BOARD COMMITTEE TRANSMITTAL

May 13, 2013

To: Members of the Board of Directors

WK

From: Wendy Knowles, Clerk of the Board

Subject: 91 Express Lanes Debt Restructuring

Finance and Administration Committee Meeting of May 8, 2013

Present: Directors Hennessey, Lalloway, Moorlach, Pulido, and Spitzer
Absent: Directors Bates, Jones, and Ury

Committee Vote

The item passed by a 4 to 1 roll call vote, and Director Moorlach voted in opposition.

Committee Recommendations

A. Approve the 91 Express Lanes debt restructuring plan that includes the issuance of fixed-rate debt to refund the 2003 Orange County Transportation Authority Toll Road Revenue Bonds, Series A and Series B.

B. Authorize the selection of Barclays, Bank of America Merrill Lynch, De La Rosa & Company, Goldman Sachs & Company, and Stifel Nicolaus & Company Incorporated from the Orange County Transportation Authority's underwriting pool for the restructuring of the 91 Express Lanes debt; authorize the selection of Barclays to serve as the senior underwriting manager and Bank of America Merrill Lynch to serve as the co-senior underwriting manager.

Committee Discussion

Committee Chairman Spitzer requested that staff prepare frequently asked questions (Transmittal Attachment) for this item and submit them with a copy of the PowerPoint presentation.

<u>**TRANSMITTAL ATTACHMENT**</u>

91 Express Lanes Debt Restructuring
Frequently Asked Questions
May 8, 2013

Why refinance now?

OCTA issued Series A and Series B bonds in 2003. The Series B bonds were privately placed with the Orange County Investment Pool in 2008 and again in 2010. The 2010 private placement is subject to a mandatory tender on August 15, 2013, and the bonds must be remarketed. In addition, the outstanding Series A bonds are also eligible for optional redemption on August 15, 2013. Given the overall level of interest rates, OCTA can restructure the Series A bonds and save approximately $6 million in debt service costs.

Does OCTA have funds available for an internal loan?

Staff has reviewed the balances and the projections for OCTA funds over the next 20 years included in the Comprehensive Business Plan (CBP). The CBP shows that funds from the Orange County Transit District (OCTD) and the Commuter Urban Rail Endowment Fund (CURE) could sustain an internal loan to the 91 Express Lanes given the assumption that OCTA will receive local, state, and federal funds as projected in the CBP. Any change to revenue and expenditure assumptions may impact availability of funds.

What are the advantages of using internal funds to retire the existing 91 Express Lanes bonds?

The benefits of using internal funds to retire the existing bonds and setting up an internal loan include saving of cost of issuance expenses and underwriter fees incurred with a public debt issuance and the release of some of the bond indenture reserve funds. Using internal funds would provide greater flexibility in the repayment of these internal funds and the interest cost associated with an internal borrowing would be less than an external financing.

How much in excess revenues does the 91 Express Lanes generate?

Excess revenues are funds that are available after the payment of operating expenses, capital expenditures, and debt service costs. Excess revenues for the 91 Express Lanes currently average between $8 million to $12 million per year. These funds have been used to retire OCTA's internally borrowed funds for the acquisition of the 91 Express Lanes in 2003 and for SR-91 corridor improvement projects.

Since all internally borrowed funds have been fully repaid, the excess revenues generated in the future can be used for future SR-91 corridor improvement projects (as contained in the SR-91 Implementation Plan) or the early repayment of SR-91 debt. Over the past two years, approximately $20.2 million has accumulated in excess revenues.

What projects can excess revenues fund?

Per SB 1316, all excess revenues must be spent in the SR-91 corridor from the SR-57 to the Orange/Riverside County line. SB 1316 also requires OCTA to annually prepare a long-range plan for improvements along the State Route 91 corridor between SR-57 and I-15 in Riverside County called the SR-91 Implementation Plan (Plan). The Plan includes a listing of potential improvements, preliminary cost estimates, and implementation time frames. The preparation of the plan is conducted in consultation with the California Department of Transportation (Caltrans) and the Riverside County Transportation Commission (RCTC).

The draft 2013 Plan has been presented at the SR-91 Advisory Committee and the Highways Committee in May of 2013. The Board of Directors will vote on the Plan on May 13, 2013. Staff will return in the summer of 2013 with recommendations to the Board of Directors for the use of excess toll revenues for near-term projects. These projects could potentially include the SR-241/SR-91 direct connector project and Metrolink service expansion projects.

How much is there in bond indenture reserves?

