds, the SBPA for the Series 2009C Bonds and the continuing covenants agreement ("CCA") for the Series 2014A Bonds will be amended to have consistent terms with the Series 2015A SBPA.

In coordination with our consulting financial advisor and bond counsel, staff has prepared the legal documents required to complete the transaction. By adopting the resolution attached immediately behind the staff report, your Board will formally authorize:

- Issuance and sale of the Series 2015A Measure A sales tax revenue refunding bonds to refund the existing Series 2009B Bonds and taking of all actions in connection with such issuance including the distribution of an Official Statement by the underwriter.
- Execution of a Purchase Contract with J.P. Morgan Securities
- Execution of a Standby Bond Purchase Agreement (SBPA) and a related Fee Agreement with Mizuho Bank, Ltd.
- Execution of a Remarketing Agreement with JP Morgan Securities.
- Execution of an amendment to the Series 2009C SBPA with US Bank
- Execution of an amendment to the Series 2014A CCA with Wells Fargo

Specifically, this transaction involves the following documents:

Fifth Supplemental Indenture: The Fifth Supplemental Indenture governs the terms of the Series 2015A Bonds. It is supplemental to STA's original indenture that was executed in 2009. The Fifth Supplemental Indenture establishes the mechanics for the Series 2015A Bonds, the security for the Series 2015A Bonds, certain covenants for the benefit of the Series 2015A Bonds, and the events of default and remedies.

Official Statement: The Official Statement describes the Series 2015A Bonds and discloses all material information relating to the Series 2015A Bonds and the STA.

Purchase Contract: Under the Purchase Contract, JP Morgan, as underwriter, commits to purchase the Series 2015A Bonds from the STA.

Remarketing Agreement: (Series 2015A): Under the Remarketing Agreement, JP Morgan, as remarketing agent, will remarket the Series 2015A Bonds that are tendered.

Series 2015A Standby Bond Purchase Agreement (SBPA): As described in the first paragraph, this SBPA provides liquidity for the Series 2015A Bonds, which are variable rate bonds.

Series 2015A Fee Agreement (Series 2015A): The Fee Agreement documents the fees payable to Mizuho for its obligations and duties under the Series 2015A SBPA.

Continuing Disclosure Certificate: The STA commits to providing continuing disclosure information to assist the underwriter in satisfying its obligations under Rule 15c2-12.

Amendment to Series 2009C Standby Bond Purchase Agreement: As described earlier, this amendment is to provide consistent terms with the Series 2015A SBPA.

Amendment to Series 2014A Continuing Covenant Agreement: As described earlier, this amendment is to provide consistent terms with the Series 2015A SBPA.

At today's meeting, a representative of Public Financial Management (PFM), Inc., the STA's financial advisor, will be available to answer any questions about the purpose and content of each of the affected documents.

Attachments
Enclosures

C: Jenna Magan – Orrick, Herrington & Sutcliffe
Peter Shellenberger – PFM, Inc.