



Sacramento Transportation Authority

Market Update and Refunding Analysis

Presented by PFM Financial Advisors LLC

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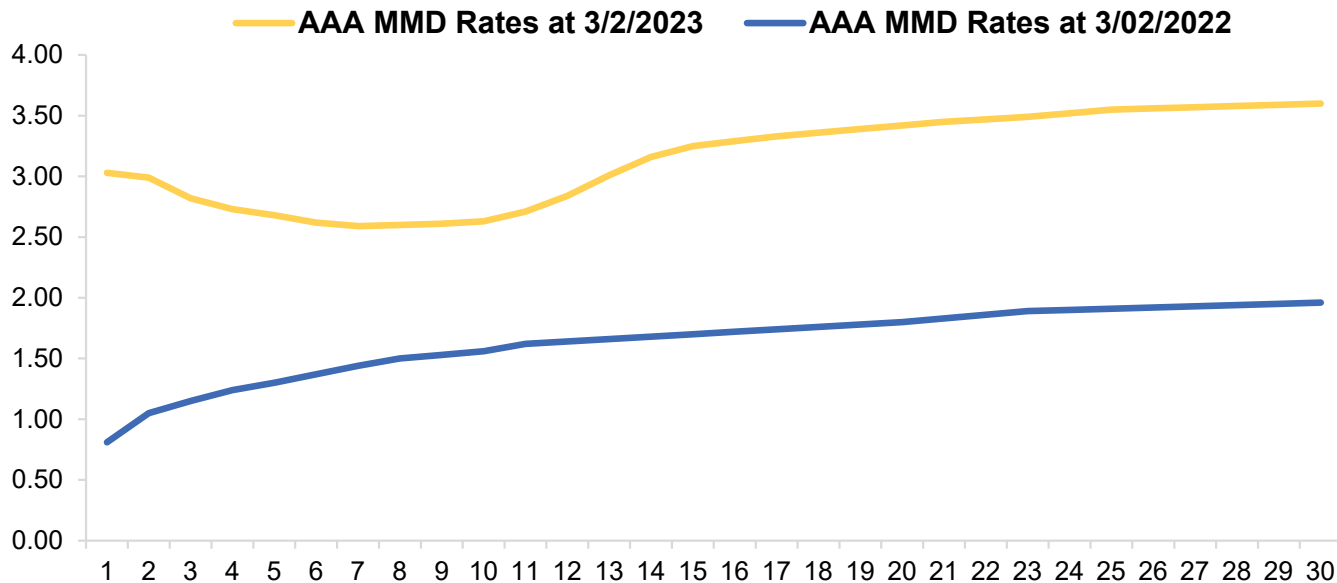


1. Market Update



Tax Exempt Yield Curve

- Inflationary pressure and the Federal Open Market Committee (FOMC) rate hikes increased interest rates over the last year:
 - Tax exempt rates are up 222 basis points (bps) on the short end of the curve
 - Long-term rates are up 164 bps



