February 1, 2018

Memorandum

To: STA Board of Directors

From: Peter Shellenberger, *PFM Financial Advisors LLC*

Re: Replacement of the Mizuho Standby Purchase Agreement and the Release of the 2009C Bond Reserve Fund for Projects

---

Introduction

PFM Financial Advisors LLC ("PFM"), as the financial advisor to Sacramento Transportation Authority ("STA" or "Authority"), has worked with STA staff to prepare the recommended strategy to manage the ongoing variable rate bond portfolio while also preparing to release existing bond proceeds currently in the Series 2009C bond reserve fund. Upon release, the $8.1 million in reserve fund proceeds will be available for projects.

The Authority currently has two series of variable rate demand bonds (VRDBs): the Series 2009C Bonds and the Series 2015A Bonds. The Authority also has a third series of variable rate bonds called floating rate notes (FRNs) that are directly purchased and held by Wells Fargo (the Series 2014A Bonds). The two series of VRDBs are supported by a Standby Bond Purchase Agreement (SBPA). The SBPAs are agreements in which commercial banks agree to purchase and hold the bonds if there is insufficient investor demand in the public capital markets. Since inception, there has always been strong investor demand for the STA's bonds and there has been no need to draw upon the SBPA. That said, SBPAs are necessary to insure liquidity for investors under the VRDB structure. Mizuho Bank is the SBPA provider for the Series 2015A Bonds and US Bank is the SBPA provider for the Series 2009C Bonds.

Mizuho Bank informed the Authority that they are exiting the SBPA market and will not plan to extend their agreement with the Authority. Consequently, the Authority issued a request for bids for SBPA providers to replace Mizuho. Bid responses were received on January 3rd, 2018 and reflect current market after the implementation of tax reform. The Authority received very competitive responses with five bids for SBPAs and two additional bids from banks interested in directly purchasing the Authority's variable rate bonds. With the most competitive bids coming in the form of SBPAs, a summary of SBPA responses is presented in this memo.

Based on responses, the Authority's team recommends Sumitomo Mitsui Banking Corporation ("Sumitomo") as the winning proposer. They have offered a five-year SBPA at an annual rate of 0.38% - the lowest offer for that term. The bank has accepted all substantive terms and conditions of the existing documents and has provided the Authority the ability to exit this five-year agreement after 24 months, at no cost. Sumitomo's proposal is based upon their initial credit review. Their final proposal is subject to a full credit review with their credit committee which should be complete in the next 10 business days.

Additionally, the Authority used the competitive bid process to negotiate a two and a half year extension with US Bank on their existing SBPA for the 2009C Bonds also at 0.38%. As background, US Bank agreed in December 2017 to extend their SBPA through June 2019 at a rate of 0.38%. Subsequently, and based on current market data, the Authority's team negotiated an extension at the same rate (0.38%) and with the same terms and conditions through December 2020 – a term of two and a half years. With this extension, the Authority will refund the 2009C Bonds and will release the $8.1 million reserve fund associated with the 2009C Bonds. Proceeds would be available for projects by

June 2018. Similar to Sumitomo, the proposed extension from US Bank requires formal credit approval which should be complete in the next 10 business days.

By combining the extension of the US Bank facility which releases the reserve funds, with the required replacement of Mizuho Bank, STA will capture economy of scale in the transaction process. The end result will be two renewed SBPA's procured under a competitive bid process and put in place for two and a half to five years, and the release of $8.1 million of existing proceeds available for projects by June, 2018. No new bond proceeds will be issued as part of this transaction.

With the Board's direction, staff, the financial and legal team will return to the Authority Board with documents for review and approval in the May Board meeting.

Debt Portfolio Overview

The Authority currently has $364.6 million of debt outstanding, consisting of the Series 2009C VRDBs, the Series 2012 fixed-rate bonds, the Series 2014A FRNs, and the Series 2015A VRDBs. The Authority's bonds hold long-term credit ratings of AA+/AA+/Aa3 from Standard & Poor's, Fitch, and Moody's, respectively. The table below summarizes STA's existing debt portfolio:

Sacramento Transportation Authority Debt Summary

SERIES	OUTSTANDING PAR	FINAL MATURITY	MODE	SBPA/DIRECT PURCHASE	EXPIRATION/ TENDER DATE	REMARKETING AGENT
2009C	$106,100,000	10/1/2038	Weekly VRDB	US Bank	6/20/2019	US Bank
2012	$46,315,000	10/1/2027	Fixed-Rate	N/A	N/A	N/A
2014A	$106,100,000	10/1/2038	FRN	Wells Fargo	8/10/2020	N/A
2015A	$106,100,000	10/1/2038	Weekly VRDB	Mizuho	3/12/2018	JP Morgan
Total	$364,615,000					

Of the Authority's $364.6 million of debt, $212.2 million are VRDBs supported by SBPAs – Series 2009C Bonds and Series 2015A Bonds. The SBPAs are agreements in which commercial banks agree to purchase and hold the bonds if there is insufficient investor demand in the public capital markets. Since inception, there has always been strong investor demand for the STA's bonds and there has been no need to draw upon the SBPA. That said, SBPAs are necessary to insure liquidity for investors under the VRDB structure.

