Sacramento Transportation Authority
Debt Policy
June 2023

I. Introduction

The purpose of this Debt Policy is to establish guidelines for the issuance and management of Sacramento Transportation Authority's ("STA" or the "Authority") current and future debt. This Debt Policy confirms the commitment of the Board, management, staff, and other decision makers to adhere to sound financial management practices. Priorities of the Debt Policy are as follows:

- Effectively manage and mitigate financial risk
- Preserve future program flexibility
- Maintain strong credit ratings and good investor relations
- Maintain ready and cost-effective access to the capital markets

II. Scope and Authority

This Debt Policy shall guide, the issuance and management of all debt funded through the capital markets, including the selection and management of related financial and advisory services and products.

This Policy shall be reviewed periodically and updated as required. Any changes to the policy are subject to approval by the Board at a public meeting. Overall policy direction of this Debt Policy shall be provided by the Board. Responsibility for implementation of the Debt Policy, and day-to-day responsibility and authority for structuring, implementing, and managing the Authority's debt and finance program, shall reside with the Executive Director. This Debt Policy requires that the Board specifically authorize each debt financing.

While adherence to this Policy is required in applicable circumstances, the Authority recognizes that changes in the capital markets, Authority programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Debt Policy and require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained.

III. Capital Budgeting and Planning for Debt Issuance

The 2004 Measure A Sales Tax is authorized under the Authority's Ordinance No. STA 04-01 (the "2004 Ordinance"). As part of the 2004 Ordinance, the Authority also adopted a new Sacramento County Transportation Expenditure Plan 2009-2039 (the "2004 Transportation Expenditure Plan") which governs the expenditure of the 2004 Measure A Sales Tax and the 2004 Measure A Impact Fee.

The 2004 Expenditure Plan is currently being funded through a combination of pay-as-you-go and bond financing. The Authority staff has prepared and periodically updates a Plan of Finance which details the Authority's capacity to deliver projects on an accelerated basis through bond financing. The Plan of Finance is reviewed by the Board and reflects the Board's project prioritization. The Plan of Finance is developed to be consistent with the 2004 Ordinance, the 2004 Transportation Expenditure Plan and the borrowing parameters and covenants included in the Authority's Bond Indenture and other legal documents.

Borrowing needs are evaluated on a periodic basis within the context of the Authority's Plan of Finance. As noted previously, this Debt Policy requires that the Board specifically authorize each debt financing.

IV. Standards For and Appropriate Use of Debt Financing

As borrowing needs are identified, the Authority will evaluate the nature of the capital investment (e.g., the purpose and useful life of the asset) to ensure that long-term debt is the appropriate financing mechanism to meet the funding need. Standards for the appropriate use of debt financing will include those described below.

A. Long Term Capital Projects: Long-term debt should be used to finance essential capital projects where it is cost effective and fiscally prudent. The debt repayment period should not exceed 120% of the useful life of the project being financed or the term of the current sales tax Measure. The ability or need to expedite or maintain the programmed schedule of approved capital projects will be a factor in the decision to issue long-term debt.

B. Debt Financing Mechanism: The Authority will evaluate the use of financial alternatives available including, but not limited to, long-term debt, short-term debt, commercial paper, direct bank loans, private placement and inter-fund borrowing. The STA will utilize the most cost advantageous financing alternative consistent with limiting the Authority's risk exposure.

C. Credit Quality: Credit quality is an important consideration for the Authority. All STA debt management activities for new debt issuances will be conducted in a manner conducive to receiving the highest credit ratings possible consistent with the Authority's debt management and project delivery objectives.

V. Purpose of Financing

The general purpose of bond financing falls into three general categories: (1) to finance new capital infrastructure, (2) to refinance existing bonds to reduce financing costs, risk or both, or (3) to reimburse an agency for eligible capital expenditures made within the last 18 months. These purposes are described in more detail below:

A. New Money Financing: New money issues are those financings that generate additional funding to be available for expenditure on capital projects. These funds will be used for acquisition, construction, and major rehabilitation of capital assets. New money issues will be proposed in the context of STA's Plan of Finance and will be consistent with the 2004 Transportation Expenditure Plan and Measure A Ordinance.

