



Joint Finance & Investment Committee

August 25, 2021



Transportation Corridor Agencies™



Call to Order



Roll Call



Public Comments



Committee Business



Item 1

SJHTCA Bond Refunding and Paydown Strategy

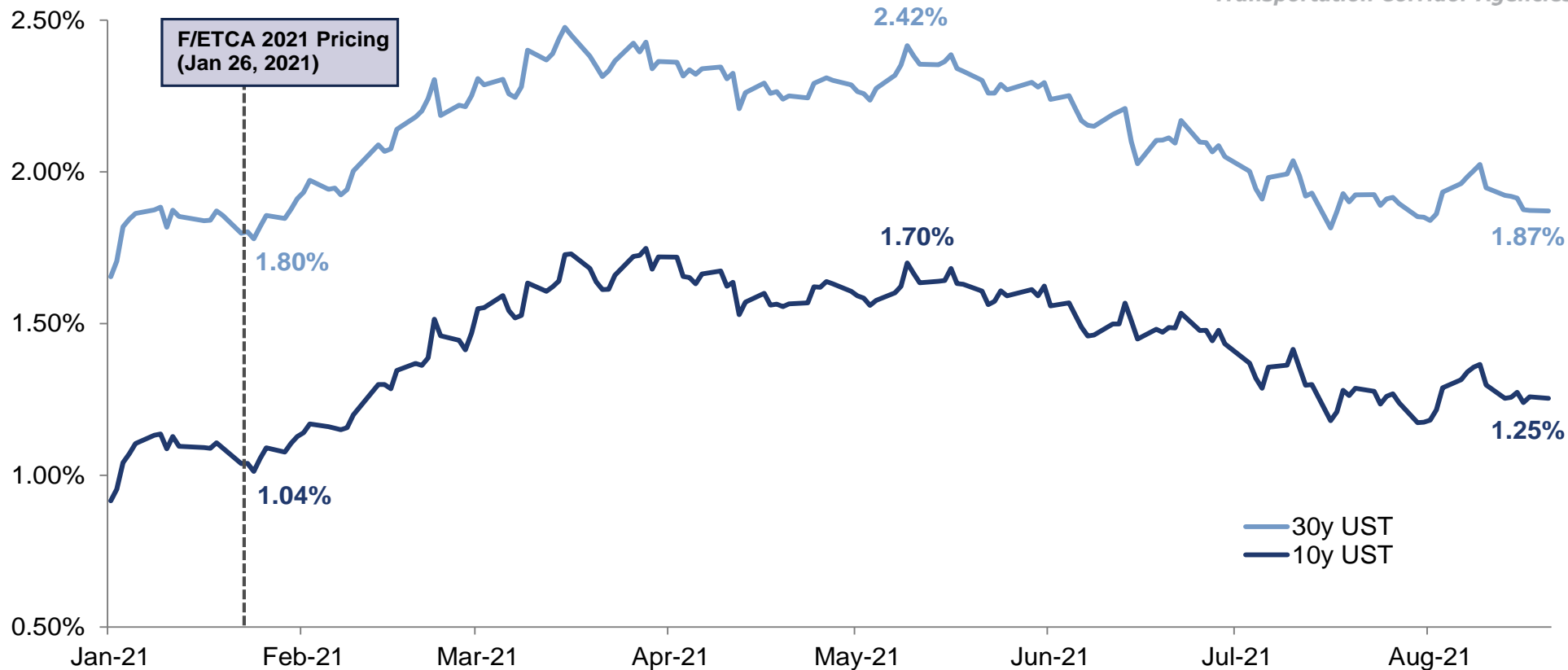
Savings and Debt Management Considerations

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- **Debt Management Policy** - In accordance with the Agencies' Debt Management Policies, staff monitors opportunities to refund bonds for savings and early paydown of debt
- **Early Bond Paydown Goals** – Staff is focused on Board direction to pay down bonds early
 - Unrestricted cash and savings realized from refundings can be used to pay down bonds over time
- **Refunding Opportunity** – Similar to what FETCA executed earlier this year, SJHTCA now has an opportunity to refund bonds for significant savings
 - Assuming rates as of August 23, SJHTCA can refund 2014A bonds and realize cashflow savings of \$137 - \$193 million (without extending any maturity dates)
 - Savings can be frontloaded in early years as recovery from pandemic continues

