



April 10, 2017

TO: Mayor Teresa Jacobs
-AND-
Board of County Commissioners

FROM: Fred Winterkamp, Manager, Fiscal and Business Services *FW*

CONTACT PERSON: Fred Winterkamp, Manager, Fiscal and Business Services
PHONE NUMBER: (407) 836-2920

SUBJECT: Resolution of the Orange County Board of County Commissioners
Regarding the Issuance of Tourist Development Tax Refunding Revenue
Bonds, Series 2017 (the "2017 TDT Bonds")

Background

Outstanding County debt can sometimes be refunded to create savings on future annual debt service costs. The County has such an opportunity to reduce the cost of future Tourist Development Tax (TDT) debt service. A refunding transaction replaces outstanding bonds with new bonds that carry a lower interest cost, which reduces the debt service cost in future years. In simple terms, such a refunding transaction is like a homeowner using a lower interest rate mortgage to pay off a higher interest rate mortgage to reduce the monthly house payment.

The outcome of a debt refunding transaction like the one proposed is beneficial in a few important ways. The debt service payment savings are beneficial. Then, while the transaction requires issuing new refunding debt, the transaction actually retires even more currently outstanding TDT debt, and thus the transaction results in less debt outstanding. Finally, it is prudent to continue to finance a facility like the Orange County Convention Center (OCCC) because the 2017 TDT Bonds mature in 2030 while the OCCC is expected to have a much longer useful life.

The 2017 TDT Bond resolution provides the authority to use the lower-cost proceeds of the 2017 TDT Bonds to refund all or a portion of the existing Tourist Development Tax Refunding Revenue Bonds, Series 2007 and 2007A (together the "2007 TDT Bonds") to achieve debt service savings. This 2017 transaction is strictly a cost saving transaction to reduce the annual debt payment on existing OCCC debt, and there are no additional funds or bonds for new projects. The 2007 TDT Bonds refunded debt that originally provided funds for the construction of the West Building and the North/South Building of the OCCC.

Current Refunding of the 2007 TDT Bonds

The amount of 2007 TDT Bonds currently outstanding is \$252,910,000. The 2007 TDT Bonds mature between 2017 and 2030, and these bonds can be called and retired at any time on or after October 1, 2017 (the "call date"), following proper notice to the investors. The Tax Code will allow the County to obtain the proceeds of the 2017 TDT Bonds up to 90 days before the October call date, so the 2017 TDT Bonds can be sold in early June of 2017 and the closing will coincide with the 90-day window permitted under the Tax Code any time after July 3, 2017. The County Financial Advisor, Public Financial Management (PFM), and County staff recommend issuing lower cost 2017 TDT Bonds and using the proceeds to retire all, or at least the most cost effective portion, of the higher cost 2007 TDT Bonds to reduce the TDT debt service as set forth in the resolution.

The debt working group, made up of financial consultants and staff from the County and Comptroller, has been tracking this savings opportunity. The County is preparing this refunding transaction with the minimum savings target of 4% of the refunded 2007 TDT Bond par amount. This is the savings target used on all similar recent County current refunding efforts when the bonds to be refunded are currently available for prepayment as will be the case for the 2007 TDT Bonds on or after October 1, 2017. The savings target must be reached with the expenses for interest and costs of issuance related to the 2017 TDT Bonds also taken into account. At the minimum 4% present value savings level, the refunding of all the outstanding 2007 TDT Bonds would result in combined debt service savings in the years until 2030 of approximately \$10 million in current dollars. However, current market levels would produce savings well in excess of the minimum.

This worthwhile transaction offers significant savings. However, success will depend on the interest rate market at the time of sale and the credit view of investors. If interest rates remain favorable enough, the 2017 TDT Bonds are expected to exceed the savings target. Recent TDT bond rating upgrades have our current TDT ratings at AA, Aa3, and AA-, respectively by FitchRatings, Moodys, and S&P Global Ratings, and these credit ratings will need to be reviewed in connection with the 2017 TDT Bond transaction.

Any bond insurance policy used to improve the credit of the 2017 TDT Bonds will be proposed and paid for by the winning bidder. The working group seeks a combination of favorable interest rates and suitable credit perception to issue the 2017 TDT Bonds to exceed the 4% savings target and lower the TDT debt service costs.

The Board is requested to approve the resolution to give the working group the flexibility to act while the current favorable market exists. The requested approval of the 2017 TDT Bond resolution will allow the working group to finalize the issuance documents and prepare for a sale that will allow the County to meet or exceed the savings target. PFM and County staff recommend approval of the resolution authorizing the issuance of the 2017 TDT Bonds to create the refunding savings.

2017 TDT Refunding Resolution

The 2017 TDT Bond resolution provides for the combined use of the 2017 TDT Bond proceeds, funds released from the TDT Debt Service Reserve Fund (DSRF), and TDT cash needed to complete the refunding escrow established to pay off the 2007 TDT Bonds. A DSRF is often associated with bond issues to hold assets (cash, insurance commitments, etc.) to pay bondholders in the event the pledged revenues are insufficient when any scheduled payment is due. Due to savings from this transaction, the existing TDT cash funded DSRF will now need less funds, and approximately \$650,000 of current TDT DSRF funds will be released and transferred to redeem 2007 TDT Bonds and reduce the 2017 TDT Bonds needed for the refunding. In addition to the bond proceeds and released DSRF funds in the escrow, an amount of approximately \$6,000,000 from TDT reserves will complete the current 2017 payment of the 2007 TDT bonds to further reduce the debt outstanding.

