


M E M O

Alameda Corridor Transportation Authority

To: Governing Board

Meeting Date: September 14, 2023

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 three Proposed Revenue Refunding Bond Financings from 2023 to 2025 and approve appointment of J.P. Morgan Securities LLC and RBC Capital Markets as Dealer Managers of three Tenders during the same period.

Recommendation:

Staff requests approval of investment banking firms selected from ACTA's previously Board-approved team for 2022 bond transactions to undertake tenders and negotiated sale of bonds in 2023, 2024 and 2025. The firms proposed for the underwriting team of the negotiated sales 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. Staff requests approval of J.P. Morgan Securities LLC and RBC Capital Markets as Dealer Managers of tenders.

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 have annually averaged \$38.8 million between 2022 to 2025 and \$110.7 million between 2026 and 2037. Based on economic forecasting, the proposed restructuring of ACTA's debt would eliminate the need for these port advances.

Last year, ACTA and its financing team developed a two-step plan of finance to address the shortfalls. Part one was in 2022 to restructure a portion of its debt so as to eliminate the short-term shortfalls (2022 to 2025) and part two, in 2026, to reduce longer-term shortfalls (2026 to 2037). In July of 2022, ACTA successfully completed the first transaction. This financing involved tendering ("buying back") bonds which were not callable and issuing refunding ("refinancing") debt to fund the purchase of the tendered bonds. The refunding debt was structured to mature after 2037, but before the expiration of the Use and Operating Agreement in 2062, in order to create cashflow savings between 2022 and 2037.

Since July 2022, the confirmed revenue trend and uncertain interest rate outlook now leads staff to recommend a programmatic tendering and issuance of bonds annually from 2023 to 2025, rather than waiting until 2026 to undertake a single large transaction to restructure the bonds.

Under the annual transaction plan, ACTA would tender and refund a series of bonds of approximately \$215/\$110/\$55 million in 2023, 2024 and 2025, respectively. These amounts could change depending upon market conditions and/or the success of each tender. This programmatic approach would leave a much smaller restructuring to market in 2026, thereby reducing market access risk for the 2026 financing.

Discussion:

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 are 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 in 2021 from the existing pool of underwriters based on their responses to a competitive solicitation, followed by interviews. The post-2022 financing was to take place as a single event in 2026 but economic and market conditions now indicate that it would be more advantageous for ACTA to undertake multiple financings from 2023 through 2025, preceding the 2026 issuance. This revision to the financing plan makes the upcoming programmatic tenders and issuances function as an extension of the 2022 financing. Given the success of the 2022 financing and the commonalities of the upcoming financings with 2022, staff recommends approval of the following firms for the proposed 2023 through 2025 programmatic bond issuances: 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 banks are also key to the successful completion of tenders. Their knowledge of investor appetite for sale of bonds and accurate quantitative pricing of tenders is essential to the transactions. Staff recommends J.P. Morgan Securities LLC and RBC Capital Markets as Dealer Managers for the tender offers. Staff is not recommending a new competitive process for selection of these roles because the proposed annual programmatic financings are a continuation of the 2022 transactions. Additionally, J.P. Morgan and RBC Capital were the only firms that presented the idea of programmatic transactions to ACTA.

The investment banks will work with ACTA staff and the other members of ACTA's financing team, which will include PFM Financial Advisors LLC and Frasca LLC as ACTA's financial advisors, O'Melveny & Myers LLP as bond counsel, Nixon Peabody, LLC as special tax counsel and Sheppard, Mullin, Richter & Hampton LLP as disclosure counsel.

The total costs for the investment banking, bond counsel, tax counsel, disclosure counsel and financial advisory services and other miscellaneous costs for the 2023 to 2025 tenders and refundings are estimated to be approximately \$3.1 million based on three tender/bond transactions totaling approximately \$380 million. These costs will be paid from the proceeds of the bond issuance.

After the Governing Board approves the investment banking team, ACTA staff and the entire financing team will work to finalize the financing structure and documents for the 2023 transaction. Staff will present the final plan and transaction bond documents, including a bond purchase agreement between ACTA and J.P. Morgan Securities LLC as Senior Manager, to the Governing Board for approval at a future public meeting.

Budget Impact

There is no direct impact to the Program Budget.

Co-General Counsel Review:

ACTA's Co-General Counsel has reviewed this Board Report and there are no legal issues at this time.