B. Refunding Bonds: Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance at a lower interest rate to reduce debt service. Alternatively, some refundings are executed for a reason other than to achieve cost savings, such as to restructure the repayment schedule of the debt, to change the type of debt instruments being used, or to retire an indenture in order to remove undesirable covenants. In any event, a present value analysis must be prepared that identifies the economic effects of any refunding being proposed to the STA.

The Authority has established a minimum debt service savings threshold goal of 3.0% of the refunded bond principal amount, on a maturity-by-maturity basis, unless there are other compelling reasons for defeasance. As an exception to this target savings threshold, the Authority may elect to include bonds maturing in the next 24 months into a larger refunding if those maturities provide some positive savings. The present value savings will be net of all costs related to the refinancing.

C. Reimbursement Bonds: A reimbursement bond is a tax-exempt bond the proceeds of which are allocated to prior expenditures originally paid from sources other than bond proceeds. A proper reimbursement allocation results in the proceeds being treated as spent for the governmental purpose of the original expenditures even though the actual moneys are used to replenish the funds originally used to pay the expenditures.

Under federal tax regulations, the proceeds of bonds may be allocated to a prior capital expenditure, but only if a formal declaration of reasonable intention to reimburse the expenditure with the proceeds of a borrowing (a "declaration of official intent") had been properly made within sixty (60) days after the date the expenditure was paid. This declaration of official intent is commonly made via a reimbursement resolution adopted by the Board. If a declaration of official intent has been made, bond proceeds may be allocated to expenditures previously made for a period of up to 18 months after the date the expenditures were made.

VI. Types of Debt

The market for municipal finance is well developed and provides numerous products or types of debt that the Authority will evaluate on a case-by-case basis. Some of the types of debt – long-term, short-term and variable rate – available to the Authority are described in this section.

A. Long Term Debt

1. Current Coupon Bonds: are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Bond features may be adjusted to accommodate the market conditions at the time of sale, including changing dollar amounts for principal maturities, offering discount and premium bond pricing, modifying call provisions, utilizing bond insurance, and determining how to fund the debt service reserve fund.

2. Zero Coupon Bonds: pay interest that is compounded and paid only when principal matures. Interest continues to accrue on the unpaid interest at rates that are typically higher than rates on current-coupon bonds, therefore representing a more expensive funding option. Principal paid at maturity is discounted back to the initial investment amount received at issuance.

3. Transportation Infrastructure Finance Innovation Act (TIFIA) Loan: is a loan provided by the United States Department of Transportation for certain transportation projects of regional importance. A TIFIA loan may contain comparatively flexible repayment provisions and an interest rate that is tied to the prevailing 30-year US Treasury Bond yield. The Authority may elect to apply for a TIFIA loan if it is determined that it is the most cost-effective debt financing option available.

B. Short-Term Debt

1. Commercial Paper Notes: may be issued as an alternative to fixed rate debt, particularly when the timing of funding requirements is uncertain. The Authority may maintain an ongoing commercial paper program to ensure flexibility and immediate access to capital funding when needed.

2. Bond Anticipation Notes (BANs): May be issued to meet near-term needs and refinanced in anticipation of the future issuance of bond proceeds. BANs provide near-term funding with a fixed rate.

3. Grant Anticipation Notes (GANs): are short-term notes that are repaid with the proceeds of State or Federal grants of any type. The Authority shall generally issue GANs only when there is no other viable source of funding for the project

4. Lines of Credit: shall be considered as an alternative to or credit support for other short term borrowing options.

C. Variable Rate Debt

1. Variable Rate Debt. It is sometimes appropriate to issue short-term or long-term variable rate debt to diversify the debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of variable rate assets to variable rate liabilities. The amount of unhedged variable rate debt will generally not exceed 20% of all outstanding debt.

