Bay Area Toll Authority

Oversight Committee

January 8, 2025 **Agenda Item 5b-24-1612**

BATA Resolution No. 183 – Authorizing the 2025 Plan of Finance and Receipt of the Good Faith Estimate

Subject:

Report on BATA Resolution No. 183, authorizing the 2025 Plan of Finance and receipt of the Good Faith Estimate.

Background:

The 2025 Plan of Finance provides the authority to administer and maintain the BATA debt portfolio. The toll bridge project debt portfolio is currently $9.8 billion, consisting of $2.9 billion in short-term bonds and $6.9 billion in fixed-rate bonds. Resolution 183 authorizes the issuance of up to $500 million in new money bonds to fund bridge rehabilitation and Regional Measure 3 (RM3) projects and to potentially allow existing subordinate lien bonds to be refinanced on the Authority's senior lien, if that would be the most efficient refunding structure.

Resolution 183 also authorizes the execution of a new Second Subordinate Indenture (together with one or more supplemental indentures thereto) and, from and after the execution of such Second Subordinate Indenture, the closure of the existing Subordinate Indenture, such that subsequent bonds that are subordinate to the senior lien bonds shall be sold on the Second Subordinate lien. Finally, Resolution 183 authorizes the maintenance of the current short-term portfolio and the issuance of refunding bonds to take advantage of refunding opportunities in the debt portfolio through April 1, 2026 and approves certain indenture amendments.

New Money

The resolution authorizes up to $500 million in new money bonds. New money bonds issued would finance a portion of BATA's $1.8 billion FY 2024-2033 Capital Improvement Plan (CIP) as well as a portion of the $4.45 billion RM3 program. Per the terms of the Senior Indenture, Attachment A of Resolution 183 includes calculations confirming that the requirements of the indenture's additional bonds test are met for the authorized $500 million in new money debt.

Second Subordinate Indenture and Self-Liquidity Bonds

Resolution 183 authorizes the execution of a new Second Subordinate Indenture (together with one or more supplemental indentures thereto). The purpose of the Second Subordinate Indenture is to improve debt administration, to allow for the issuance of self-liquidity variable rate demand bonds (VRDBs), and eventually to replace the existing Subordinate Indenture with the modernized Second Subordinate Indenture. The intention is to close, or stop issuance on, the existing Subordinate Lien, which is intended to occur simultaneously with the issuance of the first series of bonds under the new Second Subordinate Indenture. This would make the Second Subordinate Indenture the “working” subordinate lien and should ultimately lead to improved credit quality of the Second Subordinate Lien relative to keeping the existing Subordinate Lien open.

VRDBs carry a rate that is reset periodically (either weekly or daily in the case of the Authority’s outstanding bonds) and give investors the ability to sell the bonds back on any business day with appropriate notice. The Authority’s existing VRDBs are backed by letters of credit issued by commercial banks - these letters of credit would provide funds to purchase the bonds back in the event of an investor put, if the bonds cannot be remarketed to other investors.

The new Second Subordinate Indenture adds the ability to issue VRDBs that would be backed by a standby bond purchase agreement executed by the Authority (i.e., “self-liquidity”), allowing the Authority to provide funds for the purchase of bonds that were put by investors, and not remarketed. Due to the Authority’s significant fund balances, the constrained availability and increased cost of letters of credit, and anticipated demand for self-liquidity bonds, staff and the Authority’s financial advisor, PFM Financial Advisors LLC (PFM) believe that self-liquidity VRDBs are appropriate to diversity the Authority’s debt portfolio.

The initial issuance of self-liquidity VRDBs could be used for new money, remarketing, or refunding purposes. Staff expects the initial issuance of self-liquidity VRDBs to be in the $200 million range; the self-liquidity VRDB program will likely be limited to $750 million at full implementation.

Short-term Portfolio

The resolution authorizes the administration of the $2.9 billion short-term portfolio, including $306.5 million of bonds subject to remarketing by April 1, 2025 and an additional $415.4 million of bonds subject to remarketing by April 1, 2026. Staff currently expects to refund the $306.5 million due April 1, 2025 with fixed rate bonds.

Staff would also be authorized to manage and replace any credit facilities supporting the short-term portfolio and make remarketing agent assignments. Staff currently expects to replace and extend $150 million in existing MUFG LOCs with PNC Bank LOCs. PNC Capital Markets is expected to be the remarketing agent for the LOC substitution. The short-term market has been a very successful tool for the Authority in diversifying the debt portfolio and managing the cost of debt.

