May 2, 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 execute the recommended debt management strategy presented to the Board on the February 8th, 2018 meeting. As a reminder, the recommended strategy consists of two components:

1. Replace the liquidity provider for the 2015A Bonds; and
2. Release $7.1 million in reserve fund proceeds associated with the 2009C Bonds and make available for projects

Regarding the first component, Mizuho Bank informed the Authority that they are exiting the liquidity market and will not plan to extend their Standby Bond Purchase Agreement (SBPA) 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. Based on the competitive responses, the Authority's team recommended to the Board on February 8th that Sumitomo Mitsui Banking Corporation ("Sumitomo") be selected as the winning proposer. Sumitomo offered a five-year SBPA at an annual rate of 0.38% - the lowest offer for that term. The bank accepted all substantive terms and conditions of the existing documents and provided the Authority the ability to exit this five-year agreement after 24 months, at no cost.

Second, the Authority's team used the competitive bid process to negotiate a two and a half year extension – through November 2020 — with US Bank on their existing SBPA for the 2009C Bonds also at 0.38%. With this extension, the Authority had the ability to amend the bond documents for the Series 2009C Bonds and to remove the need for a debt service reserve fund (DSRF) that was originally established in 2009. While a DSRF was commonly used in 2009, investors no longer require it for highly rated credits like STA, and it is cost-effective to release it today. US Bank agreed to the release and bond-holders have been notified of the change. Upon the effective date (estimated to be May 24th, 2018) of the amended bond documents, $7.1 million will be released to the Authority and will be available for projects.

The end result of this strategy is 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 $7.1 million of existing proceeds available for projects by the end of May. No new bond proceeds will be issued as part of this transaction. The estimate of $7.1 million in the reserve fund release is lower than the figure estimated in February, 2018 at $8.1 million, due to the need to preserve additional funds associated with the Series 2012 Bonds debt service reserve fund requirement. The option to release those last remaining funds from the Series 2012 Bonds DSRF will become available to the Authority in October, 2022 when those bonds become callable.

The Authority's team has been working on documentation and receiving rating agency confirmations over the last 90 days and brings the required documents before the Board for review and potential approval for its May 10th Board meeting.

Debt Portfolio Overview

The Authority currently has $364.6 million of debt outstanding, consisting of the Series 2009C variable rate demand bonds (VRDBs), the Series 2012 fixed-rate bonds, the Series 2014A floating rate notes (FRNs), and the Series 2015A variable rate demand bonds (VRDBs). 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. Sumitomo will replace Mizuho Bank as the SBPA provider for the Series 2015A Bonds and US Bank is the SBPA provider for the Series 2009C 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 three series of variable rate bonds are matched with interest rate swaps, the purpose of which is to mitigate any volatility in short-term, floating rates.

The Authority's bonds hold long-term credit ratings of AA+/AA+/Aa3 from Standard & Poor's, Fitch, and Moody's, respectively. All long-term ratings were affirmed by the three rating agencies in April 2018. 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	7/9/2018	JP Morgan
Total	**$364,615,000**					

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. 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 November 2020 at the same rate.

Next Steps

There are 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 for the Board's review and approval includes a new reimbursement agreement with Sumitomo. The US Bank facility will be extended for two and a half years to November 2020 and is being executed with an amendment to the existing agreement. Disclosure Counsel (Nossaman) has updated the Authority's Official Statements for the Series 2009C Bonds and the Series 2015A Bonds with supplements to those existing offering documents, describing to investors the changes that are occurring. Bond Counsel (Orrick) has prepared a Sixth Supplemental Indenture providing for the release of the reserve fund for the 2009C Bonds and has prepared a Resolution for both the release of the reserve fund and the replacement liquidity facility. STA staff and PFM held one-on-one meetings with all three rating agencies to discuss the positive trends in sales tax revenues and the

Sacramento regional economy. All three rating agencies have affirmed the Authority's existing ratings. Notices, via the Trustee, have been sent to bond holders notifying them of the coming changes.

Representatives of the Authority's financial and legal team will be present and available for questions on May 10th. If the Board provides approval, the new SBPA from Sumitomo will become effective on May 15th. The amendments to the Series 2009C Bonds will become effective on May 24th and the release of the $7.1 million will be available shortly thereafter.