The resolution allows for refunding all, or a portion of, the outstanding 2007 TDT Bonds to generate the greatest amount of savings possible, while meeting at least a 4% savings threshold. The refunding will be limited to those maturities that produce aggregate savings in excess of the 4% target as set forth in the 2017 TDT Bond resolution. Whether a refunding takes place, and if so, the exact amount of 2017 TDT Bonds, the savings amount above the 4% minimum, and the exact duration of the 2017 TDT Bonds will depend on market conditions at the time of sale.

The 2017 TDT Bond resolution provides certain benchmarks which must be achieved to award the sale to the lowest bidder. The resolution requires a true interest cost of 5% or less for the 2017 TDT Bonds. The resolution provides that the refunding must produce at least a 4% net present value savings amount (present value savings target is net of all costs of issuance). The resolution further allows that 2017 TDT Bonds be issued in an amount no greater than \$245,000,000 to provide flexibility to accurately size the issuance to provide the refunding amounts required on the day of pricing. The resolution also indicates that the 2017 TDT Bonds may feature optional prepayment terms after 2027 as set forth in the Notice of Sale, so that they might also be refunded for savings in the future if market conditions allow. However, since the 2017 TDT Bond transaction will only be outstanding until 2030, in an effort to attract lower cost bids it is likely the 2017 TDT Bonds will not feature optional prepayment. The attached 2017 TDT Authorizing Resolution was prepared by Greenberg Traurig as TDT Bond Counsel and it authorizes the Mayor and staff to issue the 2017 TDT Bonds to refund the 2007 TDT Bonds once all of the sale parameters are met.

2017 Bond Documents

Pursuant to Administrative Regulation 6.02.04, the resolution will authorize the 2017 TDT Bonds to be sold via the competitive bid process. The County's Financial Advisor and the Comptroller are aware of this method of sale choice.

The following documents are provided for Board consideration and approval:

2017 TDT Authorizing Resolution - Authorizes the issuance of the 2017 TDT Bonds and delegates to the Mayor, or the Mayor's designee, the execution of all documents related to the 2017 TDT Bonds, distribution of the Preliminary Official Statement, and delivery of the Official Statement. The resolution also provides the limited delegation and certain parameters required to award the sale by the Mayor or the Mayor's designee.

Form of Escrow Deposit Agreement - The agreement between the County and the Escrow Agent to establish and administer the Escrow Fund, which is a portfolio of securities and cash that will be used to pay interest on the refunded bonds for the short period until the call date in October and to retire the refunded bonds on the call date.

Form of Fifteenth Supplemental Indenture of Trust to Second Amended and Restated Indenture of Trust - A master agreement providing the terms and conditions pursuant to which the 2017 TDT Bonds can be issued and secured by the Pledged Funds (consisting principally of the 4% Tourist Development Tax Revenues and the 5th Cent Tax Revenues) and to which all monies, funds and accounts related thereto are administered. It also sets forth a continuing disclosure undertaking requiring informational notices to the markets throughout the time the 2017 TDT Bonds are outstanding. The Securities and Exchange Commission continuing disclosure rules govern the ongoing distribution by the County of subsequent financial and operating data about the pledged revenues to the marketplace. This document sets forth requirements to make special disclosures of extraordinary events such as rating changes, financial problems, and debt service payment problems.

Form of Official Notice of Bond Sale - Official document that provides pertinent information regarding this competitive bond issue (i.e. date and time of the

competitive sale, estimated par amount, bond counsel, financial advisors and bid requirements) and invites bids from prospective underwriters and underwriting syndicates.

Form of Preliminary Official Statement (POS) - Preliminary version of the official statement which describes the proposed issue prior to final determination of the interest rates and offering prices. This document is used to disclose the details of the transaction and the County's TDT to investors. The document is used to market bonds and provide the required disclosure to allow an investor to make an informed decision about purchasing the bonds. The Securities and Exchange Commission cautions all public officials to carefully review the POS to be sure that no misstatements or omissions are made that would be material to investors. To ensure a thorough and professional review, the working group includes a Disclosure Counsel firm that reviews the information and prepares the POS, and the POS is also reviewed by Bond Counsel, the County Attorney's Office, Comptroller staff, OCCC staff, and County fiscal staff.

Accompanying documents are available for review in the top drawer of the BCC file cabinet in the supply room adjacent to Commissioner Thompson's office and in the Fiscal and Business Services office. Individual briefings will be offered to each Commissioner to answer any questions they may have prior to this being presented on the consent agenda for the April 25, 2017 Board meeting.

ACTION REQUESTED:

Approval and execution of Resolution of the Orange County Board of County Commissioners Regarding the Issuance of Tourist Development Tax Refunding Revenue Bonds, Series 2017.

Cc: Eric Gassman, Deputy County Administrator
Lila McHenry, County Attorney's Office
David Moore, Financial Advisor, Public Financial Management