SBCAG santa barbara county association of governments

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SBCAG STAFF REPORT

SUBJECT: Federal Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Update

MEETING DATE: June 20, 2019 **AGENDA ITEM:** 5

STAFF CONTACT: Sarkes Khachek

RECOMMENDATION:

Receive presentation on recent activities related to SBCAG's exploration of a Federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan and provide feedback to SBCAG staff on next steps.

DISCUSSION:

As part of SBCAG's Federal Legislative Platform and the adopted Measure A Financial Memorandum (March 2019), SBCAG staff continues to explore a Federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan as an alternate financing option to public market bonds.

SBCAG's TIFIA consulting firm, Fieldman Rolapp, has provided SBCAG with a memorandum that provides analysis on the comparison of a bond financing versus a TIFIA loan. The memorandum is included as Attachment A. Currently, the benefits of pursuing a TIFIA loan versus a bond financing weigh heavily upon what interest rates will be when SBCAG will need financing (FY 23/24). As such, SBCAG is not prepared to provide a recommendation on either financing option. This does not preclude SBCAG staff from submitting a Letter of Interest (pre-application) to the Federal Build America Bureau for a TIFIA loan this summer. If deemed eligible, SBCAG will need to pay for financial and legal advisor costs upon submittal of an application to the Bureau this fall. By pursuing the TIFIA option this summer, it is possible that SBCAG could lock in a favorable interest rate the spring of 2020. We could also elect to wait on submittal of an application until FY 22/23 but would be subject to the ebb and flow of interest rates.

SBCAG staff would like to receive feedback from the SBCAG Board on June 20.

<u>TTAC Recommendation:</u>

SBCAG staff presented the draft memorandum to TTAC on June 6. TTAC supported SBCAG providing the SBCAG Board with an update on June 20.

ATTACHMENT:

A. TIFIA Memorandum

ATTACHMENT A

FIELDMAN | ROLAPP & ASSOCIATES

MEMORANDUM

Date: May 29, 2019

To: Sarkes M. Khachek, Director of Programming
Martha Y. Gibbs, CFO/Human Resources
Santa Barbara County Association of Governments

From: Daniel L. Wiles, Principal
Marisa H. Colcord, Associate
Fieldman, Rolapp & Associates, Inc.

Re: Comparison of Bond and TIFIA Loan Potential Results

Facts

Santa Barbara County Association of Governments (SBCAG) is intending to finance a portion of the capital cost of Phase 4, Segments A-E of the US 101 Multimodal Corridor Project (the "Project"). The proposed financing would be secured by and repaid from Measure A revenues with a repayment period that extends over the remaining term of the measure. SBCAG is considering two alternative structures for its financing: (a) the sale of sales tax revenue bonds in a public sale or (b) a loan from the United States Department of Transportation (USDOT), Transportation Infrastructure Finance and Innovation Act (TIFIA) program, administered by the Build America Bureau (BAB).

SBCAG has requested a review of the potential relative merits of the use of a traditional revenue bond structure as opposed to a TIFIA loan.

Our Analysis of the Comparison

We have performed our version of the comparison of a TIFIA Loan done in 2020 and a bond financing done in 2023. The TIFIA Loan scenario finances the project costs of Segment 4D (assuming that the total project costs are much larger) and the transaction costs for the TIFIA Loan. The Bond financing scenario finances the same project costs and the costs of issuance for the Bonds. Our quantitative analysis is contained in the Excel spreadsheet accompanying this memo. Our assumptions of the rates for both the TIFIA Loan and the Bonds are based on rates effective as of April 12, 2019 with an assumption that interest rates do not change from 2019 to 2020 for the TIFIA Loan or from 2019 to 2023 for the Bond scenario.

Our specific assumptions for each structure are below:

A. The TIFIA Loan structure we used for comparison reflects the typical structure for a conservatively structured TIFIA Loan. We have estimated the costs of issuance for a bond and transaction costs for a TIFIA Loan as illustrated in the spreadsheet "Sources and Uses." The TIFIA Loan costs reflect the lower complexity of the proposed SBCAG TIFIA Loan. While the TIFIA Program Guide provides for a potential spread of costs of $400,000 to $700,000, we have adopted the $400,000 estimate to reflect the lower TIFIA financial and legal advisor costs associated with a sales tax backed financing with a single proposed financing.
B. The Bond financing is based on the scale of an Orange County Transportation Authority sales tax bond issue, rated AA+ sold in February 2019, benchmarked to the rates of April 12, 2019 based on the Municipal Market Daily AAA scale. The specific benchmarking of the interest rate scales is contained in the worksheet titled "Scale Comparison." This scenario is described in our Excel spreadsheet as FRA Scenario 1.