All bond indenture reserve funds are fully funded. They were either funded with bond proceeds in 2003 or annually with excess revenues. The amount of these reserves total $39 million. The reserve funds include a debt service reserve fund, a supplemental reserve fund, a major maintenance reserve fund, and an operating reserve fund.

Since the 91 Express Lanes is a separate OCTA enterprise fund, all reserve fund balances are contained within the 91 Express Lanes fund. The current balance of reserve accounts is listed below:

Debt service reserve fund …………………………………….	$12.9 million
Supplemental reserve fund …………………………………..	$12.7 million
Major maintenance reserve fund ……………………………..	$10.2 million
Operating reserve fund ………………………………………..	$3.2 million
Total ………………………………………………………………..	$39.0 million

If we issue new 17-year debt, can we pay down the debt early?

Yes, traditionally municipal debt is issued with 10-year call provisions. After the 10-year anniversary of the issuance of debt, the municipal agency can retire or refund the outstanding debt with no premium. In addition to this option, OCTA can look to a super sinker fund option in structuring the debt that allows OCTA to retire the debt sooner.

What are the expenses associated with a new debt restructuring?

Cost of issuance expenses for debt issuances are paid at the closing of a financing transaction. These costs include legal fees, financial advisory fees, rating fees, printing, and other miscellaneous expenditures. The estimated cost of issuance expenses for a 91 Express Lanes debt issuance will total approximately $500,000. In addition to these costs, the projected underwriting fees for a combined Series A and Series B refinancing transaction are estimated at approximately $375,000.

When was the last traffic and revenue study conducted?

In October 2012, staff requested Stantec Consulting Services Inc. (Stantec) to update their Traffic and Revenue Update report dated November 1, 2011 to incorporate actual fiscal year 2011-12 data, the 2012 State Route 91 Implementation Plan, and a couple variations to the tolling policy. The traffic and revenue study forecasts traffic and revenues for the 91 Express Lanes on an annual basis through 2050. The revenue stream forecasted by Stantec includes the impacts of the SR-91 corridor projects contained in the SR-91 Implementation Plan.

ORANGE COUNTY TRANSPORTATION AUTHORITY

91 Express Lanes Debt Restructuring

Staff Report

OCTA

May 8, 2013

To:	Finance and Administration Committee
From:	Darrell Johnson, Chief Executive Officer
Subject:	91 Express Lanes Debt Restructuring

Overview

In December 2010, the Orange County Transportation Authority privately placed $100 million in Series B Bonds for the 91 Express Lanes with the Orange County Investment Pool. The $100 million private placement is subject to a mandatory tender on August 15, 2013, and the bonds must be remarketed. Over the past several months, staff has evaluated various alternatives related to the restructuring of the 91 Express Lanes Debt Program. Staff is recommending refunding both Series A and Series B bonds with fixed-rate debt prior to the mandatory tender date.

Recommendations

A. Approve the 91 Express Lanes debt restructuring plan that includes the issuance of fixed-rate debt to refund the 2003 Orange County Transportation Authority Toll Road Revenue Bonds, Series A and Series B.

B. Authorize the selection of Barclays, Bank of America Merrill Lynch, De La Rosa & Company, Goldman Sachs & Company, and Stifel Nicolaus & Company Incorporated from the Orange County Transportation Authority's underwriting pool for the restructuring of the 91 Express Lanes debt; authorize the selection of Barclays to serve as the senior underwriting manager and Bank of America Merrill Lynch to serve as the co-senior underwriting manager.

Background

On April 10, 2013, staff provided the Finance and Administration (F&A) Committee with an overview of the options available for the 91 Express Lanes debt. During the meeting, the F&A Committee requested that staff return to the next F&A Committee meeting in April with a further vetting of all options. In addition, the F&A Committee requested that a written request be sent to the Orange County Treasurer regarding another private placement for $100 million and that staff meet with Director Moorlach to evaluate internal loan options.

A letter was sent from the Orange County Transportation Authority (OCTA) to the Orange County Treasurer on April 15, 2013. After receiving a response from the Treasurer, staff is currently trying to schedule a meeting to discuss another short-term private placement as well as a potential 60-day extension of the existing agreement.

On April 17, 2013, staff met with Director Moorlach to discuss the internal loan options. Director Moorlach provided ideas to incorporate in the F&A Committee presentation. These included presenting the total interest costs associated with various maturity scenarios and a projected cash flow for the next several years to analyze the available cash balances for the program.