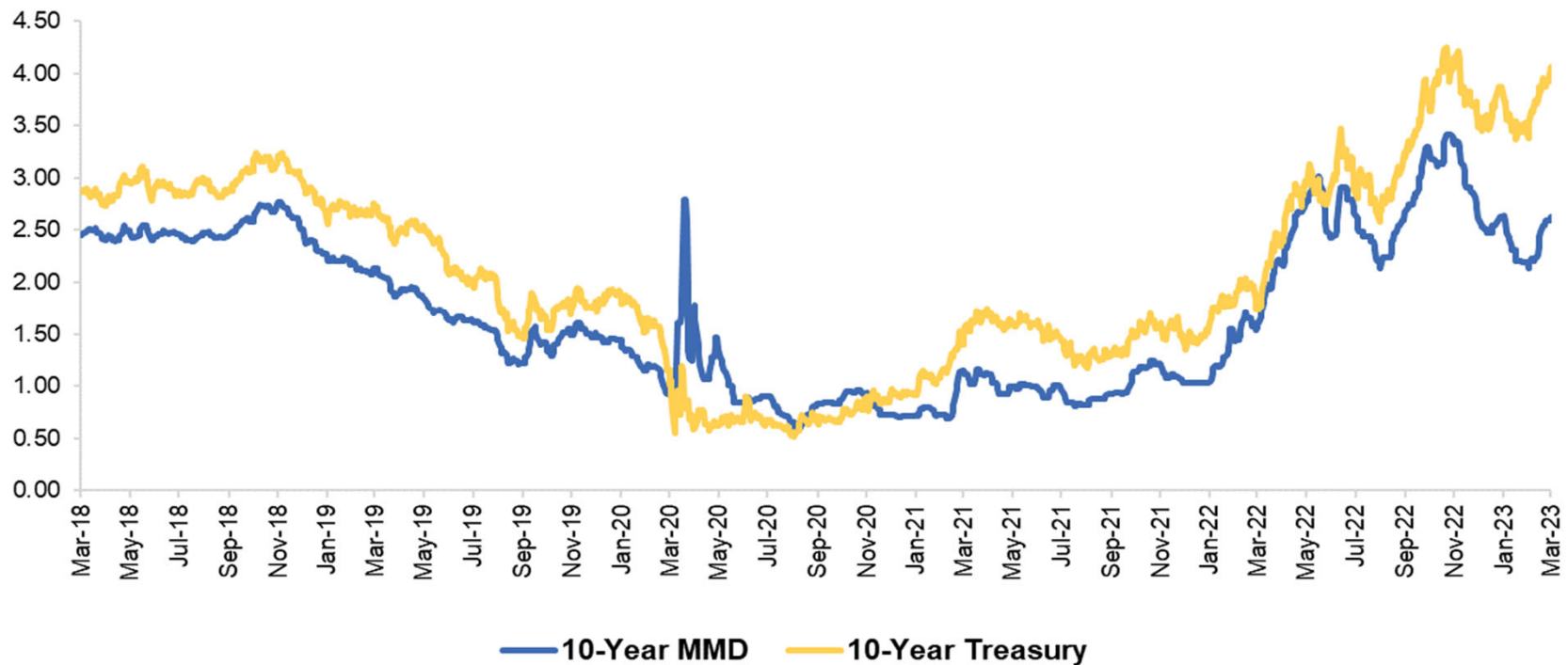
MMD Yield Curve			
Term	3/2/2023	3/2/2022	Delta
1	3.03	0.81	2.22
2	2.99	1.05	1.94
3	2.82	1.15	1.67
4	2.73	1.24	1.49
5	2.68	1.30	1.38
6	2.62	1.37	1.25
7	2.59	1.44	1.15
8	2.60	1.50	1.10
9	2.61	1.53	1.08
10	2.63	1.56	1.07
11	2.71	1.62	1.09
12	2.84	1.64	1.20
13	3.01	1.66	1.35
14	3.16	1.68	1.48
15	3.25	1.70	1.55
16	3.29	1.72	1.57
17	3.33	1.74	1.59
18	3.36	1.76	1.60
19	3.39	1.78	1.61
20	3.42	1.80	1.62
21	3.45	1.83	1.62
22	3.47	1.86	1.61
23	3.49	1.89	1.60
24	3.52	1.90	1.62
25	3.55	1.91	1.64
26	3.56	1.92	1.64
27	3.57	1.93	1.64
28	3.58	1.94	1.64
29	3.59	1.95	1.64
30	3.60	1.96	1.64



10-Year Interest Rates – Taxable & Tax Exempt

- ◆ Taxable rates have increased faster than tax exempt rates
 - Increased taxable rates decreases the cost to terminate the interest rate swaps
- ◆ Simultaneously, STA can issue tax-exempt fixed rate bonds to replace the swaps and variable rate bonds
 - Tax-exempt rates are relatively attractive compared to taxable rates

