



December 14, 2017

AGENDA ITEM # 12

EXTENSION OF STANDBY BOND PURCHASE AGREEMENT FOR THE SERIES 2009C BONDS AND CERTAIN AMENDMENTS TO EXISTING SWAP AGREEMENTS

Action Requested: Authorize Executive Director

Key Staff: Timothy Jones, Accounting/Finance Manager

Recommendation

Authorize the Executive Director to execute the following:

- Extension of Standby Bond Purchase Agreement (SBPA) and related fee letter for the Series 2009C bonds
- Certain amendments to existing swap agreements

Background Information

Extension of the SBPA - The Authority entered into a SBPA (liquidity facility) with U.S. Bank in August 2013 which was subsequently extended in March 2015, February 2017, and again in July 2017. Authority staff asked the Board for the last two short-term extensions as staff worked with the Authority's financial consulting team to develop long-term revenue projections, associated potential additional debt issuances and related capital program expenditures. The existing SBPA is due to expire in January 2018.

Certain amendments to existing swap agreements – In October 2006, the Authority entered into three forward interest rate swap agreements to hedge the interest rate risk associated with the Series 2009 Measure A Sales Tax Revenue Bonds issued in 2009, whose interest rate is variable. Initially there were three Series 2009 bond issuances – A, B, and C. The Series 2009A were refunded with Series 2014A bonds and the Series 2009B with Series 2015A, while the Series 2009C remain in place. The Authority has three existing swap partners, one for each bond series – Goldman Sachs, JP Morgan, and Bank of America.

Discussion

Authority staff have been working with the Authority's financial consult, PFM Financial Advisors (PFM), to determine the best course of action regarding the Series 2009C bonds given the January 2018 SBPA expiration. One of the proposals presented to the Authority by U.S. Bank was a direct purchase – similar to the arrangement the Authority currently has with the Series 2012 bonds and Wells Fargo Bank. Under U.S. Bank's proposal, the Authority could refund the bonds releasing \$8.1 million in debt service reserves and eliminating remarketing, liquidity, and credit rating costs,

saving the Authority's capital program several hundred thousand dollars per year. After weighing numerous options, Authority staff determined this option to be the best and proceeded to work with our financial consultants and bond legal counsel. However, in November the U.S. House of Representatives and subsequently the Senate, approved proposed tax reform that would overhaul the federal tax code, including lowering the corporate tax rate. If corporate tax rates were to decrease as proposed, this would trigger additional costs under the direct purchase option we were pursuing. Therefore, we asked for an analysis estimating the additional costs under each proposed tax rate change and determined the potential additional costs would exceed the benefits under the direct purchase option. As such, we worked with U.S. Bank to provide the Authority a competitive rate on an 18-month SBPA extension, the best option for the Authority given current market conditions. Therefore, we are requesting the Board to approve execution of an extension to the US Bank SBPA for 18 months and the related fee letter (reflecting a minimal increase of 0.34% to 0.38% under current STA ratings).

Additionally, Authority staff in conjunction with PFM and bond counsel agreed that certain changes to the language in our swap agreements were needed moving forward to provide STA with the flexibility to refund the Series 2009C Bonds in the future. These changes are described in the memo (attached) from PFM. We are requesting the Board to approve amendments to our existing swap agreements to accommodate these changes.

Some of the proposed changes are rather technical in nature, therefore our financial consultant, Peter Shellenberger, Managing Director, PFM Financial Advisors, and bond legal counsel, Jenna Magan, Partner, Orrick, Herrington & Sutcliffe, are available to address any questions you have.

Attachments

- Memo from PFM Financial Advisors
- STA Resolution
- Amendment No. 4 to Standby Bond Purchase Agreement
- Amendment No. 1 to Fee Letter Agreement
- Amendment to ISDA Master Agreement
- First Amendment to the ISDA Master Agreement
- ISDA Amended and Restated U.S. Municipal Counterparty Schedule
- Second Amendment and Restated Confirmation