   Variable rate securities, including floating rate notes, may be used in conjunction with a financial strategy, which results in synthetic fixed rate debt. Synthetic fixed rate debt may be utilized when the interest rate cost is sufficiently lower than traditional fixed rate debt or serves as an effective strategy to remove future interest rate risk.

VII. Terms and Structure of Bonds

The terms and structure of a specific bond issuance will be developed within a prudent legal framework and with the objective of maintaining strong credit ratings, addressing investor concerns, minimizing risk to the Authority and preserving future flexibility in a cost-effective manner. Some of the terms and structural considerations are discussed below

A. Term: All capital improvements financed through the issuance of debt will be financed for a period not to exceed 120% of the expected average useful life of the assets being financed, and in no event should exceed the expiration date of the current sales tax measure.

B. Lien Levels: Senior and Junior Liens for each revenue source may be utilized in a manner that will maximize the most critical constraint -- typically either cost or capacity -- thus allowing for the most beneficial use of the revenue source securing the bond.

C. Debt Service Structure: The Authority will examine debt service structures in the context of program needs. Combined principal and interest payments for any particular bond issue will first be examined as a level payment structure. Deferred principal can create increased program and project delivery capacity and will also be examined. The Authority's debt service structure will be sized within conservative revenue constraints and with the objective of maintaining strong credit ratings.

D. Capitalized Interest: Unless otherwise required, capitalized interest will not be employed. This avoids unnecessarily increasing the bond size. Certain types of financings, such as toll revenue bonds, may require that interest on the bonds be paid from capitalized interest until the Authority has constructive use of the project and project related revenues are expected to be available to pay debt service.

E. Additional Bonds Test: Any new senior lien debt issuance must not cause the Authority's debt service to exceed the level at which prior year revenues are less than 180 percent (1.80x) of the maximum annual principal and interest for the aggregate outstanding senior lien bonds including the debt service for the new issuance.

F. Call Provisions: In general, fixed rate, tax-exempt bonds will be issued with a provision that allows the Authority to call outstanding bonds 10-years after the bond delivery date at par (i.e., no call premium). Shorter calls may be considered to increase program flexibility based on market conditions at the time of pricing.

VIII. Credit Enhancement

The Authority will consider the cost and benefit of credit enhancement, including the potential funding of a debt service reserve fund, on a case-by-case basis with each separate bond issuance.

A. Bond insurance: The Authority shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest expense on insured bonds versus uninsured bonds.

B. Debt Service Reserves: When beneficial to the Authority, a reserve fund equal to the lesser of ten percent (10%) of the original principal amount of the bonds, maximum annual debt service or one-hundred-and-twenty-five (125%) percent of average annual debt service (the "Reserve Requirement") shall be funded from the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies.

The STA shall have the authority to purchase reserve equivalents (i.e., the use of a reserve fund surety) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

C. Standby Bond Purchase Agreements (SBPA) and Letters of Credit (LOCs): STA shall have the authority to enter into an SBPA and LOC when such an agreement is deemed prudent and advantageous. SBPAs provide third-party liquidity by commercial banks to purchase the Authority's variable rate bonds in the case of a failed remarketing. A LOC provides liquidity in addition to credit enhancement on the bonds. Either a SBPA or a LOC are acceptable financial products to support the trading of variable rate demand bonds. The differential costs between SBPAs and LOCs will be considered when selecting either form of agreement. The long-term and short-term credit ratings of those financial institutions offering SBPAs and LOCs will be a critical consideration before procuring either an SBPA or LOC.

Commented [DP1]: I don't think we need the authority to enter into agreements here. We have long standing resolutions that allow us to renew without board action. If we go out for bid, we would likely need to go to the Board.

IX. Financial Derivative Products (Interest Rate Swaps)

Interest rate exchange agreements ("swaps") are arrangements whereby two or more parties, the issuer and one or more counterparties, enter into an agreement to exchange periodic interest payments (no principal is involved). Swaps and related financial instruments and derivatives may be appropriate interest rate management tools. The appropriate application of a derivative product will be evaluated on a case-by-case basis.

