

Resolution No. R2023-22

Increasing the 2023 annual budget

Meeting:	Date:	Type of action:	Staff contact:
Finance and Audit Committee	07/20/2023	Recommend to Board	John Henry, Chief Financial Officer
Board	07/27/2023	Final action	Jeff Clark, Deputy Executive Director, Financial Operations

Proposed action

Increasing the 2023 annual debt service budget by \$84.3 million, from \$145.1 million to \$229.4 million total budget amount.

Key features summary

- This action increases the total 2023 debt service budget by \$84.3 million, bringing the total authorized annual debt budget to \$229.4 million. Components of the net increase are as follows:
 - Increase the 2023 debt service budget by \$75 million to redeem the 2015S-2B pursuant to Resolution No. R2023-21.
 - Increase the 2023 debt service budget by \$1.653 million to reflect higher actual and anticipated interest expense on the variable portion of the Agency's debt portfolio. Market interest rates have risen above those anticipated for the 2023 budget for the Agency's Floating rate notes. This action provides the additional budget dollars to cover the increased interest expense due to the higher index rate.
 - Decrease the 2023 debt service budget by \$0.375 million to reflect the redemption of the 2015S-2B prior to November 1, 2023.
 - Increase the 2023 debt service budget by \$7.998 million to reflect the increase in interest expense for a \$1 billion TIFIA draw to capture market opportunities. The agency is able to borrow at a lower than market interest and invest the monies to earn positive net interest.
- No additional debt is issued as part of this action. The agency is drawing upon existing TIFIA debt capacity previously authorized by the Board. This action combined with the investment of the draw amount results in higher net interest income for the agency.

Background

As a part of its funding of the capital program, Sound Transit's financial plan requires the issuance of long-term bonds. The agency issues both fixed and variable rate bonds within a consolidated borrowing program with the goal of minimizing net interest payments over time. Within this program the agency maintains a series of bond indentures (prior lien, parity lien, junior liens) to minimize borrowing costs and most effectively access the capital markets.

Consistent with Sound Transit's Debt Management Policy and practice, staff thoroughly evaluates all options before any financing transaction to ensure the financing instrument used can meet the Sound Transit's Asset Liability Management goals.

The combined effect of the above is to reduce interest cost and maximize net interest earnings.

Fiscal information

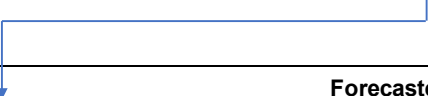
This action provides authority to amend the debt service budget to reflect changes to financial amounts in connection with Resolution No. R2023-21: the optional redemption of Series 2015S-2B Bonds, TIFIA draw and investment of drawn amounts.

- Increase the 2023 debt service budget by \$75.0 million to redeem the 2015S-2B pursuant to Resolution No. R2023-21.
- Increase the 2023 debt service budget by \$9.3 million to:
 - Decrease by \$0.375 million to reflect the redemption of the 2015S-2B prior to November 1, 2023.
 - Increase by \$1.653 million to reflect higher actual and anticipated interest expense on the variable portion of the Agency's debt portfolio.
 - Increase by \$7.998 million to reflect the increase in interest expense for a \$1 billion TIFIA draw to capture market opportunities.

Debt Service

(in thousands)

Debt Service Breakdown	2023 Annual Budget ¹	This Action	Amended 2023 Budget
Principal Repayment	\$62,005	\$75,000	\$137,005
Interest Expense incl. Loan Amortization	80,103	9,276	89,379
Financing Expenses	3,000		3,000
Total	\$145,108	\$84,276	\$229,384



Debt Service Breakdown	Amended 2023 Budget	YTD Actuals ²	Forecasted Spend for Remainder of 2023	2023 Forecasted Remaining
Principal Repayment	\$137,005	\$34,925	\$102,080	\$
Interest Expense incl. Loan Amortization	89,379	33,574	55,804	\$
Financing Expenses	3,000	398	2,603	\$
Total	\$229,384	\$68,897	\$160,487	\$

Notes:

¹2023 Annual Budget is located on page 36 of 210 of the 2023 Adopted Budget book.

²YTD Actuals as of May 31, 2023.

This action combined with the investment of the draw amount is anticipated to maximize net interest earnings, which is estimated to have a positive impact on the long-range financial plan. Drawing upon existing TIFIA debt capacity as described in this resolution is estimated to affect affordability in the long-range financial plan by:

- increasing remaining available headroom in the minimum year by 0.1% (\$19 million),
- increasing minimum year net debt service coverage ratio (DSCR) by 0.001, and
- providing \$1.4 million of debt service savings.

Disadvantaged and small business participation

Participation by small businesses and disadvantaged business enterprises (DBEs)

Not applicable to this action.

Public involvement

Not applicable to this action.

Time constraints

The targeted TIFIA draw date is August 15, 2023. If the Board delays voting on this action at the July 2023 Board of Directors meeting, Sound Transit will lose a portion of the anticipated net interest earnings associated with the action.

Prior Board/Committee actions

Resolution No. R2022-35: Adopted an annual budget for the period from January 1 through December 31, 2023 and adopting the 2023 Transit Improvement Plan.

Environmental review – KH 7/11/23

Legal review – MT 7/10/23

Resolution No. R2023-22

A RESOLUTION of the Board of the Central Puget Sound Regional Transit Authority increasing the 2023 annual debt service budget by \$84.3 million to \$229.4 million total budget amount.

WHEREAS, the Central Puget Sound Regional Transit Authority, commonly known as Sound Transit, was formed under chapters 81.104 and 81.112 of the Revised Code of Washington (RCW) for the Pierce, King, and Snohomish Counties region by action of their respective county councils pursuant to RCW 81.112.030; and

WHEREAS, Sound Transit is authorized to plan, construct, and permanently operate a high-capacity system of transportation infrastructure and services to meet regional public transportation needs in the Central Puget Sound region; and

WHEREAS, in general elections held within the Sound Transit district on November 5, 1996, November 4, 2008, and November 8, 2016, voters approved local funding to implement a regional high-capacity transportation system for the Central Puget Sound region; and

WHEREAS, in December 2022, the Board approved Resolution No. R2022-35, adopting an annual budget for the period from January 1 through December 31, 2023, and adopting the 2023 Transit Improvement Plan; and

WHEREAS, interest rates are higher than planned for the floating rate note portion of the portfolio and require additional budget dollars, and

WHEREAS, it is financially beneficial to make an additional \$1 billion draw on the agency's outstanding TIFIA loans due to current market conditions and require additional budget dollars to cover the additional interest expense;

WHEREAS, Resolution No. R2023-21 provides for the redemption of the 2015S-2B and requires additional budget dollars to effect the redemption;

NOW, THEREFORE, BE IT RESOLVED by the Board of the Central Puget Sound Regional Transit Authority that this action increases the 2023 annual budget by \$84.3 million.

ADOPTED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on July 27, 2023.



Dow Constantine
Board Chair

Attest:



Adam Montee, on behalf of

Kathryn Flores
Board Administrator