Regional Transit

STAFF REPORT

DATE: March 23, 2020

TO: Sacramento Regional Transit Board of Directors

FROM: Brent Bernegger, VP, Finance/CFO

SUBJ: REPEALING RESOLUTION NO. 12-08-0136 AND ADOPTING A REVISED DEBT MANAGEMENT POLICY

RECOMMENDATION

Adopt the Attached Resolution.

RESULT OF RECOMMENDED ACTION

Repeals the Debt Management Policy adopted by the Boards in 2012 and Amends the SacRT Debt Management Policy to be incompliance with California SB 1029 and SEC Amendments to Rule 15c2-12.

FISCAL IMPACT

None.

DISCUSSION

Debt Management Policy

Before the issuance of the 2012 Farebox Revenue Bonds the Board approved the Sacramento Regional Transit District (SacRT) Debt Management Policy (Policy). The Policy is required under SEC Rule 15c2-12, to ensure that SacRT has guidelines in place for the issuance and management of SacRT's debt. There were minor modifications that were needed to bring the Policy up to date with recent changes to SEC Rule 15c2-12 including discussion of notices of material events under continuing disclosure agreements, as well as updates for industry best practices. Attached as Exhibit A is the amended Sacramento Regional Transit District Debt Management Policy.

Refunding of Series 2012 Farebox Revenue Bonds

The Series 2012 Farebox Revenue Bonds ("Series 2012 Bonds") were sold November 1, 2012 to: i) finance a portion of the costs of the South Line Phase II light rail expansion project, acquisition of certain buses and other vehicles, and other capital projects; and ii) to refund all of the outstanding Farebox Revenue Certificates of Participation, 2003 Series-C. The Series 2012 Bonds were sold with an optional redemption date of September 1, 2020, allowing the bonds to be refunded on or after that date.

Given current market conditions, SacRT has the opportunity to refund the Series 2012 Bonds for cash flow savings. At present, a refunding of the Series 2012 Bonds produces present value (PV) savings of $10.6M, or 23% of refund par. Final savings from the refunding will be dependent on market conditions at the time of pricing, which is tentatively targeted for July 2020.

SacRT has two primary options for capturing the savings from the refunding. The savings can be spread evenly over the remaining life of the bonds, 22 years, or the savings can be front loaded over the first five years to provide more immediate budget relief. The current annual Debt Service (DS) is approximately $3.2M.

	Annual Debt Service Payments	
	Front Loaded Savings	**Even Savings**
First 5 Years	$1.6M	$2.7M
Remaining 17 Years	$3.2M	$2.7M

Of the two options presented, staff recommends front loading the savings over the first five years. The primary factors for recognizing the savings early is the ever increasing urgent need to fund SacRT's state of good repair. With staff seeking grants and other funding options for its operational state of good repair needs, we have been unsuccessful finding revenue or grant opportunities to repair or replace SacRT's Admin campus, because granting agencies are focusing on expansion and air pollution reduction measures. The current Administrative campus was not designed to handle the existing staffing needs and all of buildings are in need of a significant update and repair. Staff analysis shows that spreading the staff over the 4 buildings decreases efficiencies, increases costs, doesn't allow for good working conditions, or adequate space needs to those with and without disabilities. Many of these buildings are in such poor condition that any updates required will be very costly. Any major updates or repairs to the buildings are not anticipated to add to the building value. Therefore, the plan is to utilize the net savings from this transaction to lease/purchase an alternative administrative office space that would provide improved accommodations, efficiencies, and lower maintenance costs for the staff and our riders.

In order to effectuate the refunding, SacRT needs to procure bond counsel, disclosure counsel and an underwriting syndicate. SacRT staff and SacRT's Financial Advisor (PFM Financial Advisors) developed Requests for Proposals for each of these services. It is expected that SacRT will select bond counsel, disclosure counsel and its underwriting syndicate by the end of March.

Staff is seeking direction from the Board on which DS savings model should be used in the refunding. This decision will direct the work performed by the bond counsel, disclosure counsel and the underwriter.

Finally, Staff recommends that the Board repeal the previously adopted Debt Management Policy and approve the amended and restated Debt Management Policy.

RESOLUTION NO. 20-03-0018

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

March 23, 2020

REPEALING RESOLUTION NO. 12-08-0136 AND ADOPTING A REVISED DEBT MANAGEMENT POLICY

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, Resolution No. 12-08-0136 is hereby repealed; and

THAT, the Debt Management Policy set forth in attached Exhibit A is hereby adopted.

____
STEVE HANSEN, Chair

A T T E S T:

HENRY LI, Secretary

By: ______________________________
Cindy Brooks, Assistant Secretary

EXHIBIT A

Sacramento Regional Transit District
Debt Management Policy
March 23, 2020

I. Introduction

The purpose of the Debt Management Policy (Policy) of the Sacramento Regional Transit District (RT or District) is to establish guidelines for the issuance and management of RT's debt. This Debt Management Policy confirms the commitment of the RT Board of Directors (Board) to adhere to sound financial management practices, including prudent issuance of debt, full and timely repayment of all borrowings, and achieving the lowest possible cost of capital within prudent risk parameters. The debt policies and procedures of the District are subject to and limited by the applicable provisions of State and Federal law.