Debt History

In January 2003, OCTA took over operations of the 91 Express Lanes. To fund the acquisition, OCTA borrowed from internal funds and assumed the outstanding taxable debt structure of the 91 Express Lanes. The internal borrowing came from three funds: Bus Operations Fund, Orange County Unified Transportation Trust Fund, and Commuter and Urban Rail Endowment Fund (CURE). All three funds were paid back with interest equivalent to the returns of the OCTA's investment portfolio.

In November 2003, OCTA issued $195.265 million in bonds to refinance the outstanding taxable bonds associated with the acquisition. The bonds were issued in two series; a fixed-rate transaction and a variable rate transaction. OCTA sold $95.265 million Ambac-insured fixed-rate Series A Bonds at an average interest rate of 4.9 percent. At that time, Ambac had Aaa/AAA/AAA ratings. The Series B Bonds were sold as variable rate demand bonds (VRDBs), in the amount of $100 million, and were secured by a liquidity support agreement by JP Morgan Chase Bank, N.A. (JP Morgan) and Dexia Bank. The Series B VRDBs were also insured by Ambac and were repriced on a weekly basis.

In an effort to mitigate the variable interest rate exposure, OCTA entered into floating-to-fixed interest rate swaps with two counterparties, Lehman Brothers (Lehman) and Bear Stearns. Lehman was responsible for $75 million, and Bear Stearns was responsible for $25 million. The swaps synthetically fixed the interest rate on the VRDBs to 4.06 percent.

The Series A and Series B bonds required the establishment of bond indenture reserve funds. These funds included a debt service reserve fund, a supplement reserve fund, major maintenance reserve fund, and an operating reserve fund. The balance of these reserve funds total $39 million. Since the 91 Express Lanes is a separate OCTA enterprise fund, all reserve fund balances are contained within the 91 Express Lanes Fund.

In January 2008, Ambac was downgraded by the rating agencies which impacted billions of dollars of VRDBs that were repriced weekly. Tax-exempt money market funds lost confidence in bond insurance and decided to boycott insured VRDBs. As a result of the chaotic market, many issuers with multiple remarketing agents experienced a wide range of yields for their VRDBs weekly resets. Ambac's deteriorating credit position prompted other AAA rated insurers as well as letter of credit (LOC) banks to reject providing the credit support for bonds that were also insured by Ambac due to their concern over inter-creditor rights disagreements. JP Morgan and Dexia Bank advised OCTA in November 2008 that they had decided to decline to renew their LOC that provided credit and liquidity support for OCTA's Series B VRDBs.

Given the general market uncertainty as well as OCTA's inability to solicit a new LOC at attractive rates, OCTA decided to privately place the Series B VRDBs in a two-year, fixed-rate mode authorized by the indenture with the Orange County Investment Pool (OCIP). The two-year OCIP private placement interest rate was 3.85 percent and closed on December 19, 2008. The OCIP rate was lower than the December 2008 rate of a public offering. The two-year OCIP private placement matured in December 2010 and was rolled over at an interest rate of 1.55 percent with a final maturity of August 15, 2013.

Facing the threat of bankruptcy, Bear Stearns was sold to JP Morgan in June 2008. JP Morgan assumed OCTA's $25 million interest rate swap. Lehman declared bankruptcy in September 2008. The Lehman swap had previously been assigned to a Lehman subsidiary, Lehman Brothers Commercial Bank which was renamed Woodlands Bank (Woodlands).

The outstanding $25 million interest rate swap with JP Morgan had been functioning as designed. OCTA remitted 4.06 percent to JP Morgan on a semi-annual basis and received the counterparty payment equal to the Securities Industry Financial Markets Association rate on a monthly basis. On the other hand, the transaction with Woodlands was not functioning as planned since Lehman filed for bankruptcy. Woodlands stopped remitting their counterparty payments to OCTA commencing October 1, 2008. In response, OCTA ceased making payments to Woodlands beginning February 15, 2009.

In March 2011, OCTA negotiated a termination of the $75 million interest rate swap with Woodlands. In January 2013, OCTA negotiated a termination of the $25 million interest rate swap with JP Morgan.

Discussion

The $100 million OCIP private placement is subject to a mandatory tender on August 15, 2013, and the 2003 OCTA Toll Road Revenue Bonds, Series B must be remarketed. In addition, the outstanding Series A Bonds are also eligible for optional redemption on August 15, 2013. Over the past few months, staff has evaluated various alternatives related to the restructuring of the 91 Express Lanes Series A and Series B bonds. These include:

- Option 1: Solely refund the $100 million in Series B Bonds through the issuance of short-term or long-term fixed-rate bonds,
- Option 2: Refund both the Series A and Series B bonds ($150 million outstanding) with long-term fixed-rate bonds by using the existing 2003 bond indenture or developing a new bond indenture, and
- Option 3: Use OCTA internal funds to retire the Series A and Series B bonds and have the 91 Express Lanes repay the internally borrowed funds with excess toll revenues on an annual basis until 2030.