The Authority currently has in place an Interest Rate Swap Policy that was adopted by the Authority Board in 2006. The purpose of the Interest Rate Swap Policy is to establish guidelines for the use and management of interest rate swaps and is intended to provide general procedural direction regarding the use, procurement and execution of interest rate swaps. When questions regarding the appropriate use and management of interest rate swaps arise, the Interest Rate Swap Policy shall govern STA's use and management of all interest rate swaps.

A. Conformance with Dodd-Frank Act

It is the intent of the Authority to conform to the requirements relating to legislation and regulations for over-the-counter derivatives transactions under Title VII of the Dodd-Frank Wall Street Transparency and Accountability Act of 2010, as supplemented and amended from time to time (herein collectively referred to as "Dodd-Frank"). It is the policy of the Authority that: (i) each swap advisor engaged or to be engaged by the Authority will function as the designated qualified investment independent representative of the Authority, ("Designated QIR"); (ii) each swap advisor agrees to meet and meets the requirements specified in Commodity Futures Trading Commission Regulation 23.450(b)(1) or any successor regulation thereto (herein referred to as the "QIR Regulation"); (iii) each swap advisor provide a written certification to the Authority to the effect that such swap advisor agrees to meet and meets the requirements specified in the QIR Regulation; (iv) the Authority monitor the performance of each swap advisor consistent with the requirements specified in the QIR Regulation; (v) the Authority exercise independent judgment in consultation with its swap advisor in evaluating all recommendations, if any, presented by any counterparty with respect to transactions authorized pursuant to this Debt Policy;, (vi) the Authority rely on the advice of its swap advisor with respect to transactions authorized pursuant to this Debt Policy and not rely on recommendations, if any, presented by any counterparty with respect to transactions authorized pursuant to this Debt Policy; (vii) the Authority comply with all recordkeeping, reporting and certification requirements for end-users as applicable under the Commodity Exchange Act ("CEA")

X. Method of Bond Sale

The Authority will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation. Generally, there are three methods of sale: competitive, negotiated and private placement. Each type of bond sale has advantages and the potential to provide the lowest cost given the right conditions.

A. Competitive Sale: A competitive bond sale is used by established issuers, with strong credit ratings during times in which there are stable market conditions. With a competitive sale, an underwriter is not selected prior to the date of sale. The issuer works with their financial advisor and legal counsel to prepare documents, rating strategies and to notify market participants of the coming bond sale according to a published Notice of Sale. Industry accepted information outlets as well as phone calls made directly to the desks of underwriting firms are used to notify underwriters of the upcoming sale. The underwriter is selected based solely on price on the day of sale when bids are accepted.

A competitive sale allows an issuer to control bidding parameters and select the winning underwriter solely on the lowest True Interest Cost (TIC) submitted during a 30-minute bid process. No input on credit, structure or other matters is received from underwriters under a competitive sale.

B. Negotiated Sale: In a negotiated bond sale the issuer selects the underwriter several months before the sale of the bonds through a competitive RFP process. The underwriter is selected based upon relevant experience, recent bond sale performance and fees, among other factors. The final pricing of the bonds is directly negotiated with the underwriter based upon investor demand and orders received on the day of sale. The issuer generally relies upon the financial advisor during the negotiation process.

A negotiated sale is common for a new or infrequent issuer or an issuer with a weak bond rating. A negotiated sale can be advantageous during high volatility in the financial markets or during periods of low investor demand. Issuers who desire the underwriter's input on credit rating strategies, deal structure, document preparation, etc., will elect to sell bonds through a negotiated sale.

C. Private Placement: is a sale that is structured specifically for one purchaser such as a commercial bank. A direct purchase agreement or revolving credit facility is a form of a private placement. Such placement shall be considered if this method is likely to result in a cost savings, more attractive terms and conditions to the Authority, or both relative to other methods of debt issuance.