II. Debt Management Policy Objectives

The primary objectives of the District's debt and financing related activities are to:

- Assure the timely delivery of and finance capital for projects in accordance with the priorities identified within the RT Capital Improvement Plan (CIP) annually approved by the Board
- Achieve the lowest cost of borrowing while identifying mitigation factors for any additional risk to the District
- Preserve future financial flexibility
- Maintain strong credit ratings and good investor relations

III. Scope and Authority

This Policy governs the issuance and management of all debt financings including ancillary transactions and investment of bond proceeds.

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

The Chief Financial Officer (CFO) shall review the Policy annually, and recommend amendments, if any, to the General Manager and CEO (GM) to be considered for Board approval. The GM and CFO shall administer the Policy. The CFO shall have the day-to-day responsibility and authority for recommending, structuring, implementing, and managing RT debt and financing programs. The Policy requires that the Board specifically authorize financial transactions, other than Line of Credit (LOC) transactions that may be authorized by the GM within the maximum LOC amount parameters authorized by the Board.

IV. General Financial Practices and Context for Debt Management Policy

This Policy must be viewed as an integral component of its overall financial practices and in the context of its capital-intensive expenditure plans. This Policy and its overall approach to RT's finances must recognize that RT is an organization dependent on federal, state, and local revenue. These revenues, including Measure A, a sales tax revenue, and any future revenues that flow to RT, must be available to repay RT's debt and to fund its entire operations, including those subsidies associated with its light rail and bus lines. This Policy also recognizes that RT does not have control over external subsidies or sales tax revenues, which are dependent to some degree on the overall economy in Sacramento County, the State, and the Nation. RT's financial practices, including the issuance of debt, must be designed to assure sufficient resources to fund all of its operating and capital requirements in all circumstances and be able to accommodate potential declines in external subsidies or sales tax revenues.

V. Debt Issuance Principles and Policies

A. **Board Authorization.** The Board shall specifically authorize any debt issuance. The Board's adoption of the Annual Budget or Capital Improvement Plan (CIP) does not constitute authorization for debt issuance.

B. **Appropriate Purposes for Debt Issuance.** Each debt issuance must accomplish a specific, appropriate purpose. Debt may be issued to accomplish the following objectives:

1. Accelerate the delivery of projects. Debt financing allows the delivery of projects on an accelerated basis. Accelerating projects may provide a programmatic or financial benefit to RT.
2. Spread cost over the useful life of an asset. Debt financing allows RT to spread the cost of a project over its useful life rather than paying for it at one time. In addition, financing effectively spreads the cost of a project among all users that benefit from it.
3. Smooth out annual cash flow. Debt financing spreads the cost of a project over a period of years, thereby smoothing out RT's cash flow.
4. Optimize overall financial resources. Debt financing enables existing cash to be invested at a rate higher than the cost of borrowing. Bond proceeds received from the issuance of debt must be invested within the guidelines of federal tax law and in accordance with the associated bond documents for said bond issuance.
5. Finance Unfunded Actuarial Liabilities. Debt financing would allow RT to fund all or a portion of any unfunded actuarial liabilities relating to pension and other post-employment benefits.
6. Refundings. Debt financing allows RT to issue bonds or other securities to refinance outstanding obligations, if desirable. The reasons for refinancing include:

   a) Debt Service Savings. In general, the present value savings generated by the refunding bonds must be at least 3% of the refunded bond amount to justify refunding.

b) Programmatic Reasons. Such as: restructuring outstanding debt, changing the type of debt instruments originally used, retiring a bond issue, removing covenants/pledges that have become restrictive, or retiring debt prior to maturity.

C. **Debt Affordability.** Debt affordability shall be determined by the requirements of RT's bond indentures (e.g. additional bonds test/debt service coverage) and RT's ability to meet all of its on-going operating, capital, and reserve requirements.

D. **Financing Goals**. RT shall issue debt so as to achieve the optimal balance of lowest borrowing cost, financing flexibility, and market acceptance.

VI. Approach to Financing

A. **Types of Financing Transactions**

1. Revenue Bonds. Revenue bonds shall be the preferred method of debt financing. Such bonds may be issued as either a senior or junior lien and may be issued on a fixed or variable rate basis. There is no present intention to issue synthetic fixed-rate bonds.

2. Debt Secured by Federal, State or Local Grants. RT may issue debt secured by federal formula assistance, full funding grant agreements, or comparable federal, state or local approved grants or funding assistance and may participate in loans, credit enhancement, or credit support provided under the Transportation Infrastructure Finance and Innovation Act (TIFIA).

3. Other Kinds of Debt and Financing Transactions. RT may issue debt secured by other revenues (e.g., tax revenues) or by its general credit, or engage in financial lease transactions, if appropriate for the funding need being addressed.