Option 1

Under this option, OCTA could look to enter into another short-term solution through a private placement or public issuance of $100 million in Series B Bonds. The benefit of this option would be to take advantage of the low levels of interest rates on the short-end of the yield curve. In addition, a private placement option could potentially have lower cost of issuance expenditures than the traditional public issuance of debt. Although rating fees would still be required, there would be no underwriting fees with another private placement.

If the Orange County Treasurer’s office is not interested in another private placement, then OCTA would have to find another party or conduct a public offering of debt. This option would require the issuance of debt under the current bond indenture. The bond indenture was developed in 2003 and contains what staff believes are outdated provisions such as a supplemental reserve fund requirement. OCTA can modernize these provisions with the development of a new bond indenture. The full benefits of a new bond indenture can only be realized if both Series A and Series B bonds are refunded.

There is interest rate risk with this option since it is a short-term solution. If interest rates rise during the term of the short-term debt issuance, OCTA would be faced with higher interest rates during the future reissuance. Therefore, a longer term fixed-rate refunding in August would eliminate this risk. A long-term solution would take advantage of historically low levels of interest rates; however, the issuance would have to be done under the existing indenture.

Option 2

With interest rates at historic lows, a refunding of the Series A Bonds would provide OCTA with net debt service savings of approximately $6 million after all costs associated with a refinancing are taken into account. Option 2 combines the refinancing of both Series A and Series B bonds. OCTA has the ability to use the 2003 indenture or adopt a new 2013 indenture for the refinancing. Using the 2003 indenture simplifies the process and saves OCTA cost of issuance expenses. However, the 2003 indenture limits the issuance of future 91 Express Lanes debt to a subordinate basis.

The 2003 indenture covenants reflected the rating agencies and investor's unfamiliarity with express lanes bonds based on congestion management pricing. As a consequence, the 2003 bond indenture required a fully-funded debt service reserve fund as well as a fully funded supplemental reserve fund. Based on the operating success of the 91 Express Lanes, staff is confident that a new indenture will require fewer strict covenants and provide more operating flexibility with the same credit ratings.

The benefits of this option include locking in the current level of long-term interest rates for the refinancing. In addition, a new 2013 open lien indenture could also provide OCTA the ability to issue additional parity bonds in the future if the Board of Directors (Board) decides to accelerate the funding of new State Route 91 (SR-91) corridor capital improvement projects. OCTA will incur cost of issuance expenses and underwriting fees under this option.

Option 3

This option was raised at the March 13, 2013, F&A Committee meeting. It involves using OCTA internal funds to pay off the existing 91 Express Lanes debt. Repayment to the internal funds could be set up as a loan to match the final maturity of the existing debt of 2030 or set up to pay back the internal loan on a more immediate basis.

Staff has reviewed the balances and the projections for OCTA funds over the next 20 years included in the Comprehensive Business Plan (CBP). The CBP shows that funds from the Orange County Transit District (OCTD) and the CURE could sustain an internal loan to the 91 Express Lanes given the assumption that OCTA will receive local, state, and federal funds as projected in the CBP. Any significant reduction to these external revenue sources may impact the funding availability of this option.

The benefits of this option include potentially earning a higher rate of return to OCTA internal funds, the savings of cost of issuance expenses and underwriter fees incurred with a public debt issuance, and the release of some of the bond indenture reserve funds. The current total return for OCTA's short-term portfolio (which contains the CURE and OCTD funds) is approximately one percent. Therefore, a loan to the 91 Express Lanes at the average rate of approximately three percent (the current rate at which the 91 Express Lanes could issue debt in the municipal market with a final maturity of 2030) would provide a higher rate of return to the CURE or OCTD funds.

If CURE or OCTD funds are going to be invested in assets with a long-term maturity horizon, then other alternative investments should be analyzed for comparative purposes. Investments with a similar average life to the 91 Express Lanes bonds and a minimum rating in the single A category are currently yielding on average approximately 4.25 percent. Therefore, OCTA could invest OCTD or CURE funds in securities with the same average life as the 91 Express Lanes bonds and generate a higher return than providing an internal loan to the 91 Express Lanes. This would require separate Board action on OCTA's investment policy authorizing the investment of funds beyond a five-year period (current government code restriction). Also, if OCTD or CURE funds are going to be loaned on a long-term basis, then other internal options should be explored as well. For example, OCTA could potentially use these funds to acquire a headquarters building.