Refunding

The resolution authorizes the refunding of existing bonds provided the net present value savings are at least 3.0% or, in the opinion of the Chief Financial Officer and the Executive Director, upon the advice of the Authority's financial advisor, the refunding achieves other important business purposes. Taking advantage of refunding opportunities is an important part of keeping Authority debt costs down. The refunding would utilize fixed rate bonds to provide debt service savings over the life of the bond issue. A small portion of the new money authorization is intended to allow a small amount of subordinate lien bonds to be refinanced on the senior lien, if there are not enough subordinate lien refunding candidates to justify a stand-alone subordinate lien refunding series. The movement of these bonds from the subordinate lien to the senior lien would not have a material impact on the Authority's ability to meet debt service coverage covenants.

As was done in April 2023 and June 2024, the Authority will consider a refunding which would utilize a tender process where BATA buys back bonds from existing holders at a negotiated price. This is a process in which BATA, its dealer managers, and financial advisor negotiate purchase prices with investors directly. BATA generates savings by issuing fixed rate refunding bonds to fund the purchase of tendered bonds. The size and scope of the potential repurchase is subject to market conditions and the willingness of investors to sell their bonds to BATA at the time of pricing.

Draft Official Statement

The draft official statement (OS) represents the form of the principal document used to communicate with investors and disclose material information necessary for an investor to make an investment decision. The document provides the investor with a description of BATA and the purpose of the financing as well as a history of BATA, our projects, toll collections, and a detailed financial picture. The draft OS includes Appendix A, which provides updated operating and financial information on the BATA enterprise. The draft OS is presented as Attachment B to this staff report.

Draft Standby Bond Purchase Agreement

The draft standby bond purchase agreement (SBPA) represents the form of the self-liquidity instrument used to implement the procedures by which the Authority would utilize its existing funds to purchase VRDBs that are issued under the self-liquidity authorization and that are put by investors, and not remarketed. The draft SBPA is presented as Attachment D to this staff report.

Issuance Parameters

BATA Resolution No. 183 includes specific issuance parameters that must be followed for all financing transactions authorized, including:

Issuance Parameters	
New Money par	$500 million
Term Limit	
Tax-exempt	40 years
Taxable	50 years
Interest Rate Cap	
Tax-exempt	5.50%
Taxable	6.25%
Variable Rate	12%
Variable Rate Bank Bonds	15%
Underwriters' Discount/Fee	
Tax-exempt	0.75%
Taxable	0.75%
Other costs	2.0%
Refunding savings	3% present value

These issuance parameters include maximum amounts, costs and rates that would be authorized by the resolution. We currently expect to issue well under the maximum amount of new money bonds and actual rates and costs are expected to be well within these maximums. Refunding parameters are the minimum savings requirement for an economic refunding; however, a refunding may be possible for other purposes with the concurrence of the Chief Financial Officer and the Executive Director, with the advice of the Authority's financial advisor. All financing parameters are confirmed by PFM as part of the closing process on each financing transaction.

Underwriting Team

BATA approved an underwriting pool in September of 2023. The senior managers for the upcoming transactions were chosen through a mini-request for proposals (RFP) process that went to the senior manager pool. The mini-RFP responses were reviewed by BATA staff and PFM and evaluated based on structuring recommendations for BATA's upcoming short-term remarketing, new money, and refunding transactions as well as cost. Wells Fargo was selected as the senior manager for the transaction, with JP Morgan selected as co-senior manager. BofA, Ramirez, and Siebert Williams Shank are being selected as co-managers. JP Morgan and Wells Fargo were selected as co-dealer managers in the event that a tender transaction is pursued.

Good Faith Estimate

In accordance with state law, BATA has received a good faith estimate from PFM. The good faith estimate provides estimates for the contemplated transactions including the full $500 million in authorized new money financing (made up of $400 million for projects and $100 million as a tender refunding), $266 million in fixed rate refunding of short-term bonds, as well as an assumed tender refunding of taxable bonds. It also assumes $200 million in self-liquidity VRDBs will be used to refund existing LOC backed VRDBs. The good faith estimate includes true interest costs, fees and charges paid to third parties, total proceeds received and the total principal and interest payments. In addition, PFM certifies all transactions are conducted in accordance with the limitations of Resolution 183 and the Authority debt policy.

Issues:

None identified.

Recommendations:

None. Informational only.

Attachments:

- BATA Resolution No. 183
- Attachment B: Draft Official Statement
- Attachment C: Second Subordinate Indenture and First Supplemental Indenture
- Attachment D: Standby Bond Purchase Agreement
- Attachment E: Good Faith Estimate
- Attachment F: Presentation

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