B. **Use of Long-Term and Short-Term Debt**

1. Long-Term Debt. RT may issue long-term debt, on a fixed or variable rate basis to finance the construction, acquisition, installation, or rehabilitation of long-lived capital assets, and to finance actuarial unfunded liabilities with respect to pension and other post-employment benefits.

a) Fixed Rate Debt. Fixed rate debt is a form of long-term financing in which the interest rate is set at the time of bond issuance and does not change unless subsequently refinanced. It is expected that most of RT's debt obligations will be fixed rate.

b) Variable Rate Debt. Variable rate debt is a form of long-term financing in which the interest rates are reset periodically, typically on a weekly or daily basis. Forms of variable rate debt include variable rate demand bonds, index notes, and commercial paper. Typically, the interest rates for variable rate debt are lower than for fixed rate debt, although they will fluctuate throughout the term of a financing. Variable rate debt offers the benefits of diversifying the debt portfolio, reducing interest costs, providing interim funding for capital projects, and improving the match of assets to liabilities. The amount of unhedged long-term variable rate debt will generally not exceed 30% of the principal amount of all outstanding debt. Prior to the issuance of variable rate debt, RT will evaluate through financial analysis that sufficient liquid funds exist to address any associated risks, such as rising interest rates, the non-renewal of credit facilities securing such variable obligations, and market access risks. If variable rate debt is used, the CFO or other appropriate RT staff shall periodically evaluate the appropriateness of converting the debt to fixed interest rates and at least annually report to the Board on the results of such evaluation.

c) <u>Lease or Installment Purchase Financing Structures.</u> Lease or installment purchase obligations are a routine and appropriate means of financing capital equipment. These types of obligations should be considered where such financing will be more beneficial, either economically or from a policy perspective. A tax-exempt lease or installment purchase may be used to finance any property that the District has the statutory authorization to lease or purchase. As a general matter, only land and depreciable property may be leased or purchased. Generally, the leased or purchased property is a capital asset to be used by RT in its own operations.

Payments made by RT pursuant to a long-term lease or installment purchase agreement may be made from any lawfully available funds of RT. The useful life of the capital equipment, the terms and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program.

This Policy covers the following Lease Financing structures commonly used by transit agencies:

<u>Certificates of Participation (COPs)</u>: If RT wishes to utilize a tax-exempt lease or installment purchase in connection with the sale of municipal securities, certificates of participation, representing undivided interests in the rental or installment payments, may be sold to the public.

<u>Revenue Bonds:</u> Bonds issued by another public entity on behalf of RT to finance capital improvements to be leased or sold to the RT. The bonds are payable solely from lease or installment payments paid by RT to the bond issuing entity.

Capital/Equipment Lease: The District may also use long-term lease obligations to directly finance or refinance specific capital equipment.

2. Short-Term Debt. RT may finance operating and capital needs on an interim basis, with short-term debt, pending the receipt of expected funding sources using:

a) Tax and Revenue Anticipation Notes. Tax and Revenue Anticipation Notes ("TRANs" or "RANs") are borrowings used to bridge temporary cash flow deficits within a fiscal year.

b) Grant Anticipation Notes. Grant Anticipation Notes ("GANs") are issued to fund capital projects in advance of the receipt of grants, typically federal grants. Such notes may also include a back-up pledge of farebox, sales tax, or other revenues, as appropriate, to enhance the creditworthiness of the GANs and to provide a source of repayment if the timing of the grant receipts is delayed due to the appropriation process.

c) Bond Anticipation Notes. Bond anticipation notes ("BANs") are issued to fund projects in advance of a revenue stream that has not yet been received. At maturity, BANs are repaid from that revenue stream or by refunding bonds secured by that revenue stream.

d) Direct Line of Credit. A Line of Credit ("Line") may be used as an alternative to other short-term borrowing options. Lines are typically structured as short-term (up to five (5) year) agreements with a financial institution providing the Line.

e) Commercial Paper. Commercial Paper ("CP") may be used as an alternative to other short-term borrowing options. CP is similar to a Line with the exception that CP is a publicly offered security sold to investors. CP is secured by a bank Letter of Credit and can be sold with a term up to 270 days.

C. **Structural Features of Financing**. The CFO, with the advice of RT's financial advisor, shall determine the structural features to be included as part of each debt financing. The structural features shall be appropriate to the transaction and the markets at the time of the financing, and shall be consistent with this Policy.

1. Coupon Payment Structure. Coupon payment structures may consist of either current coupon bonds or capital appreciation bonds (or zero coupon bonds). Current coupon bonds pay interest periodically (generally, semi-annually), pay principal at maturity, and generally produce the lowest interest rate. Capital appreciation bonds pay interest and principal at maturity and generally will increase the borrowing cost. Current coupon payment structures shall be used whenever possible. Capital appreciation bonds may be used to accomplish a structuring or programmatic objective that cannot be achieved with a current coupon payment structure (e.g., creating an overall level debt service) or to

produce an overall lower interest rate under certain market conditions.