If the internal loan is repaid on a more immediate basis, staff estimates that the loan balance could be retired within six years. This requires that all revenues in excess of operating and capital expenditures be dedicated to retiring the internal loan. This would generate a greater amount of excess revenues after six years, however, no excess revenues would be available for SR-91 corridor improvement projects until post 2019.

Under Option 3, OCTA internal funds would be assuming the repayment risk associated with the 91 Express Lanes as opposed to a third party investor. If OCTD or CURE funds provided a loan to the 91 Express Lanes, those funds would be at risk if there were financial difficulties in the future with the

91 Express Lanes. In addition, the internal funds would have a disproportionate exposure to a single investment security.

The internal loan option of investing in the 91 Express Lanes limits liquidity. Unlike corporate securities or other municipal investments, the only way to sell the interest in the internal loan if the funds were needed quickly would be to issue new taxable 91 Express Lanes debt and use the proceeds to redeem the internal loan. If the internal loan is refinanced for any reason through the issuance of new bonds secured by a pledge of the 91 Express Lanes revenues, those new bonds/debt obligations would be taxable. The new indebtedness would be considered a new issuance (not a refunding of tax-exempt bonds) and the use of the proceeds would be considered a working capital loan. This process for issuing taxable debt could take a couple of months to complete. There is also a risk that the 91 Express Lanes may not be able to access the capital markets due to a market dislocation event.

Recommended Strategy

Staff recommends that the Board select Option 2 and refinance the 2003 Orange County Transportation Authority Toll Road Revenue Bonds, Series A and Series B with fixed-rate bonds and a final maturity of 2030. The interest rate of the refinancing in today's market is approximately three percent. Refinancing the Series A and Series B bonds will provide the 91 Express Lanes with a long-term fixed capital structure based on today's near historic low interest rates and allow for the annual generation of excess revenues to fund SR-91 corridor improvement projects. The certainty of a long-term fixed rate will provide OCTA and the 91 Express Lanes investors with the certainty of a fixed annual debt service.

Staff also recommends refinancing the Series A and Series B bonds with a new 2013 open lien indenture that provides the 91 Express Lanes with fewer covenant restrictions and additional operating flexibility. The open lien indenture will allow OCTA to accelerate future funding for SR-91 corridor Capital Improvement Projects, if desired.

Underwriting Team

In June 2010, the Board selected 12 firms to serve on an underwriting pool for a period of five years. At the time of the selection, staff specified that senior managers and co-managers would be selected for future debt issuances from the underwriting pool based upon a project-by-project basis. In

December 2010, OCTA utilized the services of all firms for the issuance of Measure M2 Sales Tax Revenue Bonds.

In 2012, OCTA issued an informal request for proposals to the 12 firms from the underwriting pool for a potential 91 Express Lanes restructuring. Ten firms responded to the request. The evaluation team selected five firms to recommend to the Board for a future 91 Express Lanes debt issuance. The recommended firms include: Barclays, Bank of America Merrill Lynch, De La Rosa & Company, Goldman Sachs & Company, and Stifel Nicolaus & Company Incorporated.

The evaluation team also recommends naming Barclays as the senior underwriting manager and Bank of America Merrill Lynch as the co-senior underwriting manager. Barclays proposed the lowest cost for the debt restructuring. The Barclays' proposal highlighted the firm's vast experience with toll road issuers in California and the nation. The Barclays team assigned to OCTA had a wide array of experience with non-recourse toll road debt issuances. Barclays' technical proposal included an excellent work plan with supporting recommendations and a detailed discussion on the 91 Express Lanes debt structure. During the interview, the Barclays' team discussed a proactive approach and analysis for educating potential investors on a toll road debt issuance that utilizes congestion management pricing.

Anticipated Cost of Issuance Expenses and Underwriting Fees

Cost of issuance expenses for debt issuances are paid at the closing of a financing transaction. These costs include legal fees, financial advisory fees, rating fees, printing, and other miscellaneous expenditures. The estimated cost of issuance expenses for a 91 Express Lanes debt issuance will total approximately $500,000. In addition to these costs, the projected underwriting fees for a combined Series A and Series B refinancing transaction are estimated at approximately $375,000. Staff will determine the exact cost of issuance expenses for the transaction and provide those figures to the Board for approval.