Current Interest Rates Present a Market Opportunity for SJHTCA Refunding

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Note: Rates as of August 23, 2021

Summary of SJHTCA Debt and Call Options

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	Series	Lien	Call Date (Redemption @ Par)	Outstanding Par Amount (\$000)	Coupon(s)	Maturity Dates
Target for Paydown with available cash or Refunding	Series 2014 B	Junior	January 15, 2025	<u>\$ 293,910</u>	5.25%	2044 & 2049
	2044 Term Bond			143,270		
	2049 Term Bond			150,640		
Targeted for Refunding Today to Lock-in Savings	Series 2014 A	Senior	January 15, 2025	<u>\$ 1,047,305</u>	5.00%	2029-2050
	2029 Term Bond			59,550		
	2034 Term Bond			134,935		
	2044 Term Bond			260,000		
	2050 Term Bond			592,820		
Strategic Tender Offer/ Paydown over time with available cash	Series 1997 CABs	Senior	Non-Callable	<u>\$ 223,074*</u>	5.55% to 5.67%	2022-2036
	Series 1997 CIBs (Formerly CABs, converted to CIBs on 7/15/2021)	Senior	Non-Callable	<u>\$ 768,700*</u>	5.65% to 5.75%	2038-2046

* Outstanding value as of July 15, 2021

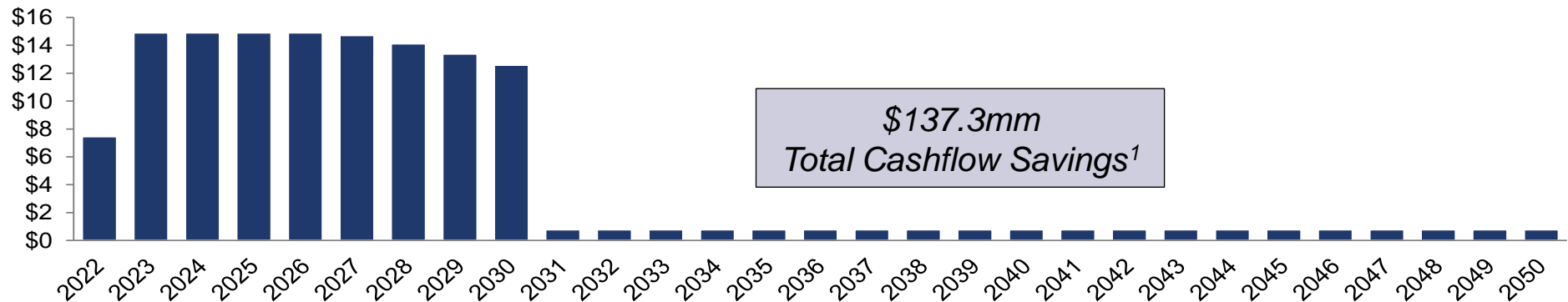
2014A Taxable Refunding Savings in Current Market

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Summary of Refunding Results for 2014A Bonds

	Senior Lien
Refunding Par	\$ 1,197,810,000
Refunded Par	1,047,305,000
All-in TIC	3.29 %
Avg. Life	20.1 yr
Cashflow Savings	\$ 137,302,245
PV Savings	\$ 112,526,354
PV Savings (%)	10.7 %

Cashflow Savings Profile (\$mm)



Note: Rates as of August 23, 2021 market conditions

¹ Total Cashflow Savings figure shown net of expenses.

Highlights of Proposed Approach

- Advance refunding all of the 2014A bonds today generates \$137 million of cashflow savings (\$112 million PV)
 - Savings may be increased by tax-exempt refunding enhancement (successful tender/exchange offer, similar to FETCA refunding)
- Leaves highest-coupon and longest-dated callable bonds (2014B bonds) outstanding for paydown at or around the call date to realize greater savings
- Paydown of 2014B bonds also creates release of debt service reserve fund
 - For example, a \$200 million paydown of 2014B bonds at the call date generates a \$15.8 million partial reserve fund release¹
- 1997A CABs and CIBs are more expensive to defease because they are not callable
 - However, they can be paid down over time with available cash or the Agency can opportunistically tender for them

¹ A full paydown of all \$294 million of the 2014B bonds generates a \$27.2 million reserve fund release

