ORANGE COUNTY GOVERNMENT
FLORIDA

April 20, 2015

APPROVED
BY ORANGE COUNTY BOARD
OF COUNTY COMMISSIONERS
MAY 0 5 2015 NP/KH

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

FROM: Fred Winterkamp, Manager, Fiscal and Business Services FHW

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

SUBJECT: Approval of a Resolution of the Orange County Board of County Commissioners Regarding the Issuance of Tourist Development Tax Refunding Revenue Bonds, Series 2015 (the "2015 TDT Bonds")

Background

Outstanding debt of the County 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 annual 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 2015 TDT resolution provides the authority to use the lower-cost proceeds of the 2015 TDT Bonds to refund all or a portion of the existing Tourist Development Tax Refunding Revenue Bonds, Series 2005 (the "2005 TDT Bonds") to achieve annual debt service savings. The 2005 TDT Bonds refunded 2000 TDT Bonds that provided funds for the construction of the North/South Building of the Orange County Convention Center. This is strictly a cost saving transaction to reduce the annual debt payment on existing Convention Center debt, and there are no additional funds for new projects.

Current Refunding of the 2005 TDT Bonds

An amount of $185,950,000 of 2005 TDT Bonds is currently outstanding. The 2005 TDT Bonds mature between 2015 and 2031, and these bonds can be called and retired at any time after October 1, 2015 following proper notice to the investors. The Tax Code will allow the County to obtain the proceeds of the 2015 TDT Bonds up to 90 days before the October call date, so the 2015 TDT Bonds can be sold in early June of 2015 and the closing will coincide with the 90-day window permitted under the Tax Code any time after July 3, 2015. The Co-Financial Advisors, Public Financial Management and M2 Management, Inc. ("PFM/M2"), and County staff recommend issuing lower cost 2015 TDT Bonds and using the proceeds to retire all, or at least the most cost effective portion, of the higher cost 2005 TDT Bonds to reduce the TDT debt service to the maximum extent possible.

The debt working group, made up of financial consultants and staff from the County and Comptroller, has been tracking this savings opportunity for the last year. The County is preparing this refunding effort with the minimum savings target of 4% used on all recent County current refunding efforts when the bonds are currently available for prepayment as will be the case when the 2015 TDT Bonds close on or after July 3, 2015. The savings target must be reached with the expenses for interest and costs of issuance related to the 2015 TDT Bonds also taken into account. At the minimum 4% present value savings level, the refunding of all the outstanding 2005 TDT Bonds would result in combined debt service savings in the years until 2031 of approximately $7 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 are favorable enough, the 2015 TDT Bonds will exceed the savings target. A partial substitute for favorable interest rates is to have perceived credit that will attract aggressive bids. County bonds backed by Sales Tax, Public Service Tax, and Guaranteed Entitlements are all rated a very strong AA or AA+, while the TDT bonds have slightly lower ratings of AA-, A1, A+ respectively by FitchRatings, Moodys, and Standard and Poor's.

In the past, County TDT bonds were sold with AAA bond insurance to improve the credit, but the few remaining viable bond insurance firms have suffered downgrades to lower credit ratings. Due to limited availability and higher costs, bond insurance is often not cost effective to improve credit for bonds. Any policy of bond insurance used to improve the credit of the 2015 TDT Bonds will be proposed and paid for by the winning bidder. The County working group seeks a combination of favorable interest rates and suitable credit perception to issue the 2015 TDT Bonds to exceed the 4% savings target and lower the TDT debt service costs.

The County must provide the approval and finalize the documents to give the working group the flexibility to act when the successful market exists. The requested approval of the 2015 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 the savings target. PFM/M2 and County staff recommend approval of the resolution authorizing the issuance of the 2015 TDT Bonds to create the refunding savings

<u>2015 TDT Refunding Resolution</u>

The 2015 TDT Bond resolution provides for the combined use of the 2015 TDT Bond proceeds, released Debt Service Reserve Funds, and TDT cash needed to complete the refunding escrow established to pay off the 2005 TDT Bonds. A Debt Service Reserve Fund (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 cash funded TDT DSRF will now need less funds, and approximately $1.2 million of DSRF funds will be released and transferred to redeem 2005 TDT Bonds and reduce the 2015 TDT Bonds needed for the refunding. In addition to the bond proceeds and released DSRF funds in the escrow, an amount of approximately $1.5 million from TDT reserves will complete the current 2015 payment of the 2005 TDT bonds to further reduce the debt outstanding.

The resolution allows for refunding up to all of the outstanding 2005 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. Whether a refunding takes place, and if so, the exact amount of refunding bonds, the savings amount above the 4% minimum, and the exact duration of the 2015 TDT Bonds will depend on market conditions at the time of sale.

The 2015 TDT Bond resolution provides certain benchmarks which must be achieved for the sale to take place. The resolution requires a true interest cost of 5% or less for the 2015 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 2015 TDT Bonds be issued in an amount no greater than $185,000,000 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 2015 TDT Bonds may feature optional prepayment terms as set forth in the Notice of Sale, so that they too can be refunded for savings in the future if market conditions allow. The attached resolution was prepared by Greenberg Traurig as TDT Bond Counsel and it authorizes the Mayor and staff to issue the 2015 TDT Bonds to refund the 2005 TDT Bonds if the sale parameters can be met.

2015 Bond Documents

Pursuant to Administrative Regulation 6.02.04, approved by the Board of County Commissioners on February 22, 1994, the resolution will authorize the 2015 TDT Bonds to be sold via the competitive bid process. The County's Co-Financial Advisors and the Comptroller are aware of this method of sale choice.

The following documents are provided for Board consideration and approval:

> **2015 TDT Authorizing Resolution** - Authorizes the issuance of the 2015 TDT Bonds and delegates to the Mayor, or the Mayor's designee, the execution of all documents related to the 2015 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.
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> **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.
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> **Form of Twelfth Supplemental Indenture of Trust to Second Amended and Restated Indenture of Trust** - A master agreement providing the terms and conditions pursuant to which the 2015 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 2015 TDT Bonds are outstanding. SEC 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.
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> **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 Tourist Development Tax 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, 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 May 5, 2015 Board meeting.

ACTION REQUESTED:
Approval of Resolution of the Orange County Board of County Commissioners Regarding the Issuance of Tourist Development Tax Refunding Revenue Bonds, Series 2015.

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