Next Steps

If the Board approves the recommended strategy, staff will work with its financing team to develop the documents required for a transaction. Once completed, staff will submit the financing documents to the Board for final review and approval. A tentative schedule is provided on the next page:

Develop Financing Documents	May/June 2013
Meet with Rating Agencies	June 2013
Seek Final Approval for Financing Documents from the Board	July 2013
Issue New Debt	July/August 2013

Summary

A plan to restructure the 91 Express Lanes bonds is presented for approval to the Finance and Administration Committee and the Board of Directors. The plan entails issuing fixed-rate bonds to refund the 2003 Orange County Transportation Authority Toll Road Revenue Bonds, Series A and Series B.

Attachment

None.

Prepared by:

Kirk Avila
Treasurer/General Manager
Treasury/Toll Roads
714-560-5674

Approved by:

Kenneth Phipps
Executive Director,
Finance and Administration
714-560-5637

ORANGE COUNTY TRANSPORTATION AUTHORITY

91 Express Lanes Debt Restructuring

PowerPoint - Board

91 Express Lanes Debt Restructuring

Background

- Series B bonds that mature in December 2030 (currently placed with Orange County Treasurer's office) have a mandatory tender date on August 15, 2013
- Series A fixed-rate bonds maturing annually through 2021 have a first optional call date on August 15, 2013
- $155.5 million in bonds outstanding ($149.9 million on August 15, 2013)
  - Series A: $55.5 million
  - Series B: $100 million
- Interest rates remain at historic lows

91 Express Lanes Borrowing Decisions

- Short-term repayment versus longer-term repayment
  - Impacts excess revenues available for SR-91 corridor improvement projects
- Borrow internally versus externally
  - Borrowing internally releases debt service and supplemental reserve funds upfront and lowers the cost of issuance/fees
- Tolerance for risk

Short-term versus Longer-term Repayment

- Short-term repayment produces less debt service; however excess revenues are less in the short-term

($ in Millions)	6-Year Maturity	10-Year Maturity	12-Year Maturity	15-Year Maturity	17-Year Maturity
Debt Service - Principal	124.30	124.30	124.30	124.30	124.30
Debt Service - Interest	7.97	16.84	21.86	29.67	34.99
Total Debt Service	132.27	141.14	146.16	153.97	159.29
Cumulative Excess Revenues in 2019	21.23	67.42	78.96	90.51	95.95
Cumulative Excess Revenues in 2025	236.80	227.93	222.91	242.20	251.38
Cumulative Excess Revenues in 2031	536.61	527.74	522.72	514.91	509.59

- Consequence of short-term debt is less flexibility; longer-term repayment schedules provide greater flexibility