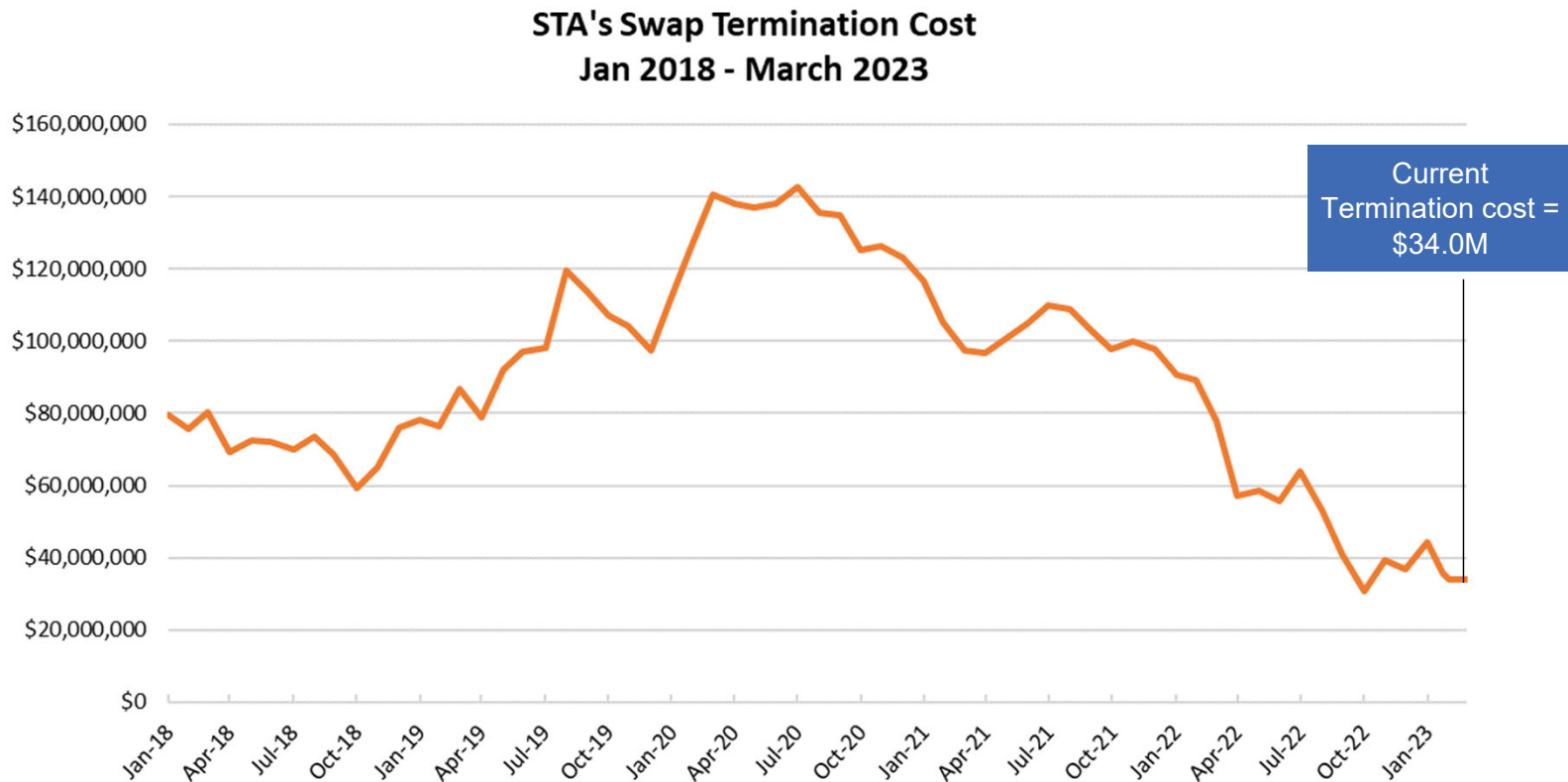
10-yr MMD and 10-yr Treasury Rates





Swap Termination Costs Have Decreased in Recent Months

- The cost to terminate STA's interest rate swaps is currently near the low-point compared to the last five years
- Termination costs reached \$140 million during the low-rate period of the pandemic and are now approximately \$34 million





