

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
12	01/23/17	Open	Action	01/17/17

Subject: Authorize Use of TCRP Funds to Defeasement Debt and Prepay Annual Debt Service Payments on 2012 Bonds

## ISSUE

Authorizing the use of Transportation Congestion Relief Program (TCRP) funds to (1) prepay a portion of the Sacramento Regional District Farebox Revenue Bonds, Series 2012; (2) execute and deliver an Escrow Agreement; and authorizing certain related matters.

## RECOMMENDED ACTION

Adopt Resolution No. 17-01-\_\_\_\_, Authorizing the Prepayment of a Portion of the Sacramento Regional Transit District Farebox Revenue Bonds, Series 2012, Execute and Delivery of an Escrow Agreement, and Certain Related Matters.

## FISCAL IMPACT

Assumes the following sources of funds:

Source	Amount
TCRP funds	\$36,417,749
Unspent Bond Proceeds	\$4,016,338
Debt service reserve release funds	\$1,811,700
<b>Total</b>	<b>\$42,245,787</b>

Summary of Uses (estimated, subject to change):

Action	Description:	Amount
Defeasement Debt	Principal and Interest Portion after fiscal year 2019	\$25,785,728
Prepay full annual debt payments for the following fiscal years: 2017, 2018, 2019	Annual Principal and Interest payments & 9/1/2016 Interest Reimbursement	\$16,418,079
Costs of Issuance	Fees, cash requirements.	\$41,980
<b>Total</b>		<b>\$42,245,787</b>

Summary of savings (costs):

- Annual cash flow / expense savings of approximately \$1.8 million, beginning FY 2020
- Cost of Issuance estimated at (\$41,980)
- Total gross savings \$56,220,175
- Total PV savings of \$39,941,882<sup>1</sup>

Approved:

Presented:

Final 01/18/17

General Manager/CEO

Acting, Chief Financial Officer

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Note: Upon completion of defeasance, annual debt service after FY 2019 will be reduced from approximately \$5.5M to \$3.7M and outstanding principal of the 2012 Bonds is reduced from \$79,830,000 to \$50,285,000.

<sup>1</sup> Total PV Savings discounted utilizing a rate of 3.64% representing RT's estimated cost of capital in the public markets assuming a 12-year average life.

## DISCUSSION

On November 14, 2012, RT issued \$86,865,000 of fixed rate tax exempt serial bonds maturing between 2014-2032 and term bonds in 2036 and 2042 with an 8 Year Par Call provision. The purpose of the bonds was to fund construction of the South Line Phase 2 Project (SSCP2), Bus and Vehicle replacement, repay the 2003C (COP) issuance, and other capital projects identified in the Capital Improvement Plan. Included in the arrangement was a premium of \$8,314,467.60 and a release of \$1,437,265.64 from Trustee held assets related to the 2003 COPs for principal and interest, resulting in a total borrowing of \$96,616,733.24. As discussed in previous reports to the Board, a significant portion of the Bond Issuance was needed as a funding source for the SSCP2 to cover the delay in the receipt of funds from the State. In developing the local funding plan for the SSCP2 Project and other smaller capital projects, RT anticipated receiving TCRP funds to help provide RT's local share obligation for the SSCP2 project. Unfortunately, due to budgetary shortfalls, the State withheld issuance of anticipated TCRP funds to RT and other public transit agencies throughout the state and RT had to identify alternative funding to fill the gap until receipt of the TCRP funds.

The issuance of bonds provided RT with a temporary stop gap to help fund the project, among other local funds RT reallocated to the SSCP2 budget until the TCRP funds were made available to RT.

After significant work on the part of RT's government relations staff, the California Transit Association (CTA) and RT's state lobbyist, Mark Watts, on February 29, 2016, the State Legislature introduced Assembly Bill 133 (AB 133), which restored approximately \$148,000,000 in TCRP funding. AB 133 required the State Director of Finance (DOF) to transfer and allocate the funds to the respective agencies for which the California Transportation Commission (CTC) had approved programmed projects. The State DOF was given until January 1, 2017 to accomplish the allocation.

On August 18, 2016 the CTC approved a programming request for approximately \$50M in TCRP funds for the SSCP2 project. Because the SSCP2 project is already largely constructed, RT can reimburse itself for eligible project costs for up to \$50M in construction related only costs. Of the \$50M, approximately \$41M will be used to reimburse RT for prior project costs primarily funded by RT revenue bonds and other sources. The remaining \$9M is anticipated to be used to fund other future remaining construction costs for the SSCP2 project.

Some or all of the TCRP funds, under IRS regulations, may be considered replacement proceeds. Replacement proceeds must be used to defease debt, prepay annual debt service obligations, or finance other shovel ready capital projects. Given the timing of the original bond issuance, tax law requires the replacement proceeds to be spent within 1 year of receipt. To the extent the funds

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cannot be spent within this timeframe, a prudent approach is to unburden the tax exempt bond market by defeasing debt.