Borrowing Internally versus Externally

Internal Loan

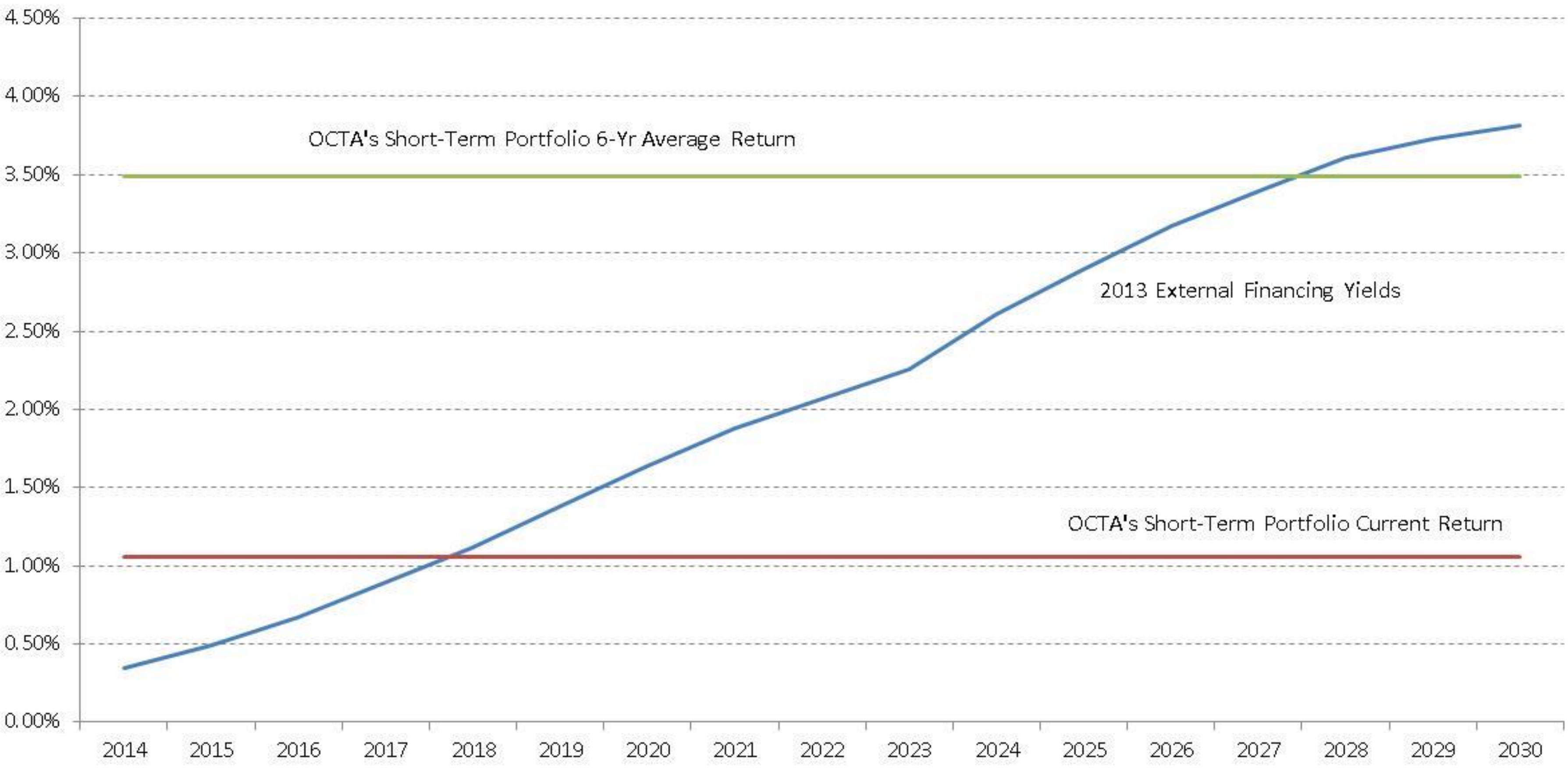
Debt Balance on 8/15/13	$ 149,900,000
Release of Debt Service Reserve Fund	$ (12,900,000)
Release of Supplemental Reserve Fund	$ (12,700,000)
Funds Needed:	$ 124,300,000

External Debt Issuance

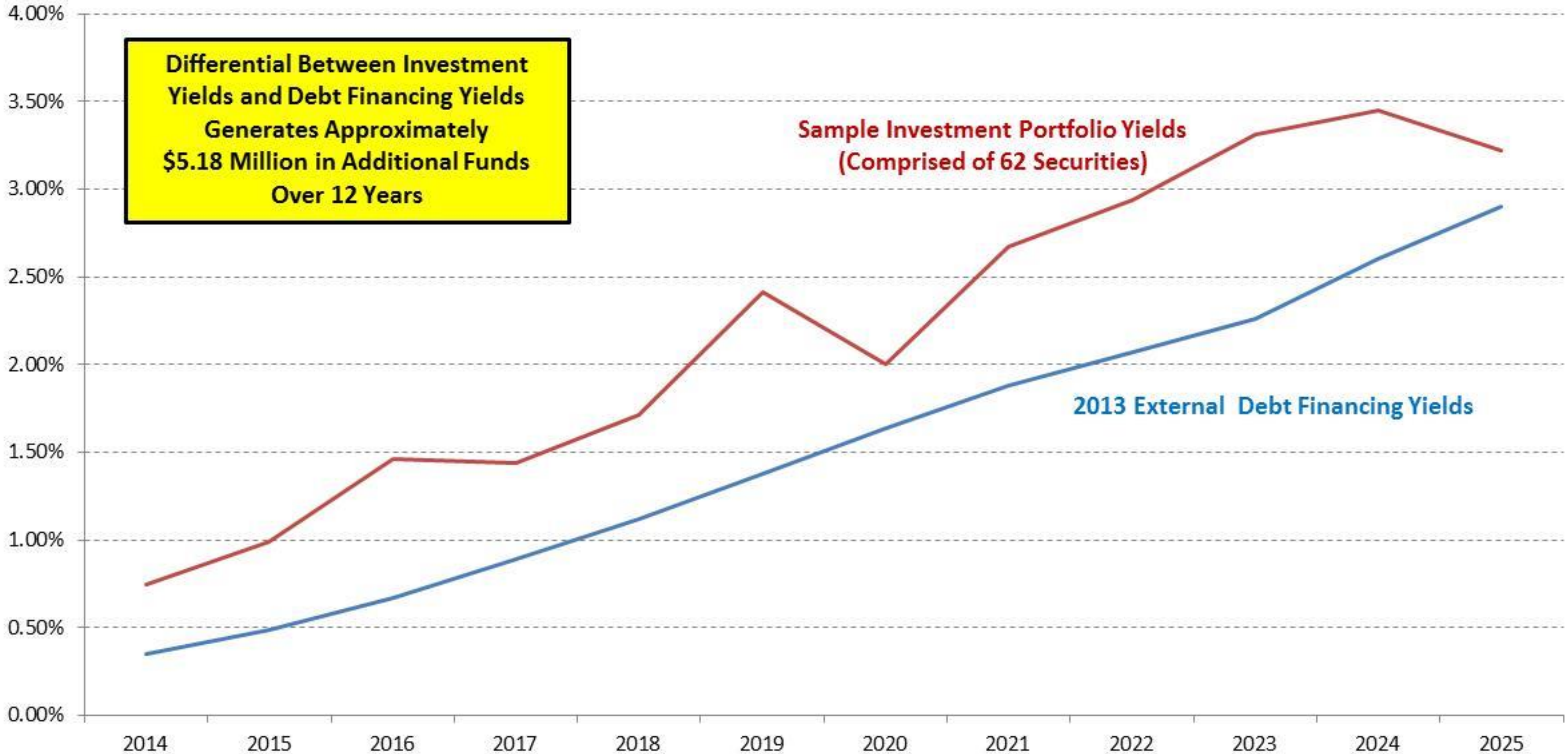
Debt Balance on 8/15/13	$ 149,900,000
Release of Supplemental Reserve Fund	$ (12,700,000)
Funds Needed:	$ 137,200,000