The proposed SBPA replacement is to replace Mizuho Bank with Sumitomo Bank at an annual cost of 0.38% annually for five years. This provides long-term certainty for the Authority with the ability to terminate after two years, at no cost, should the Authority wish to do so. As noted in the table above, the Mizuho SBPA facility expires on March, 12, 2018. Mizuho has agreed to extend their facility into July, 2018 to provide the Authority sufficient time to replace them.

The proposed extension with US Bank continues that agreement at 0.38% annually for a two and a half year term. Rather than have that facility expire in June, 2019, it will be in place through December 2020 at the same rate.

Competitive RFP Results

The Authority circulated a Request for Fee Quotations and Firm Qualifications (RFQ) to commercial banks on December 11, 2017. On January 3rd, 2018 the Authority received five bids for Standby Bond Purchase Agreements (SBPAs) and two bids for Direct Purchase (DP) proposals. Importantly, the bids reflected the new market environment following the effective date of the federal tax reform legislation. It was an open question prior to tax reform as to which form of variable rate structure would be the lowest cost: variable rate bonds with an SBPA or variable rate bonds directly purchased by a commercial bank. Based on responses, VRDBs with an SBPA were the lower cost option.

Presented below is a summary of the SBPA bids. There was a wide range of bids, ranging from a low of 0.28% for a one-year facility to 0.70% for a five-year facility. After reviewing pricing and proposed terms and conditions, Authority staff decided on a balance between a longer-term and a competitive cost. Sumitomo offered a five-year bid at 0.38% annually. Additionally, Sumitomo accepted all the substantive terms and conditions of the Authority's existing documents, which was an important consideration for the Authority. Based on these results, Sumitomo is the proposed bank to replace Mizuho on the Series 2015A Bonds.

Sacramento Transportation Authority Summary of Bids for SBPAs					
	Bank of America	Barclays	Citi	JP Morgan	Sumitomo
Type of Facility	SBPA	SBPA	SBPA	SBPA	SBLC
Term and Pricing	2 Years: 36 bps 3 Years: 40 bps	1 Year: 28 bps 3 Years: 32 bps 4 Years: 34 bps	2 years - 58 bps	1 Year: 45 bps 2 Years: 50 bps 3 Years: 58.5 bps 5 Years: 70 bps	3 Years: 32 bps 4 Years: 35 bps 5 Years: 38 bps

Based on these bids, the Authority negotiated directly with US Bank – the current SBPA provider on the Series 2009C Bonds—and asked for a two and a half year extension on the existing facility at 0.38%, while also requesting the Bank's consent to release the reserve fund on those Series 2009C Bonds. US Bank has agreed to the 0.38% pricing and has agreed to the release of the reserve fund. Their final proposal does require formal credit approval from their credit committee, which should be complete in the next 10 business days.

Tax Reform and the Wells Fargo Direct Purchase Agreement

On December 22, 2017, the Tax Cuts and Jobs Act became law. The tax reform law reduced the corporate tax rate from 35 percent to 21 percent. The reduced corporate tax rate reduces the benefit of tax-exemption to corporate entities purchasing tax-exempt bonds. With the reduced tax benefit to corporate buyers, one broad-based market impact from tax reform is an expectation of increased municipal borrowing rates. Through January, we have witnessed some moderate increase in tax exempt rates.

The Authority's 2014A floating rate notes (FRNs) are variable rate bonds directly purchased and held by Wells Fargo. FRNs are an alternative to publicly sold bonds and do not require liquidity (SBPAs), since they are directly purchased and held by the bank. The loan agreement with Well Fargo has a provision that increases the rate on the FRNs in the event the corporate tax rate changes. With the reduction in the corporate tax rate to 21%, the cost of the Wells Fargo direct loan increased approximately 28 basis points (0.28%). At this point in time, The Wells Fargo agreement continues to be competitive with the VRDB alternative and there is not a need to change from Wells Fargo at this time. We will continue to monitor the bond market as it reacts to the new tax reform legislation to determine the lowest cost of borrowing available to the Authority.

Next Steps

There will be no additional bonds issued as part of the SBPA renewal process and the release of the 2009C bond proceeds from the reserve fund. Legal documentation will include a new SBPA agreement with Sumitomo. The US

Bank facility will be extended for two and a half years to December, 2020 and should be executed with a straightforward amendment to the existing agreement and the related refunding of the 2009C Bonds. There will be the need to update the disclosure document describing the new SBPA provider and the release of the reserve fund to investors. As such, an updated offering memorandum will be prepared. With the refunding of the Series 2009C Bonds, the rate and par amount on the bonds will not change. The release of the reserve fund will be fully disclosed in the updated disclosure document.

Bond counsel and the legal team will prepare the appropriate resolutions and legal documentation to replace Mizuho and release the $8.1 million in reserve fund proceeds. Full legal documents will be provided to the Board for review and approval. The Current schedule is targeting the May 10th Board meeting for review and approval of legal documents.