In consultation with RT’s financial advisor and bond counsel and in conjunction with RT’s prior staff reports and various future financial modeling, it is in RT’s best interest to defease as much debt as possible, understanding that a portion of these funds will need to prepay annual debt service for the Fiscal Years, 2017, 2018, and 2019, as RT’s budget and models assumed zero debt service for these respective years. As for remaining unspent bond funds, RT has commitments to spend down the majority of these remaining funds within the next year. Because RT does not have a capital reserve and new capital grant opportunities for the next two years are limited, RT believes it is prudent to retain and set aside approximately \$1,000,000 of funding from the original 2012 bond issuance for immediate project needs and potential match requirements understanding that these funds must be committed and spent within a short time period. If it is determined that these unspent bond funds cannot be spent quickly, RT will need to use the remaining unspent funds to defease additional outstanding debt.

To ensure compliance with IRS regulations affecting the treatment of the TCRP funds, Bond counsel advised that RT should enter into an Escrow Agreement with the Bond Trustee and that the Escrow Agreement should set out the specified purposes for which the funds deposited into the escrow account can be used. Bond Counsel prepared an Escrow Agreement which has been reviewed by RT’s Office of the Chief Counsel and staff recommends that the Board authorize the General Manager/CEO to execute and deliver the Escrow Agreement and certain related matters. Staff further recommends that the Board authorizes the General Manager/CEO to prepay a portion of the Sacramento Regional Transit District Fare Revenue Bonds Series 2012.

RESOLUTION NO. 17-01-\_\_\_\_\_

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

January 23, 2017

**AUTHORIZING THE PREPAYMENT OF A PORTION OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT FAREBOX REVENUE BONDS, SERIES 2012, EXECUTE AND DELIVERY OF AN ESCROW AGREEMENT, AND CERTAIN RELATED MATTERS**

**WHEREAS**, the Sacramento Regional Transit District (the “District”) is duly organized and existing under the provisions of the Sacramento Regional Transit District Act, being Part 14 of Division 10 of the Public Utilities Code of the State of California, Sections 102000 *et seq.*; and

**WHEREAS**, on November 14, 2012, the District issued \$86,865,000 aggregate principal amount of its Farebox Revenue Bonds, Series 2012 (the “2012 Bonds”) to, among other things, finance the costs of acquisition, construction, improvement or equipping of portions of the District’s transit system and prepay the outstanding Farebox Revenue Certificates of Participation, 2003 Series-C (Sacramento Regional Transit District Project); and

**WHEREAS**, the District has determined to use certain TCRP funds, certain amounts on deposit in the project fund related to the 2012 Bonds and certain excess amounts released from the bond reserve fund related to the 2012 Bonds to prepay a portion of the 2012 Bonds, thereby reducing the need for District revenues to be used to make these debt service payments; and

**WHEREAS**, the District has determined to deposit these funds into an escrow fund created under an escrow agreement (the “Escrow Agreement”) between the District and the trustee for the 2012 Bonds.

**NOW THEREFORE, THE SACRAMENTO REGIONAL TRANSIT DISTRICT RESOLVES:**

**Section 1.** The District finds and determines that the foregoing recitals are true and correct.

**Section 2.** The proposed form of Escrow Agreement presented at this meeting, and the terms and conditions thereof, are hereby approved. The General Manager/CEO of the District (the “Authorized Representative”) is hereby authorized and directed, for and in the name and on behalf of the District, to execute and deliver the Escrow Agreement, in substantially said form, with such changes therein as the Authorized Representative may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

**Section 3.** The Authorized Representative and each other appropriate officer of the District, each acting alone, are authorized and directed, for and in the name and on behalf of the District, to execute and deliver any and all agreements, certificates, documents and instruments, including, without limitation, tax certificates, and to do any and

all things and take any and all actions which may be necessary or advisable, in their discretion, to effectuate the actions which the District has approved in this Resolution, including directing the use of the TCRP funds to reimburse the District for the interest payment made on the 2012 Bonds on September 1, 2016 and for the costs and expenses of the prepayment of a portion of the 2012 Bonds under the Escrow Agreement and directing the transfer of the remainder of the TCRP funds and certain amounts on deposit in the project fund and the bond reserve fund related to the 2012 Bonds for the purposes specified in the Escrow Agreement.

The Authorized Representative may appoint in writing a designee to perform any of the actions that the Authorized Representative may take under this Resolution.

**Section 4.** All actions heretofore taken by the members of the Board, the Authorized Representative, or any other officers, agents or employees of the District, with respect to the prepayment of a portion of the 2012 Bonds, and the other transactions contemplated hereby, are hereby ratified, confirmed and approved.

**Section 5.** This Resolution shall take effect immediately upon its adoption and approval.

**PASSED AND ADOPTED** by the Board of Directors of the Sacramento Regional Transit District this 23rd day of January, 2017, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

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ANDREW J. MORIN, Chair

A T T E S T:

HENRY LI, Secretary

By: \_\_\_\_\_  
Cindy Brooks, Assistant Secretary