2. Maturity of Debt. Generally, the final maturity of the debt shall not exceed the useful life of the assets being financed or the remaining term of the revenue stream pledged to repayment. The average life of the financing shall not exceed the average life of the assets being financed.

3. Debt Service Structure. RT's debt service structure will be developed and maintained to achieve strong credit ratings while addressing its overall revenue constraints and financing capacity. The principal and interest on debt obligations shall be structured taking into account: a) the market conditions, b) indenture requirements, c) other outstanding debt, d) cash flow needs, and e) financing objectives. Absent unusual circumstances, debt service on RT's obligations shall be structured to achieve approximately equal annual debt service payments over the life of the issue. RT shall maintain the flexibility to consider deferred repayment structures if appropriate.

4. Lien Levels. RT may create senior and junior lien pledges for each revenue source that secure bond repayment to optimize RT's financing capacity and allow for the most beneficial use of the revenue source securing the bond.

5. Discount and Premium Bonds. Discount and Premium Bonds are those that are issued at a sale price below (Discount) or above (Premium) the principal amount or par value. RT shall evaluate the use of Discount and Premium bonds in the context of general market conditions at the time of sale and the manner in which it offers its bonds for sale.

6. Redemption Features. RT's securities shall contain appropriate redemption provisions relating to the ability to call or retire bonds prior to maturity. Redemption provisions shall reflect the kind of securities being issued, the market conditions at the time of issuance and the likelihood that it will receive future grants or revenues with which to retire debt early.

7. Debt Service Reserve Funds. The District may be required to issue bonds that are secured, in part, by amounts on deposit in or credited to a debt service reserve fund or account to maximize the bond rating, minimize the net cost of borrowing and/or to provide additional reserves for debt service or other purposes. Debt service reserve funds may secure one or more series of bonds, and may be funded by proceeds of bonds, other available moneys of the District, and/or by suitable surety policies, letters or lines of credit or other similar instruments, if available at a cost effective price.

8. Credit Enhancement.

   a) Bond Insurance. Bond insurance provides improved credit quality for the bonds as a result of the insurance provider's guaranty of the payment of principal and interest on the bonds. Bond insurance may be used if, in the judgment of the CFO with the advice of RT's financial advisor, it will clearly result in a lower borrowing cost to RT or improve the marketability of its bonds.

b) Letters of Credit. A letter of credit (LOC*)* is an arrangement with a bank or other financial institution that provides additional security that moneys will be available to pay debt service on an issue. LOCs are typically issued by domestic and foreign banks or other financial institutions in connection with commercial paper and certain variable rate transactions. Such banks and financial institutions improve the credit quality of variable rate financings by guaranteeing the repayment of bond principal and interest, and/or providing needed liquidity to investors. LOCs may be used where they provide an economic advantage to the transaction over other variable rate structures.

9. Financial Derivative Products. RT will only consider the use of derivative products only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces risk of fluctuations in expense or revenue or, alternatively, where it will reduce the total project cost. Derivative products entail certain inherent risks to RT which must be carefully weighed against the desired financing objectives. At this time RT does not anticipate using any derivative products in any future financing plans and therefore has not addressed them in this Policy. If at some point in the future RT wishes to reconsider the use of derivative products in connection with future debt issuances in order to create a qualified hedge it will first draft and submit a separate policy to address the use of derivative products to the Board. Derivative products will only be utilized with prior approval from the Board.

D. **Method of Bond Sale**. RT's debt may be sold on either a competitive or negotiated basis or as a direct placement with a bank or other financial institution.

1. Competitive Sale. In a competitive sale, RT's debt will be offered for sale on a set date and time, and investment banks and other financial institutions ("Underwriters") will have an equal opportunity to purchase the debt. The award of the debt will be made to the bidder that offers the lowest true interest cost. Conditions under which a competitive sale would be preferred are as follows:

a) Bond prices are stable and/or demand is strong

b) Market timing and interest rate sensitivity are not critical to the pricing

c) The bond type and structure are conventional

d) The transaction size is manageable

e) Proposed security and repayment source have strong credit rating

f) Proposed security and repayment source are well known to investors

2. Negotiated Sale. In a negotiated sale, RT's debt will be offered to an Underwriter or syndicate of Underwriters that are pre-selected by RT to market its debt. Conditions under which a negotiated sale would be preferred are as follows:

a) Bond prices are volatile or demand is weak or supply of competing bonds is high

b) Market timing is important, such as for refundings

c) The credit involves the need for greater pre-marketing by the Underwriter

c) Coordination of multiple components of the financing is required

d) Variable rate bonds or notes are issued

e) Early structuring and market participation by Underwriters is desired

f) The orderly placement of RT's bonds will benefit future transactions under that program.

3. Direct Placement with Banks or Other Financial Institutions. In this structure, RT would place its bonds directly with a bank or other financial institution at a private sale. The bank or other financial institution would be selected through a competitive process. Direct placements typically involve lower transaction costs than competitive or negotiated sales. Conditions under which a direct placement would be preferred are as follows:

   a) The financing is relatively small and the higher transaction costs associated with a competitive or negotiated sale would result in a higher all-in borrowing cost.

   b) The bonds are issued as variable rate bonds with terms that involve lesser risk to RT.

