STA

FEBRUARY 8, 2018 **AGENDA ITEM # 6**

REPLACEMENT LIQUIDITY FACILITY FOR SERIES 2015A BONDS AND RELEASE OF THE 2009C BOND RESERVE FUNDS

Action Requested: Authorize Executive Director

Key Staff: Timothy Jones, Accounting/Finance Manager

Recommendation

Authorize the Executive Director to execute the following:

- Replacement of Standby Bond Purchase Agreement (SBPA) for the Series 2015A bonds
- Release of the 2009C bond reserve funds

Background

The Authority's bond program currently consists of four issuances totaling $364.6 million – Series 2009C $106.1 million, Series 2012 $46.3 million, Series 2014A $106.1 million, and Series 2015A $106.1 million. Two series of bonds - 2009C and 2015A - are Variable Rate Demand Bonds (VRDB). The two series VRDB's are supported by Standby Bond Purchase Agreements (SBPA). The SBPA currently held by Mizuho bank for the Series 2015A bonds expires on March 12, 2018. Mizuho notified the Authority that it is exiting the liquidity facility market. Therefore, a Request for Fee Quotations and Firm Qualifications (RFQ) was circulated to 11 commercial banks on December 11, 2017 with a deadline to respond of January 3, 2018. The Authority received 5 bids for replacement liquidity facilities and 2 bids for a direct purchase which is similar to the arrangement the Authority has with Wells Fargo for the Series 2014A bonds.

The recent bids reflect market rates under the tax reform that decreased corporate tax rates to 21% from 35% beginning January 2018.

Discussion

After reviewing each proposal with PFM Financial Advisors (PFM), our financial consultant and bond counsel, Jenna Magan with Orrick, we believe Sumitomo Mitsui Banking Corporation (Sumitomo) provided the best overall proposal – a long-term (5 years) liquidity facility at a competitive price of 38 basis points (bps), which was the lowest rate for that term (see page 3 of the attached PFM memo for a summary of the liquidity facility bids). Sumitomo is highly rated by all three credit rating agencies and active in the liquidity facility market. We believe by securing competitive, long-term pricing, we will reduce future transaction fees and Authority administrative costs, freeing up money to spend on projects.

On December 14, 2017, your Board approved certain amendments to the interest rate swap agreements to facilitate refunding the Series 2009C bonds at a later date and release about $8.1 million held in reserve. Now that market rates under the recent tax reform have been determined, Authority staff in conjunction with the financial and legal consulting teams leveraged the recent bids to extend the liquidity facility for the Series 2009C bonds held by US Bank. Under the current terms, the Bank is charging 38 bps through June 2019. However, the team negotiated extended terms at the same price – 38 bps – through December 2020 (the existing Board approved documents allow staff to execute the extension).

Similarly, using current competitive rates, the team negotiated reduced costs for the direct purchase agreement with Wells Fargo. Costs to the Authority increased after enactment of the Federal tax reform bill which triggered a provision in the existing agreement that responds to changes in the corporate tax rates. This provision is not unique to the Authority's agreement, but is common to all direct purchase agreements. The reduced rates that Wells Fargo agreed to are the same as the rates received in response to the competitive bid process (the existing Board approved documents allow staff to execute the necessary legal documents).

PFM Financial Advisors provided a memo (attached) with more detail about the recommended transactions.

Peter Shellenberger, Managing Director with PFM, will present a brief PowerPoint presentation capturing, at a summary level, the proposed transactions requiring Board approval.

Attachment