2. Overview of Debt Profile



Current Debt Portfolio

- STA has outstanding debt in the par amount of \$342.5 million

Sacramento Transportation Authority Debt Summary

SERIES	OUTSTANDING PAR	FINAL MATURITY	MODE	SBPA/DIRECT PURCHASE	EXPIRATION/TENDER DATE	REMARKETING AGENT
2009C	\$106,100,000	10/1/2038	Weekly VRDB	US Bank N.A. SBPA	11/20/2027	US Bank
2014A	\$106,100,000	10/1/2038	Weekly VRDB	Sumitomo Mitsui Banking Corp.	10/30/2024	Wells Fargo
2015A	\$106,100,000	10/1/2038	Weekly VRDB	Sumitomo Mitsui Banking Corp.	5/12/2023	JP Morgan
2022	\$24,245,000	10/1/2027	Fixed Rate	N/A	N/A	N/A
TOTAL	\$342,545,000					

- The Authority's three swaps have a market valuation of (\$34.01 million)

- None of the swaps have a collateral posting requirement and all swaps have performed as anticipated

Sacramento Transportation Authority Swaps Summary

ASSOCIATED SERIES	AUTHORITY PAYS	AUTHORITY RECIEVES	EFFECTIVE DATE	TERMINATION DATE	NOTIONAL AMOUNT	COLLATERAL THRESHOLD AMOUNTS	COUNTERPARTY	CURRENT MARKET VALUATION
						Aa3/AA+		
2009C	3.74%	67% of 1-month LIBOR	10/1/2009	10/1/2038	106,100,000	Not Applicable	Bank of America N.A.	(\$11,858,356)
2014A	3.74%	67% of 1-month LIBOR	10/1/2009	10/1/2038	106,100,000	Not Applicable	Goldman Sachs Capital Markets	(\$11,860,421)
2015A	3.67%	67% of 3-month LIBOR	10/1/2009	10/1/2038	106,100,000	Not Applicable	JP Morgan Chase Bank N. A	(\$10,294,698)
TOTAL					\$318,300,000			(\$34,013,476)