Quantitative Comparison

The transaction costs of the TIFIA Loan have been estimated as follows:

Costs of Issuance[1]	
TIFIA Application/Transaction Fee[2]	400,000
Bond Counsel	100,000
Municipal Advisor	95,000
Rating Agency	47,500
Trustee	4,500
Total COI	647,000

This compares with the COI of the Bond financing:

Costs of Issuance	
Bond Counsel	100,000
Disclosure Counsel	80,000
Municipal Advisor	95,000
Rating Agency	47,500
Trustee	4,500
Printer	2,500
Total COI	329,500
Underwriter's Discount[6]	257,725

These results in a total COI for the TIFIA Loan of $647,000 and for the bond of $587,225.

If interest rates do not change from 2020 to 2023, the debt service comparison is:

TIFIA Loan

PV of Debt Service	$54,098,563
Gross Debt Service	$77,183,817

Bonds

PV of Debt Service	$52,599,610
Gross Debt Service	$73,524,917

The comparison of the TIFIA Loan and the Bond financing, assuming that interest rates stay constant from 2020 to 2023, demonstrates that the total debt service on the Bond financing would be $3.66 million lower than the TIFIA Loan debt service. On a present value basis, the difference is smaller, with the Bond financing providing approximately $1.5 million lower cost.

The fundamental question in selecting the financing method relates to the impact of interest rate changes on the total debt service. Our Bond financing Scenario 2 is breakeven scenario in which the total debt service is virtually equal between the TIFIA Loan and the Bond financing. Our analysis indicates that a rate increase of

73.5 basis points would result in nearly equal total debt service with a present value debt service for the TIFIA Loan $1.1 million lower than for the Bond financing. This resulted in the following for Scenario 2 of the Bond financing.

PV of Debt Service	$55,203,246
Gross Debt Service	$77,166,667

We also developed a rough approximation that an increase of approximately 43 basis points results in even present value debt service between the two alternatives.

TIFIA Loan as an Interest Rate Hedge

A major difference is the timeframe for fixing the interest rate. The TIFIA Loan interest rate is set as of financial close. Assuming that SBCAG can meet the requirements for financial close, including the need for a fixed contract cost as of financial close, one potential benefit of a TIFIA Loan is to provide a hedge against future interest rate increases. The Bond financing would be priced on issuance in 2023. During that time difference, interest rates can vary, both upward and downward.

Understanding that the rate increase resulting in a breakeven between the two scenarios is 73.5 basis points, we look to provide context through reference to historic movements in comparable interest rates. We note that the Bond financing has an average life of approximately 9 years. A rough estimate of the interest cost for the Bond financing would be reflected in the rate for the 2032 maturity in a "AAA" scale, reflecting the same time period. From 2016 to 2019, the lowest level of the 2032 maturity was 1.62% on July 6, 2016 while the highest level was 3.02% on November 2, 2018. The total variance from the high interest rate to the low interest rate was 140 basis points.

During each year, the variance in the 2032 maturity interest rate on the AAA scale from low to high was:

- 138 basis points in 2016
- 76 basis points in 2017
- 78 basis points in 2018
- 61 basis points in 2019

As of April 12, 2019, the rate on the 2032 maturity was 2.15%. Based on the past 3 years of history, this rate is 53 basis points above the low rate from 2016 to 2019 and 87 basis points below the high rate from 2016 to 2019. We also note that while interest rates are not at historic lows, current rates for California financings are closer to the low point than to their previous high water marks.

Conclusion

The quantitative analysis does not yield an obvious or overwhelming conclusion between the alternatives. The comparison can support a conclusion to pursue the TIFIA Loan or to delay financing until the project is closer to actual funding and executing the Bond financing.

One nuance is to note that achieving financial close on a TIFIA Loan does not commit SBCAG to use the TIFIA Loan financing. Depending on the interest rate environment, SBCAG could abandon the TIFIA loan and finance the project with a Bond financing. The end result would be that the TIFIA Loan served as a hedge with a cost equal to the transaction costs of the TIFIA Loan.