XI. Market Relationships

As an issuer who values cost-effective market-access, the Authority will actively provide requested information and maintain relationships with rating agencies, investors and other market participants, as needed.

A. Rating Agencies: The Accounting Manager shall be primarily responsible for maintaining our relationships with those rating agencies (i.e., Standard & Poor's, Moody's Investors Service and Fitch Ratings) from whom the Authority requests and holds ratings. The Authority may, from time-to-time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the Accounting Manager shall offer conference calls and/or meetings with agency analysts in connection with a planned sale.

B. Investor Relations: Timely and accurate information shall be provided in response to inquiries from investors in order to maintain positive ongoing investor relations.

C. Board Communication: As a means of providing feedback from rating agencies and/or investors regarding our financial strengths and weaknesses as perceived by the marketplace, information will be provided to the Board when and if material information develops.

XII. Continuing Disclosure

It is the Authority's policy to remain in compliance with Title 17 Code of Federal Regulations §240 15c2-12, Municipal Securities Disclosure, by filing our annual financial statements and other financial information for the benefit of our bondholders within [270 days] of the close of the fiscal year and file material event notices in a timely manner.

XIII. Consultants

The Authority shall select its primary consultant(s) by a competitive qualifications-based process through Request for Proposals.

A. Selection of Financing Team Members: The Accounting Manager will make recommendations for all financing team members, with the Board providing final approval.

1. Financial Advisor: The Authority shall utilize a financial advisor to assist in its debt issuance and debt administration processes. Selection of the Authority's financial advisor(s) shall be based on, but not limited to, the following criteria: (a) experience in providing consulting services to complex issuers, (b) knowledge and experience in structuring and analyzing complex issues, (c) experience and reputation of assigned personnel, and (d) fees and expenses.

2. Bond Counsel. Transaction documentation for debt issues shall include a written opinion by legal counsel affirming that we are authorized to issue the proposed debt, that we have met all constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. A nationally recognized bond counsel firm with extensive experience in public finance and tax issues will prepare this approving opinion and other documents relating to the issuance of debt. The bond counsel will be selected through a competitive RFP process.

3. Disclosure Counsel. When undertaking a bond sale, disclosure counsel may be retained to prepare the official statement if additional independence or expertise is needed. Disclosure counsel will be responsible for ensuring that the official statement complies with all applicable rules, regulations and guidelines. Disclosure counsel will be a nationally recognized firm with extensive experience in public finance. The disclosure counsel will typically be selected through a competitive RFP process.

4. Underwriter: The Authority shall have the right to select a senior manager and co-managers for a proposed negotiated sale. The Authority may establish a pool of eligible underwriters, or select firms on an as-needed basis. In either case, underwriters for a particular transaction will be selected through a competitive RFP process.

5. Underwriter Counsel: In any negotiated sale of Authority debt in which legal counsel is required to represent the underwriter, the lead underwriter will make the appointment, subject to Authority approval.

XIV. Post-Issuance Compliance Procedures

The Authority will establish and document procedures to ensure that it ~~is in~~ complies~~iance~~ with requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied with respect to tax-exempt bonds and other obligations after the bonds are issued so that interest on the bonds is and will remain tax-exempt.

Formatted: Font: (Default) +Body (Calibri), 11 pt, Bold

XV. Annual Overview to the Board of Directors

The Authority shall provide a comprehensive annual overview of its bond debt to the Board of Directors. The overview should include relevant information on outstanding bonds, debt service schedules, call options, covenants, financial ratios, potential refinancing opportunities, and any other significant changes or developments related to the bond debt.

The annual overview should be prepared by the finance department in collaboration with the external financial advisor involved in management of the bond debt.

Formatted: Highlight

The overview should be presented to the Board of Directors during a scheduled board meeting, allowing adequate time for review and discussion.

Formatted: Font: (Default) +Body (Calibri), 11 pt