Staff is Also Evaluating Opportunities to Further Enhance Savings

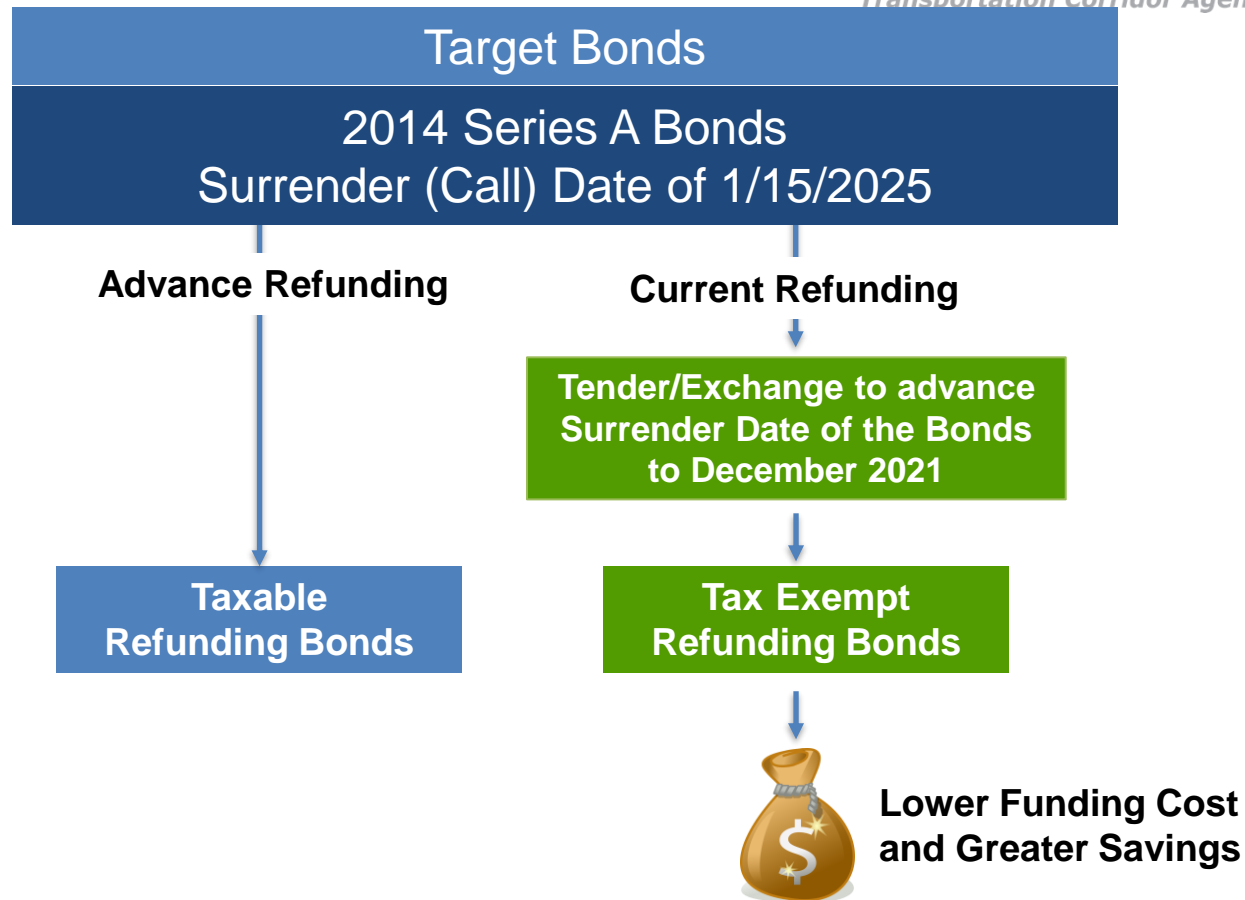
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- Since advance refundings (any refunding > 90 days before the call date) are not permitted on a tax-exempt basis, the refunding bonds will be issued as taxable bonds
- While taxable bonds provide attractive savings in the current market, tax-exempt refunding bonds can provide potentially greater savings
 - If SJHTCA waits until 90 days prior to the January 15, 2025 call date to refund the bonds, it can issue tax-exempt refunding bonds; however, it is exposed to interest rate risk in the interim
 - Alternatively, if current bondholders sell their bonds back to SJHTCA, Agency can issue tax-exempt bonds to current refund those bonds today, similar to FETCA's 2021 bond buyback and refunding
- Staff will work with bond counsel, Municipal Advisor and underwriting team to evaluate best options for SJHCTA