Market Valuations are dated 3/02/2023 from PFM Swap Advisors



Total Cost on Interest Rate Swap and Bonds

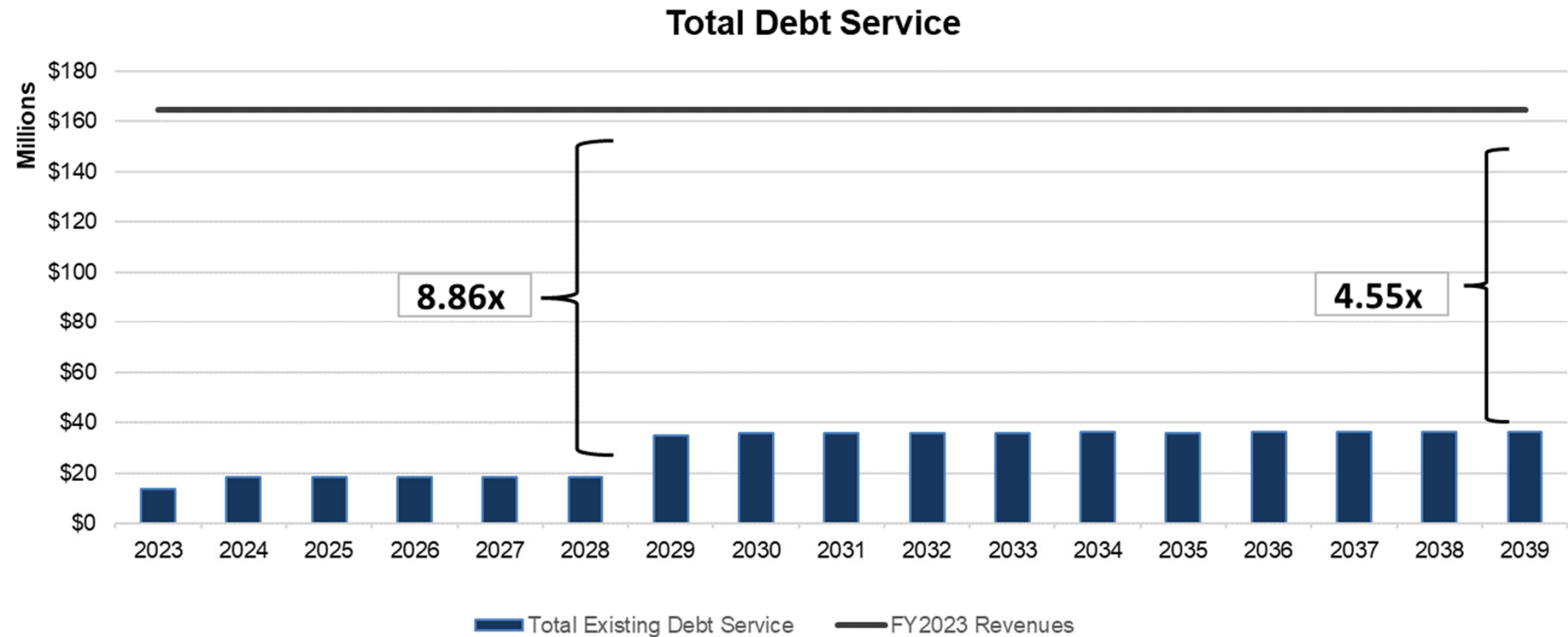
- STA's all-in cost of capital on the interest rate swaps is 4.06%, including all ancillary fees

Total Cost of Interest Rate Swap	
<u>STA Pays</u>	
Swap Fixed Rate	3.71%
Fees to Remarketing Agents	0.06%
Fees to Liquidity Providers	0.37%
Positive STA Bond/Swap Differential	(0.10%)
All in Cost:	4.06%



Debt Service Coverage Ratio

- Annual Debt Service ranges from \$13.7 million in FY2023-28 to \$36.1 million in FY2029-39
- Annual Debt Service (DS) Coverage (with FY2022 budgeted revenues = \$164.4 million)
 - Annual DS coverage through 2028: 8.86x
 - Maximum Annual DS coverage: 4.55x





3. Potential Swap Refunding



Potential Refunding of Interest Rate Swaps and Variable Rate Bonds

◆ Issue fixed rate bonds to:

- Refund \$318.3 million of variable rate bonds
- Pay for \$34 million termination cost of eliminating the interest rate swaps
- Secure call option on the new bonds to refinance in 2033 for potential debt service savings

◆ Pros

- Eliminates all variable rate bonds and interest rate swaps
- Simplifies portfolio and reduces risk
- Provides flexibility to refund fixed rate bonds in 2033 for potential future savings
- Eliminates any uncertainty with upcoming (June 2023) LIBOR index transition

◆ Cons

- Current rates increase total debt service costs by \$12.6 million (NPV) through 2039: 3% increase
- Would reduce funding available for the Five-Year Capital Improvement Program



Swap Termination & Refunding Results

- Refunding all of the variable rate bonds and terminating the interest rate swaps by issuing new fixed rate bonds would increase debt service by \$14 million through 2039: a 3% increase in debt service through 2039
- The new bonds could be refunded in 2033 with the potential for savings at that time