VII. Documentation of Transactions

The major aspects of each financing, including the decision processes, shall be fully documented. The documentation shall include at least:

A. **Threshold Decisions Memorandum.** A memorandum addressing the selection of the financing team, type of financial instrument, structuring features, manner of sale, selection of vendors providing ancillary services, and selection of investment securities or products.

B. **Financial and Risk Analysis.** An analysis, which may be included as part of the Threshold Decisions Memorandum, of basic financial structuring options considered for the transaction, including an assessment of risks, credit impacts, and impacts on future financing flexibility.

C. **Closing Transcript.** At least two transcripts containing the full set of legal documents, certificates, and legal opinions associated with each financing. There shall be at least one physical set of signed original documents, and one set in electronic form.

D. **Post-Pricing Book.** A post-pricing book containing information about the bond sale, a list of bids received (if a competitive sale was used), a list of comparable pricings at the time of sale, a final debt service schedule, Committee on Uniform Security Identification Procedures (CUSIP) numbers, and other relevant information pertaining to the transaction.

VIII. Investment of Bond Proceeds

Proceeds raised in a debt financing shall be invested in a manner that is consistent with RT's investment policy, the applicable financing documents, and Federal and State law.

IX. Refinancing Outstanding Debt

RT shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or financial advisory firms. The District will consider the following issues when analyzing possible refunding opportunities*:*

A. **Debt Service Savings.** The District has established a minimum net present value (NPV) debt service savings threshold goal of three percent (3%) of the refunded bond principal amount unless there are other compelling reasons for the refunding. The present value savings will be net of all costs related to the refunding.

B. **Restructuring.** The District may restructure outstanding debt to meet unanticipated revenue expectations, mitigate irregular debt service payments, release reserve funds or amend restrictive bond covenants.

C. **Term of Refunding Issues.** The District may refund bonds within the term of the originally issued debt. However, the District may consider maturity extension, when necessary to achieve a desired outcome, if such extension is legally permissible and potential credit impacts are adequately evaluated.

D. **Escrow Structuring.** RT's policy shall be to utilize State and Local Government Series Obligations (SLGS) as its escrow securities. It may utilize open-market securities only upon the advice and recommendation of RT's financial advisor and bond counsel.

E. **Arbitrage.** The District shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

X. Market Relationships

A. **Rating Agencies and Investors.** Rating Agencies - Moody's Investors Service, Standard & Poor's, and Fitch - evaluate the credit of public and corporate transactions. The CFO or his/her appropriate designees, shall: 1) meet with the assigned Rating Agency analysts prior to each competitive or negotiated sale of RT's bonds and 2) periodically update the Rating Agencies as to developments at RT.

B. **RT Board of Directors Communication.** The GM and CFO shall inform the Board of feedback from the Rating Agencies and investors regarding RT's financial strengths and weaknesses.

C. **Continuing Disclosure.** RT shall remain in compliance with each continuing disclosure undertaking entered into by RT under Securities and Exchange Commission (S.E.C.) Rule 15c2-12 (the "Rule") by filing its annual financial statements, notices of material events under its Continuing Disclosure Agreements and other financial and operating data for the benefit of its bondholders within the period required by each continuing disclosure Undertaking entered into by RT under the Rule.

RT has designated the Chief Financial Officer as having primary responsibility for ensuring compliance with its Continuing Disclosure requirements.

D. **Rebate Reporting.** The use of bond proceeds and their investments must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate annual rebates related to any bond issues, with rebate paid every five years. The CFO shall ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculation, and timely rebates, if necessary.

XI. Financing Team Members

The implementation of RT debt financings shall involve the following financing team members where appropriate:

A. **Financial Advisor.** RT's financial advisor shall work with the CFO in developing the most appropriate approach to a particular debt financing transaction, including the type of financing transaction, structural features, manner of sale, and other relevant matters. In a competitive sale, the financial advisor shall work with RT and RT's bond counsel to develop an appropriate set of documents, coordinating rating District presentations, managing the sale process, and overseeing the closing. In a negotiated transaction, the financial advisor shall also assist the CFO in the selection of underwriters. In a direct bank placement, the financial advisor shall assist the CFO in the selection of the purchaser. The financial advisor shall be selected by the Board through a Request for Proposal process.

B. **Bond Counsel.** Bond counsel provides the legal opinion delivered with the bonds confirming, among other things, that the bonds are valid and binding obligations of the issuer. RT's bond counsel shall work with the CFO, RT Chief Counsel, and RT's financial advisor in providing legal advice on proposed financing structures, drafting the relevant legal documentation, providing the necessary legal opinions, and preparing the closing documentation. Bond counsel shall be selected by the Board through a Request for Proposal process.