Tender/Exchange Allows for Lower Cost Tax-Exempt Refunding By Advancing the Surrender (Call) Date of the Bonds

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- Neither refunding strategy uses Agency cash
- Bondholders recognize Agency will only buy back bonds and issue tax-exempt refunding bonds if savings are significantly higher than the 'base case' taxable refunding
- SJHTCA can refund any bonds not tendered or exchanged with taxable refunding bonds to maximize savings



Summary of Refunding Savings Potential

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	Existing Bonds (Status Quo)	Base Case: 100% Taxable Refunding Bonds	Enhancement: 100% Buyback Participation/ 100% Tax Exempt Refunding Bonds
Interest Rate	5.00% to 5.25%	2.00% to 3.75% (Estimate)	1.50% to 3.00% (Estimate)
Estimated Refunding Savings before costs (Cashflow Savings)	N/A	~\$143,270,000	~\$201,295,000
Estimated Transaction Costs	N/A	Non-Contingent: \$590,000 Contingent: \$5,380,000	Non-Contingent: \$615,000 Contingent: \$7,380,000
Estimated Refunding Savings after costs (Cashflow Savings)	N/A	~\$137,300,000	~\$193,300,000

- As with any refunding, all estimated debt service savings are shown after transaction costs
- Amount of tax-exempt bonds won't be known until tender/exchange process is in the market
- Finance team believes that a significant amount of bond holders may participate, creating greater savings than a 100% taxable refunding and resulting in a range between base case and 100% tax-exempt case
 - Additional \$25,000 non-contingent and up to \$2 million contingent costs generate up to \$56 million additional savings**

Note: Indicative savings as of August 23, 2021, market conditions

Next Steps

- Work with Stantec to develop updated traffic and revenue projections
- Bond and disclosure counsel to begin preparing documents and analysis needed for tax-exempt enhancement
- Assess the impact of the pandemic and other assumptions on debt service coverage margins and bond paydown opportunities
- Monitor the market for interest rate movements and investor trends
- Continue to evaluate refunding enhancements (e.g., bond buybacks to permit tax-exempt refunding)
- Seek Board approval to move forward if the refunding meets savings goals

Upcoming Key Dates: Refunding Can Be Executed and Closed In Several Months, Subject to Market Conditions

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Date	Event
August 25	<ul style="list-style-type: none"> ■ Presentation to Committee and request for recommendation to authorize work needed to prepare for a transaction
September 9	<ul style="list-style-type: none"> ■ Board authorization for non-contingent work needed to prepare transaction <ul style="list-style-type: none"> – Task order authorization for T&R work (\$32,500 plus contingency of \$3,250) – Bond/disclosure counsel under existing contract but needs budget (\$260,000) – Budget amendment to cover T&R and bond/disclosure counsel services (\$295,750)
September 22	<ul style="list-style-type: none"> ■ Update Committee on analysis and progress of authorized work
Early October	<ul style="list-style-type: none"> ■ Rating Agency calls
October 27	<ul style="list-style-type: none"> ■ Present transaction and draft documents to Committee for recommendation to Board for approval
October 28	<ul style="list-style-type: none"> ■ Provide SJH Board draft documents and begin providing briefings
November 18	<ul style="list-style-type: none"> ■ Present transaction and documents for Board approval
November 18 to early December	<ul style="list-style-type: none"> ■ Marketing and pricing of refunding bonds (subject to market conditions)

Committee Action

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Committee recommends approval of the item at a future Joint Boards of Directors Meeting.

Committee Recommendation

San Joaquin Hills Transportation Corridor Agency Recommendation:

1. Authorize the CEO to execute Task Order TO-003 to contract K001360 with Stantec Consulting Services Inc. in an amount not-to-exceed \$32,500.
2. Authorize the CEO to make additional changes deemed necessary within ten percent to the task order under contract K001360 in an amount not-to-exceed \$3,250 without further action by the Board.
3. Approve budget resolution S2021-04 amending the FY22 budget by \$295,750 for non-contingent T&R and bond/disclosure counsel services.

Committee Action

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Committee recommends approval of the item at a future Joint Boards of Directors Meeting.



Adjournment