Date	Prior Debt Service	Refunding Debt Service	Gross Savings	NPV Savings
6/30/2024	9,618,860.96	11,385,533.33	(1,766,672.37)	(1,760,356.57)
6/30/2025	12,920,858.00	15,294,000.00	(2,373,142.00)	(2,269,209.71)
6/30/2026	12,920,858.00	15,294,000.00	(2,373,142.00)	(2,202,176.92)
6/30/2027	12,920,858.00	15,294,000.00	(2,373,142.00)	(2,137,124.29)
6/30/2028	12,920,858.00	15,294,000.00	(2,373,142.00)	(2,073,993.32)
6/30/2029	34,670,272.00	35,003,625.00	(333,353.00)	(270,454.16)
6/30/2030	35,826,477.00	36,142,750.00	(316,273.00)	(249,131.78)
6/30/2031	36,015,703.00	36,323,375.00	(307,672.00)	(235,764.59)
6/30/2032	35,862,306.00	36,164,250.00	(301,944.00)	(225,307.71)
6/30/2033	35,966,286.00	36,259,500.00	(293,214.00)	(213,099.24)
6/30/2034	36,021,554.00	36,300,875.00	(279,321.00)	(197,730.38)
6/30/2035	36,028,110.00	36,297,375.00	(269,265.00)	(185,938.07)
6/30/2036	36,279,865.00	36,535,375.00	(255,510.00)	(172,239.60)
6/30/2037	35,882,908.00	36,131,125.00	(248,217.00)	(163,639.57)
6/30/2038	36,331,150.00	36,561,000.00	(229,850.00)	(148,321.78)
6/30/2039	36,118,502.00	36,336,250.00	(217,748.00)	(137,858.80)
Total	\$456,305,425.96	\$470,617,033.33	(\$14,311,607.37)	(\$12,642,346.49)



Future Bonds Refunding

- ◆ If STA refunds the callable future bonds in 2033, the debt service savings is \$15.5 million (net present value)
 - Future rate assumption: The 20-year average of tax-exempt rates
- ◆ Net overall savings of \$2.8 million from the 2023 potential issuance

Date	Prior Debt Service	Refunding Debt Service	Gross Savings	NPV Savings
6/20/2034	4,023,375.00		4,023,375.00	3,991,406.54
6/20/2035	36,297,375.00	33,891,750.00	2,405,625.00	2,365,843.47
6/20/2036	36,535,375.00	34,129,875.00	2,405,500.00	2,328,663.93
6/20/2037	36,131,125.00	33,724,250.00	2,406,875.00	2,293,518.42
6/20/2038	36,561,000.00	34,158,000.00	2,403,000.00	2,253,996.24
6/20/2039	36,336,250.00	33,932,625.00	2,403,625.00	2,219,326.64
Total	\$185,884,500.00	\$169,836,500.00	\$16,048,000.00	\$15,452,755.24



Future Bonds Refunding – Breakeven Even Analysis

- Rates would need be +50bps (0.50%) above their 20-year average in order to stay above (\$12.6) million in debt service savings and breakeven compared to today's increase in debt service costs
- 2033 rates equivalent to the 20-year average + 0.50% = \$12.9 million in debt service savings through 2039

Date	Prior Debt Service	Refunding Debt Service	Gross Savings	NPV Savings
6/20/2034	4,023,375.00		4,023,375.00	3,981,593.22
6/20/2035	36,297,375.00	34,396,500.00	1,900,875.00	1,859,847.93
6/20/2036	36,535,375.00	34,635,750.00	1,899,625.00	1,820,618.63
6/20/2037	36,131,125.00	34,233,250.00	1,897,875.00	1,781,766.31
6/20/2038	36,561,000.00	34,659,125.00	1,901,875.00	1,749,053.07
6/20/2039	36,336,250.00	34,434,875.00	1,901,375.00	1,712,898.13
Total	\$185,884,500.00	\$172,359,500.00	\$13,525,000.00	\$12,905,777.29



4. Next Steps



Next Steps

- Staff is looking for direction on bond refunding

- Should the Board provide that direction, staff would move forward with the following:
 - STA would release a Request for Proposals to select an underwriting team

 - STA and financing team would prepare bond refunding documents

 - Staff would then come back to the STA Governing Board to approve the following action:
 - Refunding of the 2009C, 2014A, AND 2015A series bonds from variable rate to fixed rate
 - Termination of the existing swap agreements and all other agreements needed to support variable rate bonds