	Total Principal	Total Interest	Total Debt Service	Release of Reserves	Cost of Issuance/Fees	Total Cost
12-Year Repayment - Internal Loan	$ 124,300,000	$ 21,856,083	$ 146,156,083		$ 50,000	$ 146,206,083
12-Year Debt - External	$ 137,200,000	$ 23,228,673	$ 160,428,673	$ (12,900,000)	$ 875,000	$ 148,403,673
15-Year Repayment - Internal Loan	$ 124,300,000	$ 29,666,267	$ 153,966,267		$ 50,000	$ 154,016,267
15-Year Debt - External	$ 137,200,000	$ 32,202,281	$ 169,402,281	$ (12,900,000)	$ 875,000	$ 157,377,281
17-Year Repayment - Internal Loan	$ 124,300,000	$ 34,986,794	$ 159,286,794		$ 50,000	$ 159,336,794
17-Year Debt - External	$ 137,200,000	$ 39,144,199	$ 176,344,199	$ (12,900,000)	$ 875,000	$ 164,319,199

Borrowing Internally – At What Rate?



Today's Investment versus Issuance Yields



Tolerance for Risk

- 91 Express Lanes is a separate Enterprise fund
- OCTA internal funds available for a loan include Orange County Transit District funds (OCTD) and Commuter and Urban Rail Endowment funds (CURE)
- Combined OCTD and CURE projected balances as of June 30, 2013 totals approximately $450 million
- If an internal loan from OCTD and CURE funds were provided to the 91 Express Lanes, then 28% of the combined assets from these two funds would be invested in the 91 Express Lanes
- Future risks include:
  - Fluctuations in 91 Express Lanes traffic and revenues
  - Changes in revenue/expenditure assumptions for OCTD and CURE

Why Issue Public Offering of Debt for 17 Years?

- Locks in historic levels of long-term interest rates and provides savings over 2003 debt structure
- Provides flexibility for the use of near-term excess revenues
- Preserves ability to invest internal funds in longer duration alternatives
- Allows OCTA to evaluate other loan options for internal funds such as a headquarters acquisition

Staff Recommendations

- Begin restructuring process and refund Series A and Series B bonds with long-term fixed-rate bonds
- Develop new open lien bond indenture
- Keep 2030 final maturity date
- Use any reduction in reserve fund requirements to pay down principal balance of debt
- Select the following five firms to serve on the proposed refinancing transaction:
  - Barclays (Senior Underwriter)
  - Bank of America Merrill Lynch (Co-Senior Underwriter)
  - De La Rosa & Co.
  - Goldman, Sachs & Co.
  - Stifel Nicolaus & Company

Next Steps

▪ May 2013:	Seek Board of Directors approval
▪ May/Jun 2013:	Draft financing documents
▪ Jun 2013:	Meet with rating agencies
▪ Jul 2013:	Seek final approval for financing documents from Finance and Administration Committee and Board of Directors
▪ Jul/Aug 2013:	Issue new debt