

Bay Area Toll Authority

Oversight Committee

January 10, 2024

Agenda Item 5b- 24-0054

BATA Resolution No. 174 – Authorizing the 2024 Plan of Finance

Subject:

A request that the Committee refer BATA Resolution No. 174 to the Authority for approval, authorizing the 2024 Plan of Finance.

Background:

The 2024 Plan of Finance provides the authority to administer and maintain the BATA debt portfolio. The toll bridge project debt portfolio is currently \$9.5 billion, consisting of \$2.7 billion in variable-rate bonds and \$6.8 billion in fixed-rate bonds. Resolution 174 authorizes the issuance of up to \$750 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 senior lien of the Authority, if that would be the most efficient refunding structure.

Resolution 174 also authorizes the maintenance of the current variable rate portfolio and the issuance of refunding bonds to take advantage of refunding opportunities in the debt portfolio through March 2025 and approves certain indenture amendments.

New Money

The resolution authorizes up to \$750 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 bond indenture, Attachment A of the resolution includes calculations confirming that the requirements of the indenture's additional bonds test are met for the authorized \$750 million in new money debt.

Variable Rate Portfolio

The resolution authorizes the administration of the \$2.7 billion variable rate portfolio, including \$370.8 million of bonds subject to remarketing by April 1, 2024, \$291.7 million in bonds secured by letters of credit expiring on August 1, 2024, and an additional \$309.4 million of bonds subject to remarketing by April 1, 2025. In addition to the remarketings, approximately \$200 million in new money bonds are expected to be issued as letter of credit backed variable rate demand bonds.

Staff would also be authorized to manage and replace any credit facilities supporting the variable rate portfolio and make remarketing agent assignments. The short-term market has been a very successful tool 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, with 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 generate 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.

Included among the potential refunding transactions the Authority may consider is refunding of Build America Bonds (BABs) using an extraordinary optional call provision set out in the supplemental indenture applicable to the BABs and/or a refunding of debt through a tender process. BATA's BABs were issued in 2009 and 2010 through provisions in the American Recovery and Reinvestment Act of 2009. BABs were issued as taxable bonds issued for tax-exempt eligible purposes for which the federal government was to pay a 35% subsidy on the interest payable to investors. The federal subsidy was subsequently reduced beginning in March 2013 through sequestration in the Budget Control Act of 2011. In order to eliminate uncertainty as to the timing and amount of federal subsidy payments, BATA may elect to refund BABs at a net neutral cost, rather than utilizing the 3% net present value savings criteria. As was done in April 2023, a tender refunding 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 Indenture Amendments

BATA's existing senior lien bonds, as well as any senior lien bonds issued as part of the 2024 Plan of Finance, are issued under a senior master indenture. The draft supplemental indenture contains proposed amendments to the senior master indenture, some of which will require the consent of a majority of holders of outstanding senior lien bonds. The proposed amendments include, among other things, changes to how Operations & Maintenance Expenses, Annual Debt Service and the Reserve Requirement are calculated, how the Reserve Fund is funded, what investments constitute Permitted Investments, and the addition of Kroll as a Rating Agency. These amendments are implemented through a "springing amendment" process by which holders of each new series of senior lien bonds consent to the amendments upon their purchase of the bonds. The amendments will become effective once the minimum consent threshold is obtained. The draft supplemental indenture is presented as Attachment C to this staff report.

Issuance Parameters

BATA Resolution No. 174 includes specific issuance parameters that must be followed for all financing transactions authorized, including:

Issuance Parameters	
New Money par	\$750 million
Term Limit	
Tax-exempt	40 years

Issuance Parameters	
Taxable	50 years
Interest Rate Cap	
Tax-exempt:	
Senior Lien	5.50%
Subordinate Lien	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 our financial advisor, PFM Financial Advisors LLC ("PFM") as part of the closing process on each financing transaction.

Underwriting Team

BATA approved an underwriting pool in August 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 was evaluated by BATA staff and PFM and evaluated structuring recommendations for BATA's upcoming variable rolls, new money, and refunding transactions as well as cost. JP Morgan was selected as the senior manager for the transaction, with BofA and Wells Fargo selected as co-senior managers. TD Securities is also

being selected as an underwriter and remarketing agent on approximately \$150 million in variable rate bonds, due to TD's new position as one of BATA's letter of credit providers and their qualifications in remarketing debt secured by TD Securities' letters of credit.

Good Faith Estimate

In accordance with state law, BATA will receive a good faith estimate from PFM. The good faith estimate will provide estimates for the contemplated transactions including the new money financing, \$370.8 million remarketing, as well as an estimate for the refunding(s). The good faith estimate will include 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 174 and the Authority debt policy. The good faith estimate will be provided as part of the packet for the January 24th Bay Area Toll Authority meeting.

Issues:

None identified.

Recommendations:

Staff recommends that the Committee refer BATA Resolution No. 174 to the Authority for approval. The funds necessary to carry out the proposed financing plan will come from the approved FY 2023-24 budget, bond proceeds and/or will be included in the FY2024-25 budget, pending approval of the FY2024-25 budget.

Attachments:

- Attachment A: BATA Resolution No. 174
- Attachment B: Draft Official Statement
- Attachment C: Supplemental Indenture
- Attachment C: Presentation



Andrew B. Fremier