C. **Disclosure Counsel.** Disclosure counsel coordinates the preparation of the Official Statement. Disclosure counsel shall be a firm with extensive experience in public finance and may also serve as Bond counsel. Disclosure counsel shall be selected by the Board through a Request for Proposal process.

D. **Trustee**. A nationally recognized trust company, with assets of at least $100,000,000 shall serve as trustee on RT's bond issues. If desired by the CFO, the trustee may also serve as RT's dissemination agent for purposes of complying with applicable continuing disclosure requirements. If not appointed under an existing trust indenture, the trustee shall be selected by a Request for Proposal process.

E. **Underwriters**. If RT sells its debt securities at competitive sale, the underwriter shall be that firm or syndicate of firms that provides RT with the lowest true interest cost in accordance with the terms and conditions in the notice of sale. If RT sells its debt securities in a negotiated sale, the underwriter or underwriters shall be selected on the basis of a Request for Proposal process.

F. **Disclosure by Financing Team Members.** RT expects that all financing team members shall at all times provide RT with objective advice and analysis, maintain the confidentiality of RT financial plans, and be free from any conflicts of interest. All financing team members shall be required to provide full and complete disclosure, under penalty of perjury, relative to any agreements with other financing team members and outside parties that could compromise any firm's ability to provide independent advice that is solely in the best interests of RT or that could be perceived as a conflict of interest. The extent of disclosure may vary depending on the nature of the transaction.

XII. Post-Issuance Tax Compliance Procedures

The purpose of the following post-issuance tax compliance procedures is to establish policies and procedures in connection with tax-exempt bonds and direct pay subsidy bonds (e.g. "Build America Bonds" or similar programs) ("Bonds") issued by or on behalf of RT so as to ensure that the District complies with all applicable post-issuance requirements of federal income tax law needed to preserve the tax-exempt or direct pay subsidy status of the Bonds.

A. External Advisors / Documentation

The CFO and other appropriate RT personnel shall consult with Bond Counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for the appropriate tax status. Those requirements and procedures shall be documented in an RT resolution(s), Tax Certificate(s) and/or other documents finalized at or before issuance of the Bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the Bonds.

The CFO and other appropriate RT personnel also shall consult with bond counsel and other legal counsel and advisors, as needed, following issuance of the Bonds to ensure that all applicable post-issuance requirements in fact are met. This shall include, without limitation, consultation in connection with future contracts with respect to the use of Bond-financed assets and future contracts with respect to the use of output or throughput of Bond-financed assets.

Whenever necessary or appropriate, RT shall engage expert advisors (each a "Rebate Service Provider") to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds.

B. Role of RT as Bond Issuer

Unless otherwise provided by RT resolutions, unexpended Bond proceeds shall be held by the District, and the investment of Bond proceeds shall be managed by the CFO in accordance with the adopted investment policy of the District. The CFO shall maintain records and shall prepare regular, periodic statements to the Board regarding the investments and transactions involving Bond proceeds.

If an RT resolution provides for Bond proceeds to be administered by a trustee, the trustee shall provide regular, periodic (monthly) statements regarding the investments and transactions involving Bond proceeds.

C. Arbitrage Rebate and Yield

Unless a Tax Certificate documents that Bond Counsel has advised that arbitrage rebate will not be applicable to an issue of Bonds:

- The District shall engage the services of a Rebate Service Provider, and RT or the Bond trustee shall deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider on a prompt basis;

- Upon request, the CFO and other appropriate RT personnel shall provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;

- The CFO and other appropriate RT personnel shall monitor efforts of the Rebate Service Provider and assure payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed; and

- During the construction period of each capital project financed in whole or in part by Bonds, the CFO and other appropriate RT personnel shall monitor the investment and expenditure of Bond proceeds and shall consult with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issue date of the Bonds.

- The District shall retain copies of all arbitrage reports and trustee statements as described below under "Record Keeping Requirements".

D. **<u>Use of Bond Proceeds.</u>** The CFO and other appropriate RT personnel shall:

- Monitor the use of Bond proceeds, the use of Bond-financed assets (e.g., facilities, furnishings or equipment) and the use of output or throughput of Bond-financed assets throughout the term of the Bonds (and in some cases beyond the term of the Bonds) to ensure compliance with covenants and restrictions set forth in applicable RT resolutions and Tax Certificates;

- Maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds;

- Consult with Bond Counsel and other professional expert advisers in the review of any contracts or arrangements involving use of Bond-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable RT resolutions and Tax Certificates;

- Maintain records for any contracts or arrangements involving the use of Bond-financed facilities as might be necessary or appropriate to document compliance with all covenants and restrictions set forth in applicable RT resolutions and Tax Certificates; and

- Meet at least annually with personnel responsible for Bond-financed assets to identify and discuss any existing or planned use of Bond-financed assets or output or throughput of Bond-financed assets, to ensure that those uses are consistent with all covenants and restrictions set forth in applicable RT resolutions and Tax Certificates.

