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Ramirez Develops Redemption Feature

By Aaron Weitzman
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El Paso County this month completed a $50 million bond sale with an option redemption enhancement, the first such transaction in the Lone Star State.

Ramirez & Co., which introduced the feature in January, says the option redemption enhancement, or ORE, complements a standard 10-year par call by allowing issuers to redeem bonds immediately at a make-whole price to the first call date.

According to the firm, the resulting ability to execute a current refunding allows issuers to secure savings in situations where they would have been prevented by tax law from pursuing a tax-exempt advance refunding.

"We fully vetted the product with many potential candidates because we wanted to make sure that the product provided the promised benefits to our clients at no additional cost," said John Young, lead underwriter at Ramirez. "This approach has been critical to its success."

Young, who was instrumental in developing the product, said the rapid market acceptance resulted from months of laying the groundwork with potential investors and issuers.

Ramirez introduced the OREs concept in mid-2015 to a targeted pool of clients, which included sophisticated issuers with large ongoing capital financing plans, in particular such alternative minimum tax bond issuers as airport finance agencies. OREs provide previously un-attainable access to savings for AMT bond issuers who are prevented from taking advantage of today's low interest rates due to the non-advance refund ability of their debt.

Several major issuers have successfully incorporated the OREs feature into their capital structure over the past six weeks in order to increase flexibility and potentially enhance future refunding savings.

The inaugural OREs enhanced transaction was senior managed by Ramirez, in January, for Nassau County, N.Y., as part of a $273 million advance refunding. The firm said that the product was well received by investors, and this first transaction was quickly followed by a similarly enhanced $782 million advance refunding and new money transportation revenue bond issue for the New York Metropolitan Transportation Authority. A week later, the MTA included the OREs provisions again in a $580 million advance refunding transaction for its dedicated tax fund credit.

Eric Naughton, the county's deputy executive for finance said that the goal of the 2016 refunding series A bonds was to maximize savings while providing for maximum flexibility in the future to reduce outstanding debt.

"Our underwriter, Ramirez, presented us the optional make-whole redemption provision," Naughton said. "We understood that we would be the first municipal issuer in New York to do this, therefore we had to work with our bond counsel and financial advisor to protect the interests of County taxpayers. Based on our due diligence we felt that this provision would not impact pricing and we would be able to achieve our goals. Based on the very favorable pricing, we believe that this was the case."

Al Quintero, a senior managing director at Ramirez who worked with Young on development of the feature, said the OREs concept is catching on with market participants around the country.

"Our goal is to provide practical and effective solutions to our clients' financing challenges, and the OREs product is a great example of Ramirez' ability to deliver such a result," Quintero said.

One market source said option redemption enhancement is a common feature in taxable bonds that is rarely used for tax-exempts.

Ramirez said that may change, as there has been no cost to the issuer for imbedding this feature into the bonds thus far.

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