Item #04

M E M O

Alameda Corridor Transportation Authority

August 12, 2021

To:	Governing Board
From:	Kevin L. Scott, Chief Financial Officer
Subject:	***Approve appointment of J.P. Morgan Securities LLC, RBC Capital Markets, Goldman Sachs & Co. LLC, Siebert Williams Shank & Co. and Samuel A. Ramirez & Company, Inc. to provide Underwriting Services for ACTA's Proposed 2022 Bond Financing Transaction***

Recommendation:

Staff requests approval of a team of investment banking firms selected from ACTA's previously Board-approved underwriter pool to undertake a negotiated sale in conjunction with the issuance of Alameda Corridor Transportation Authority ("ACTA") 2022 Refunding Revenue Bonds ("2022 Bonds"). Please note that the 2022 Bonds may be issued in 2021 or 2022. The firms proposed for the team are: J.P. Morgan Securities LLC as Book Running Senior Manager; RBC Capital Markets as Co-Senior Manager; and Goldman, Sachs & Co. LLC, Siebert Williams Shank & Co., and Samuel A. Ramirez & Company, Inc. as Co-Managers.

Background:

At the September 10, 2020 ACTA Governing Board meeting, the Chief Financial Officer reported that ACTA faced shortfalls in revenues versus debt service in the years ahead. Left unaddressed, ACTA would need to receive shortfall advances from the Ports of Los Angeles and Long Beach in order to fully pay its debt service. ACTA would also need voluntary Port Advances from the Ports for annual replenishment of the Reserve Fund and payment of administrative expenses. Combined, these advances would annually average $38.8 million between 2022 to 2025 and $110.7 million between 2026 and 2037. Based on current economic forecasting, the proposed restructuring of ACTA's debt would eliminate the need for these port advances.

The restructuring will involve refunding (i.e., refinancing) a portion of ACTA's outstanding bonds. It may also involve a tender offer (i.e., buyback) or exchange of bonds to cost-effectively refinance non-callable bonds and non-advance-refundable bonds. It is anticipated that the restructuring would not occur through one transaction, but rather in two financings in 2022 and 2026. This will allow the best use of call dates, an approach that will allow for more tax-exempt refinancing of tax-exempt bonds and thereby save a significant amount of money.

The current plan for the 2022 Bonds, subject to change based on market conditions, is to refinance the ACTA debt for the following Series: Series 1999C bonds, Series 2012 RRIF (Railroad Rehabilitation & Improvement Financing) bonds and Series 2013 bonds. As currently envisioned, the 2022 Bonds would have a par amount of $250 million, but could be changed depending upon market conditions and/or the success of the tender and exchange. The 2026 financing is estimated at a par amount of approximately $1.5 billion, but this could change based upon market conditions and/or the success of the tender and exchange in 2022. Both taxable and tax-exempt bonds are projected to be sold for both the 2022 and 2026 transactions. It is expected that for the 2022 Bonds, it will be necessary to extend the debt service beyond 2037, but not for the full term of the Use & Operating Agreement to 2062. Both financing plans will be modified to optimize market conditions and ACTA performance up until the time that bonds are sold.

Current estimates indicate that one large financing in 2022 would have a present value loss of $379.2 million compared to an estimated present value loss of $46.8 million for a multi-step refunding. If market conditions allow, the amount of loss may be reduced significantly through the purchase of bond insurance and an exchange or tender of bonds. The multi-step transaction approach will also provide time to further refine ACTA's revenue forecasts with additional years of information, which will minimize the possibility of over-funding or under-funding a transaction.

<u>Discussion:</u>

Investment banks play a key role in ACTA's financing team, acting as underwriters to assist in the structuring, marketing and distribution of the bonds. A negotiated sale allows flexibility in terms of the pricing process and timing and helps reduce risk to ACTA as underwriting firms are able to solicit investor demand in advance of the sale which supports obtaining the lowest possible cost for the proposed ACTA financing. In a negotiated sale the underwriters will be responsible for underwriting any unsold bonds. The banks' market reach, access, and understanding of the needs of the tax-exempt and taxable investor base provide a direct benefit to ACTA in the form of wide distribution and efficient cost of borrowing. Since ACTA is offering both taxable and tax-exempt bonds, marketing efforts will target both international and domestic investors.

In May 2021, the Governing Board established a pool of fourteen investment banking firms to provide underwriting and banking services, valid for a term of five years. Given that ACTA is an infrequent issuer, it is important for both ACTA and the investment bankers to market ACTA's bonds to a wide audience, in order to lower the overall cost of the bonds.

The proposed team was selected from the existing pool of underwriters based on their responses to a competitive solicitation, followed by interviews. Based on that process, staff recommends selecting the following firms from the pool for the proposed 2022 Bonds: J.P. Morgan Securities LLC as Book Running Senior Manager; RBC Capital Markets as Co-Senior Manager; and Goldman, Sachs & Co. LLC, Siebert Williams Shank & Co., and Samuel A. Ramirez & Company, Inc. as Co-Managers. Investment bankers for the second financing in 2026 will be selected by a separate Board approved selection process closer to 2026.

The total costs for the investment banking services for the 2022 financing are estimated to be approximately $2.2 million based on a $249.2 million financing, and will include compensation for all five investment banking firms, fees for bond counsel, tax counsel, disclosure counsel and underwriters' counsel, and other miscellaneous costs. These costs will be paid from the proceeds of the bond issuance. Additional costs associated with a tender and exchange will also be paid from the proceeds of the bond issuance, but will be fully covered by the lower interest costs provided by a successful tender or exchange.

The investment banks will work with ACTA staff and the other members of ACTA's financing team which will include PFM Financial Advisors LLC as ACTA's financial advisor, and, selected from ACTA's existing pool of law firms, O'Melveny & Meyers, LLP as bond counsel, Nixon Peabody LLP as tax counsel and Polsinelli LLP as disclosure counsel.

After the Governing Board approves an investment banking team, ACTA staff and the financing team will work to finalize the financing structure and documents for the 2022 transaction. Staff will present to the Board for approval the final plan and transaction bond documents, including a bond purchase agreement between ACTA and J.P. Morgan Securities LLC as Senior Manager.

<u>Co-General Counsel:</u>

ACTA's Co-General Counsel has reviewed this Board Report and the proposed action raises no legal issues at this time.