Appendix

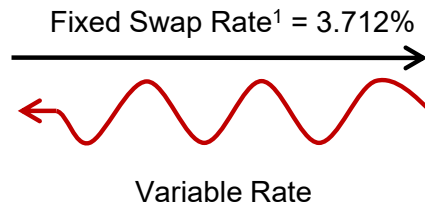


Interest Rate Swap Overview

- An interest rate swap is a contract between two counterparties to exchange interest rate payments over time.
- Purpose: the swap contract locks in the fixed rate.



SWAP CONTRACT



Bank Counterparties

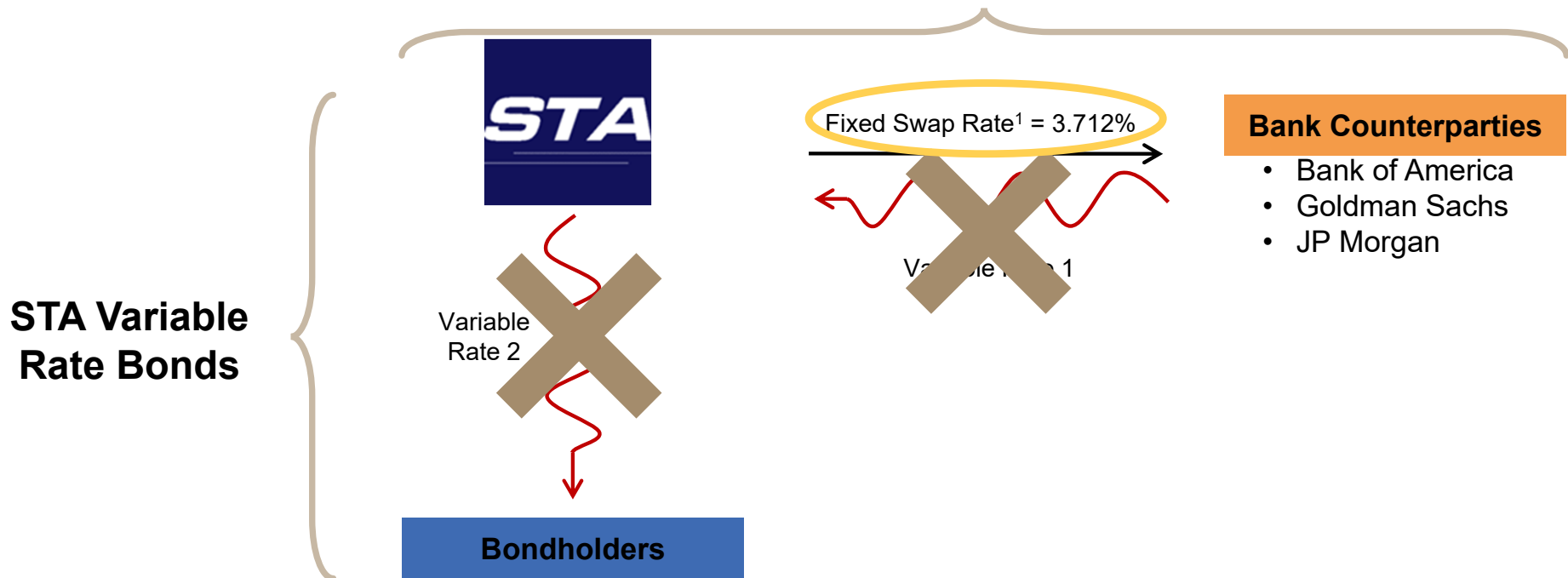
- Bank of America
- Goldman Sachs
- JP Morgan



Interest Rate Swap Overview

- The swap locks in the rate – the variable rate bonds raise funds for projects
- To the extent that $variable-rate-1 = variable-rate-2$ (i.e., inflows equal outflows) STA's net payment is the fixed swap rate

SWAP CONTRACT



Thank You

