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## *Memorandum*

TO: BATA Oversight Committee

DATE: April 1, 2009

FR: Executive Director

RE: Resolution No. 85 – Approving the Annual Information Statement and Authorizing up to \$1.2 Billion in New Toll Bridge Revenue Bonds

Resolution No. 85 authorizes the issuance of up to \$1.2 billion in new toll bridge project revenue bonds to be completed prior to December 2009. Resolution No. 85 also authorizes the distribution of the 2009 BATA Information Statement, as well as Supplement Number 1 covering the initial 2009 toll revenue bond issuance.

### Background

In the past each bond issuance was covered by a series of documents drafted specifically to cover the issuance. The process required all documents to be redrafted and presented for approval, including the Supplemental Indenture, Official Statement, Trust Agreement, as well as Remarketing Agreements. While all of the documents are important to the efficient management of a debt issuance, some of the documents related to more technical aspects while others focus on disclosure. Even though the contents did not necessarily change in many material aspects, they still had to be redrafted and approved.

Staff is proposing to modify the document approval process. The Board will still approve all of the disclosure and issuance parameters that it has done in the past, including principal amount, interest rate limits, type of debt and any costs of issuance. Now, however, we are recommending that this be done through a single document approved on an annual basis.

The new process contemplates an annual disclosure statement (Information Statement) that will cover all financial disclosure necessary to allow the investor to make an informed decision on BATA and its credit worthiness. When the actual bonds are sold, a supplement will be developed describing the terms of the actual bond sale as well as update of any material changes to the information statement.

We are proposing this change to streamline the bond issuance process as well as to improve focus on the disclosure document. The preparation of all the documents usually takes months and involves review of information that may not have changed materially since the previous financing. While the Board's responsibility should focus on the disclosure and financing parameters being approved, it is difficult to focus given the myriad of technical financing documents to sort out. By reducing the number of documents involved we would have a more focused approval process and efficient access to the market without compromising any of the disclosure and financing parameters we ask the Authority to approve.

Information Statement:

The 2009 Information Statement will act as the primary disclosure document relating to the toll revenue program. The Information Statement will describe BATA, its projects, toll revenue and bondholder's security, as well as up-to-date financial proforma. After this initial document, the Information Statement will be an annual document approved by the Authority in December.

Supplement No. 1:

Supplement No. 1 is the initial supplement to the general Information Statement. The supplement together with the 2009 Information Statement constitutes the Official Statement which is the principal selling document used in marketing BATA bonds to potential investors.

Normally, the Official Statement is a comprehensive disclosure document that is updated with every financing. However, by adopting an annual disclosure process, the supplement will be used to describe the specific terms related to the financing and any material information that needs to be updated from the date of the approved Information Statement.

Resolution No. 85:

Resolution No. 85 is the key authorizing document for the new disclosure/supplemental document process. The Authority's authorizing resolutions still govern and control parameters for the issuance of bonds. These parameters include:

- Approves the form of the Information Statement and authorizes its publication and use.
- Authorizes the form of Supplement No. 1 and approves its use in future bond offerings.
- Establishes parameters for future 2009 bond offerings:
  - Principal size not to exceed \$1.2 billion
  - Type of debt – fixed rate combination taxable/tax exempt
  - Bond term not-to-exceed 40 years
  - Rates not-to-exceed
    - Taxable: 8.50%
    - Tax exempt: 6.00%
- Cost of Issuance:
  - Underwriting: Taxable: 1.75%  
Tax exempt: 1.0%
  - Other Costs: .25%
- Additional Bonds text:  
Net revenue not less than 1.50x including proposed debt service.  
Net revenue after \$1.2 billion issuance is 1.69x.

- Time Limit:  
Bonds are to be issued prior to December 31, 2009.

While the bonds will be issued in one or more series throughout the year, the authorization and parameters will not change. Bonds cannot be sold for longer terms or for rates higher than are authorized in Resolution No. 85. In addition, if market conditions prohibit all or some of the bonds from being issued, the authority to issue those bonds will lapse on December 31, 2009. Thereafter, new authorization and parameters must be approved by the Authority.

Resolution No. 85 marks the first time BATA staff has requested authority to issue taxable bonds. During the recent market disruption, access to the traditional tax exempt market was very limited with only the highest credits and smaller size deals were completed. This limited market proved to be a severe disruption to project financing which, in turn, further disrupted the economy.

In response to this market access problem, the American Recovery and Reinvestment Act (ARRA) authorized government agencies to issue in the taxable market. The treasury department will rebate (pay) the issuing authority up to 35% of interest cost of the taxable bonds. While the traditional tax-exempt market has regained some of its traditional investors, the taxable commercial world significantly expands the potential investor base for BATA bonds.

In the current market, these taxable bonds (Build America Bonds) may offer some advantages. These advantages include a broader access to investors, as well as below market financing. An example is as follows:

Tax Exempt Rate		6.00%
Taxable Rate	8.50%	
Less Rebate (35%)	(2.98%)	
Net BATA Rate		5.52%

The difference is .48% or \$480,000 per \$100 million financed. BATA plans to carefully evaluate the taxable market to determine if such an issuance is indeed to BATA's advantage.

Staff recommends that the Committee forward Resolution No. 85 to the Authority for approval.



Steve Heminger

SH/BM/cj