E. <u>Record Keeping Requirements.</u> Unless otherwise specified in applicable RT resolutions or Tax Certificates, the District shall maintain the following documents for the term of each issue of Bonds (including refunding Bonds, if any) plus at least three years:

- A copy of the Bond closing transcript(s) and other relevant documentation delivered to the RT at or in connection with closing of the issue of Bonds;

- A copy of all material documents relating to capital expenditures financed or refinanced by Bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, as well as documents relating to costs reimbursed with Bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with Bond proceeds;

- A copy of all contracts and arrangements involving private use of Bond-financed assets or for the private use of output or throughput of Bond-financed assets; and

- Copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

Sacramento Regional Transit District

Summary of Series 2012 Bonds Refunding Opportunity

March 17, 2020

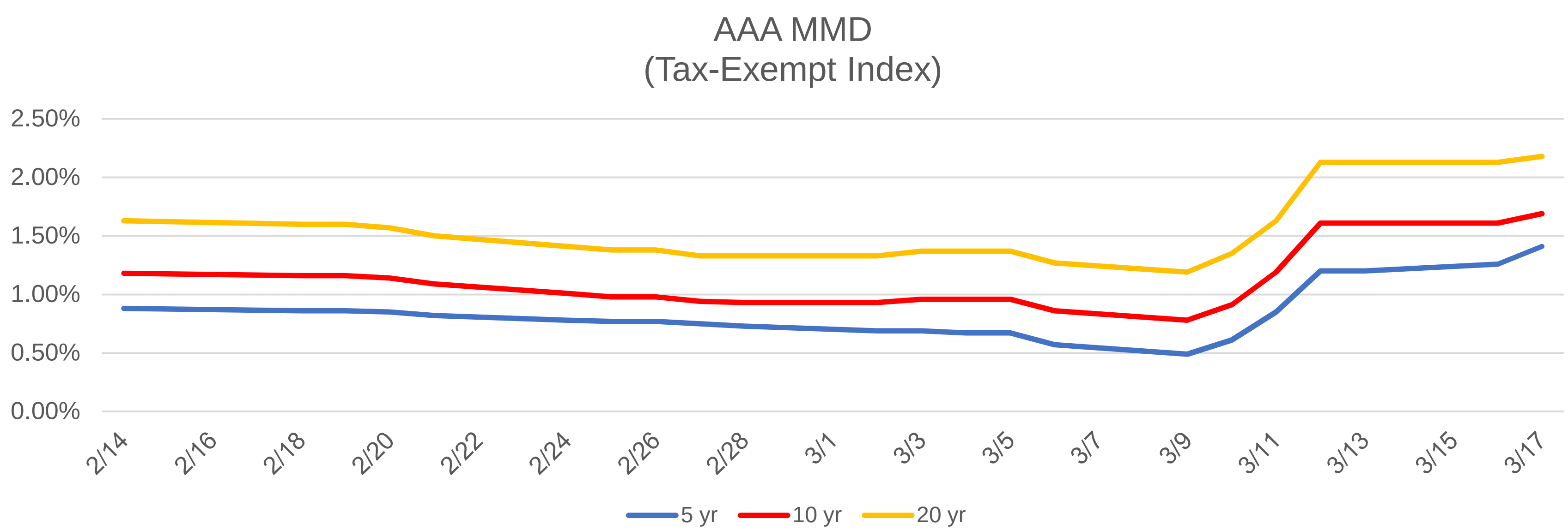
PFM Financial
Advisors LLC

601 S. Figueroa
Suite 4500
Los Angeles, CA
90041

213.489.4075
pfm.com

Market Update (As of March 17, 2020)

- Current market conditions are extremely volatile as a result of concerns regarding COVID-19 as well as oil price tensions between Saudi Arabia and Russia
- The municipal tax-exempt market decoupled from the broader Treasury market on Wednesday, March 11th. Over the course of last week, AAA MMD experienced tremendous intraday volatility, increasing by as much as 50 bps on Thursday, March 12th
- As a result of this volatility, rising interest rates and an overall decline in investor demand, many bond sales have been voluntarily pulled from the market and are on day-to-day status, awaiting a return to more favorable conditions
  - Transactions which did price during this time did so at higher credit spreads



Source: Thomson Reuters

Overview of the Outstanding Farebox Revenue Bonds, Series 2012

- In November 2012, SacRT issued $86,865,000 of Farebox Revenue Bonds, Series 2012 (“Series 2012 Bonds”)
- On February 14, 2017, SacRT used cash and other funds to defease a portion of the Series 2012 Bonds
  - Lowered overall future debt service payments
  - Eliminated debt service payments through June 30, 2019 allowing SacRT to increase reserve contributions
- Currently, $45,825,000 of the Series 2012 Bonds are outstanding and callable at par beginning September 1, 2020
  - Depending on market conditions at pricing, RT could have the ability to refinance these bonds on a tax-exempt basis as soon as June 2020

