Portfolio Actions

Board of Directors
7/27/23

SOUNDTRANSIT

Why we are here today

- Portfolio Actions

Portfolio Actions

Sound Transit regularly reviews its investment and debt portfolios and seeks an appropriate balance between return and risk while ensuring funding of the system's operations and capital expansion.

Per budget policy, Board action is required to change budgeted long-term debt principal repayment, interest and financing fees.

- **Resolution No. 2023-21:** Redeem issue 2015S-2B, a $75 million issue of floating rate notes.
- **Resolution No. 2023-22:** Increase 2023 debt budget to provide for the redemption of the 2015S-2B, higher interest rates on the floating rate notes, and a ~$1 Billion TIFIA draw in August 2023 in support of a market opportunity.

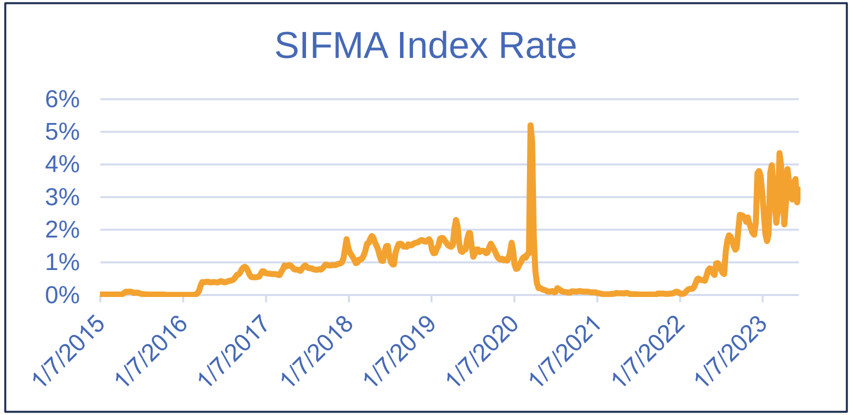
Resolution No. R2023-21: 2015S-2B Redemption

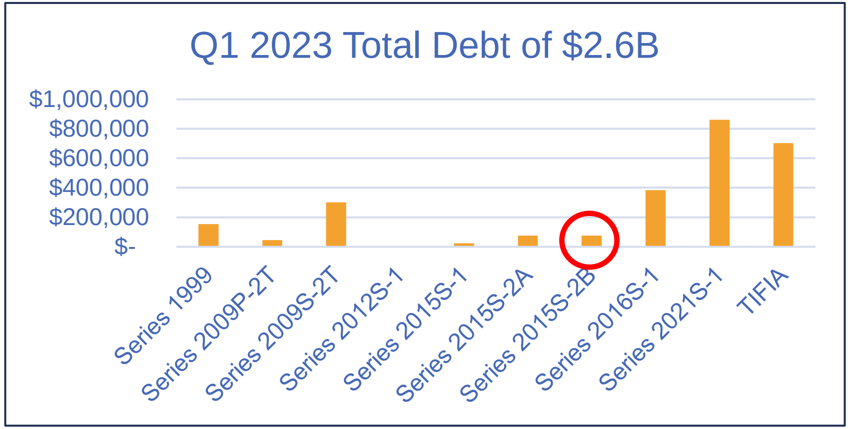
- The agency issued $150 Million of total variable rate debt in 2015. The issuance was divided into two issues of $75 million each, 2015S-2A and 2015-2B. The debt is tied to a market rate known as “Securities Industry Markets Association Municipal Swap Index” (SIFMA).

- The 2015S-2B issue is approaching the end of its index floating rate period (Nov. 1, 2023) and requires action.

- The Agency has been well served by having a portion of its debt in variable rate instruments. However, with the current high interest rate environment it is preferred to redeem this portion of the debt.

- Staff considered multiple options in relation to the 2015S-2B. It was determined a redemption is the best approach given 1) market conditions and 2) execution cost of remarketing.





Market Opportunity

- The Agency has undrawn TIFIA loan capacity at a fixed interest rate of 1.91%. There were no TIFIA draws anticipated in the 2023 budget.
- To capture market opportunities, the Agency will accelerate a ~$1 Billion draw on existing TIFIA loan capacity in August 2023.
- Current market investment interest rates are higher than the TIFIA loan rate allowing the Agency to invest the draw and earn positive net interest income.
- Using a conservative projected investment rate of 3.5%, the action results in positive net interest income.

Market Opportunity for positive net interest income	
2023 Projected interest income on ~$1B at 3.5%	$13 million
2023 TIFIA draw interest expense	<u>($8 million)</u>
2023 Net interest income	$5 million

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Changes to the current year debt budget requiring Board approval:

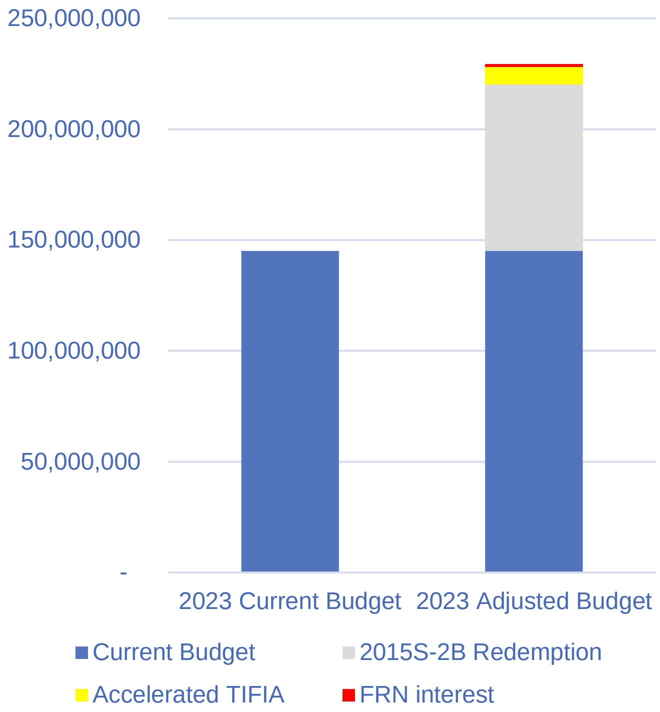
<ins>2015S-2B Redemption</ins>: Increase the 2023 debt budget by $75 million to redeem the 2015S-2B (pay off the debt)

<ins>Accelerated TIFIA draw</ins>: Increase the 2023 debt budget by $7.99 million to reflect the increase in interest expense for a $1 Billion TIFIA draw to capture market opportunities.

<ins>Floating Rate Note Interest</ins>:

- Increase the 2023 debt budget by $1.65 million to reflect higher actual and anticipated interest expense on the variable portion of the Agency's debt portfolio.

- Decrease the 2023 debt budget by $375k to reflect the redemption of the 2015S-2B prior to Nov. 1, 2023



2023 debt budget increases by $84.3 million, from $145.1 to $229.4

Thank you.

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