REFUNDING OF THE 2009C, 2014A, AND 2015A SERIES BONDS AND DEBT POLICY UPDATE

Action Requested: Approve and Authorize

Key Staff: Dustin Purinton, Accounting Manager

Recommendation

1. Approve refunding the existing 2009C, 2014A and 2015A Series Bonds with 2023 Series Bonds to reduce risk and simplify the debt portfolio, and
2. Authorize the Executive Director, Accounting Manager, and the County Auditor Controller to execute the attached documents to complete the transaction in July 2023, and
3. Review and approve a Debt Policy to set guidelines for the issuance and management of current and future debt.

Background

Refunding 2009C, 2014A and 2015A Series Bonds with 2023 Series Bond

In October 2006, STA executed three interest rate swaps of $106.1 million each. The swaps were executed following Board adoption of the New Measure A Plan of Finance with identified $318.3 million of projects to be advanced via debt financing. In September 2009, the 2009 A, B and C Series were issued in a combined amount of $318.3 million in variable rate demand bonds ("VRDB"). Upon issuance, the interest rate swaps were combined with the variable rate bonds to create "synthetic fixed rate debt" with an approximate synthetically fixed interest rate of about 4.0%. This structure continues today. In September 2014 and March 2015, the 2014A and 2015A Series Bonds were issued to release a Bond Reserve Fund, respectively. They remain variable rate bonds paired with the interest rates swaps.

These bonds will mature in 2039. The variable rate debt has interest rate swap agreements attached to them that create a synthetic fixed rate which are shown in the table below.

Series	Outstanding Principal	Interest Rate	Final Maturity	Type
2009C	$106,100,000	3.736%	10/1/2038	Variable
2014A	$106,100,000	3.736%	10/1/2038	Variable
2015A	$106,100,000	3.666%	10/1/2038	Variable

In January 2023, the STA Governing Board received an overview of the bond portfolio from STA's Consulting Financial Advisor, Peter Shellenberger, PFM Managing Director.

In March 2023, the STA Governing Board received a presentation from STA's Consulting Financial Advisor, Peter Shellenberger, PFM Managing Director, on refunding of the 2009C, 2014A, and 2015A series bonds from variable rate to fixed rate and received direction to continue pursuing bond refinancing opportunities. The presentation emphasized that the goal of the refinancing would be to reduce risk in STA's existing bond portfolio, reduce administrative efforts, and be a cost neutral approach when considering savings from a potential future refunding in 2033. The presentation also highlighted that the STA Governing Board would need to accept the upfront refunding cost in 2023 which may not be recouped until 2033. After this presentation, the board provided the following direction:

- STA staff would need to continue to provide updates to the STA Governing Board.
- Additional STA Governing Board action would be required prior to refinancing.
- If the refunding in 2033 is needed, any board action would need to include reporting and monitoring requirements to ensure this occurs.

In April 2023, STA Staff and PFM Financial Advisors solicited requests for proposals from underwriters. Interviews took place in May 2023 and three underwriting banks were selected to proceed with the refinancing transaction Bank of America (Senior Manager), Wells Fargo (Co-Manager) and Siebert Williams Shank (Co-Manager).

In May 2023, the STA Governing Board received a presentation from STA's Accounting Manager and STA's Consulting Financial Advisor, Peter Shellenberger, PFM Managing Director, to provide a refinancing progress update and a brief overview of current market conditions.

<u>Debt Policy</u>

STA's debt program is based on prudent fiscal policy and comprehensive financial analysis practices. The STA receives on-going counsel on such matters from bond counsel and consulting from an independent financial advisory firm (PFM Financial Advisors LLC) that specializes in assisting public agencies to participate in the capital markets.

The last review of the STA debt policy was in 2015. The ITOC and STA Board are to review the policy document annually for currency. Market changes and opportunities require STA to be diligent in its duties as a steward of public funds. Staff recommends that the STA Board adopt an updated debt policy.

<u>Discussion</u>

<u>Refunding 2009C, 2014A and 2015A Series Bonds with 2023 Series Bond</u>

STA staff are requesting Board authorization to refinance all or part of the outstanding VRDB's and terminate the related swap agreements, in a transaction that shall not result in a present value cost greater than 4.7% of the principal amount of the refunded portion of the VRDB's. This amounts to a present value cost of $14.96 million. In other words, STA would only execute this transaction if it resulted in an increase to total debt service through 2039 of no more than $14.96 million, in present value terms. Under market conditions on May 1st, the increase in debt service was estimated to be $9.3 million through 2039, or 2.93% of the refunded principal amount. The not-to-exceed parameter of $14.96 million (or 4.7% or refunded principal) is set to provide some flexibility and to align with potential future refunding savings (estimated to be approximately $15.28 million) to reach a cost-neutral outcome in the long-term. This transaction is intended to break even and under current market conditions STA staff anticipates refinancing the debt, with the assumption that interest rates will be at the 20-year average, in 10 years with a present value savings of $15.28 million, resulting in a small amount of savings.

Commented [DP1]: Needs updated

Commented [DP2]: Needs updated

The table below summarizes the present value cost over time, this illustrates the variability in the market and the need for maximum flexibility in the proposed resolution.

Calculation Date	Interest Rate Swap Termination Value	Net Present Value (NPV) Cost of Full Refinancing	Future Bond Refunding Potential NPV
5/1/2023	(39,460,000)	(9,312,143)	15,288,715
3/2/2023	(34,013,476)	(12,642,346)	15,452,755

Commented [DP3]: To update

The attached documents have been prepared by bond counsel representing the STA, trustee, and underwriters. Orrick, Herrington, & Sutcliffe, the STA's bond counsel and the STA's general counsel have reviewed the documents.

Peter Shellenberger, Managing Director, PFM Financial Advisors, LLC is with us today to provide a market update. @@@ from Orrick Herrington & Sutcliffe are here to present the legal documents needed to complete the transaction which is expected to close in July 2023.

Commented [DP4]: To update

Debt Policy

A debt policy sets forth formal guidelines, allowances, restrictions, and procedures for the issuance and management of debt. It is a "best practice" document recommended by the Government Finance Officers Association (GFOA) for the effective issuance of debt and the integrated administration of a comprehensive debt program. Its primary objectives are: 1) to organize and formalize the agency's debt issuance policies and procedures; 2) to maintain cost effective access to capital markets through prudent, yet flexible, policies that moderate debt service obligations; and 3) to preserve the highest practical municipal bond rating. The proposed debt policy (attached) was prepared by staff in coordination with our consulting financial advisors at PFM Financial Advisors. It is intended to provide further evidence to financial markets and participants (and local taxpayers) of the STA's commitment to sound financial management and controlled borrowing practices. It is regarded as a positive factor in the evaluation of the agency's creditworthiness to holders, and potential holders, of STA-issued debt.

A notable update to the existing Debt Policy is the addition of a yearly evaluation of the current market for refinancing opportunities. This will help ensure that STA monitors ongoing refunding opportunities and enters the market in the future to capture debt service savings on the Series 2023 bonds. Under our cost-neutral strategy for this proposed refunding, any future debt service savings will directly offset any increased debt service costs that may be realized in the near-term through the fix-out proposal.

Attachment

1. Updated Preliminary Official Statement (POS)
2. @@ Supplemental Indenture
3. Bond Purchase Agreement (BPA)
4. Continuing Disclosure Certificate
5. Debt Policy
6. Resolution