Issuer	**Sacramento Regional Transit**					
Series	**Series 2012 Farebox Revenue Bonds**					
Par Amount	**$86,865,000**					
Call Date	**9/1/2020 @ 100.0**					
Due Date	**March 1**					
	Par		**Coupon**	**Par**		**Coupon**
2021	$1,210,000		5.00%			
2022	$1,270,000		5.00%			
2023	$1,330,000		5.00%			
2024	$1,400,000		5.00%			
2025	$1,465,000		5.00%			
2026	$1,540,000		5.00%			
2027	$1,620,000		5.00%			
2028	$1,700,000		5.00%			
2029	$1,785,000		5.00%			
2030	$1,875,000		5.00%			
2031	$1,970,000		5.00%			
2032	$2,065,000		4.00%			
2033	$995,000	*		$1,150,000	*	
2034	$1,095,000	*		$1,150,000	*	
2035	$1,190,000	*		$1,150,000	*	
2036	$1,300,000	T	5.00%	$1,150,000	T	4.00%
2037	$2,560,000	*				
2038	$2,690,000	*				
2039	$2,820,000	*				
2040	$2,960,000	*				
2041	$3,115,000	*				
2042	$3,270,000	T	5.00%			

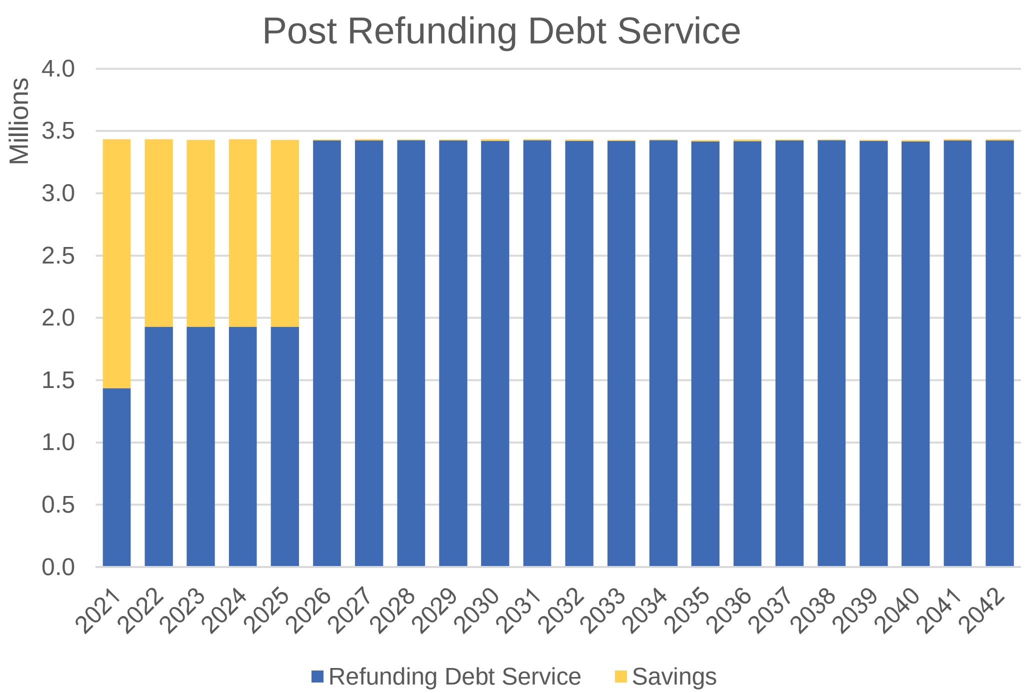
T = Term Bond Final Maturity
* = Sinking Fund Redemption

Current Refunding of the 2012 Farebox Revenue Bonds

- While at present the municipal market is severely dislocated with very little new issuance being sold, for illustrative purposes, based on today's interest rate levels and *assuming the market returned to "normal" operating conditions*, a current refunding of the Series 2012 Bonds would produce PV Savings of $6.7 million, or 14.75% of refunded par
  - Actual savings would be dependent on market conditions and interest rates at time of pricing
- Under these assumptions, in connection with this refunding, RT would have the ability to realize it's savings on an accelerated basis or as equal amounts over time – the below graphic illustrates savings on an accelerated basis

Sources	
Par Amount	$38,590,000
Premium	$7,879,577
2012 Bonds DSRF Release	$3,434,850
2012 Bonds DSA Transfer	$858,650
Total	**$50,763,077**

Uses	
Escrow Deposit	$46,859,885
Debt Service Reserve Fund	$3,426,500
Cost of Issuance	$339,500
Underwriter's Discount	$135,065
Additional Proceeds	$2,127
Total	**$50,763,077**



Assumptions: Dated Date 6/3/2020, First Interest Payment 9/1/2020, Call Date 3/1/2030, UD at $3.50/bond and COI of $339,500, Debt Service Account Transfer of 3/6 interest and 3/12 principal of prior bonds included as additional source, DSRF Release of $3.4M invested at 1% to final maturity, Yields as of 03/17/2020 at assumed functioning market spreads, 5% coupons and are for illustrative purposes only. Actual results may vary and would be dependent on market conditions and interest rate at time of pricing.

Disclaimer

This material is based on information obtained from sources generally believed to be reliable and available to the public, however PFM cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities