Staff Summary

Metropolitan Transportation Authority

Subject	Date
Updated MTA and TBTA Bond Refunding Policy	July 29, 2024
Department	**Vendor Name**
Finance	N/A
Department Head Name	**Contract Number**
Kevin Willens, Chief Financial Officer	
Department Head Signature	**Contract Manager Name**
Project Manager Name	**Table of Contents Ref #**
Olga Chernat, Deputy Chief, Financial Services	

Board Action					
Order	**To**	**Date**	**Approval**	**Info**	**Other**
1	Finance Comm.	7/29	X		
2	Board	7/31	X		

Internal Approvals			
Order	**Approval**	**Order**	**Approval**
1	Legal		
2	Chief of Staff		

PURPOSE:

The MTA Finance Department is seeking Board approval to update the Bond and Other Debt Obligations Refunding Policy adopted by the Board in December 2018 (the "2018 Policy"). This updated policy (the "Refunding Policy") (1) amends the positive net present value savings requirements for refundings of fixed rate bonds that are within 90 days of an optional call or maturity ("current refunding transactions") and (2) provides authorization with respect to refundings of fixed rate bonds which are issued with a short or medium-term maturity with the expectation of being refinanced with another series of bonds prior to their maturity and for which pledged revenues are not required to be deposited with the trustee . Staff believes that the updated Refunding Policy will provide enhanced flexibility in the pursuit of MTA's and TBTA's capital markets objectives in funding the capital program at the lowest possible cost.

The updated Refunding Policy will apply to 2024 refundings authorized by the Multiple Series Refunding Bond Supplemental Resolutions, which were approved by the Board in December 2023, to be executed after the approval of the Refunding Policy and to refundings authorized in future years until subsequent amendment, modification or repeal of the Refunding Policy.

DISCUSSION:

Board approval is sought for an updated MTA and TBTA Bond and Other Debt Obligations Refunding Policy, replacing the 2018 Policy.

The 2018 Policy establishes debt service savings criteria that must be met by proposed refundings of outstanding MTA and TBTA bonds. The updated Refunding Policy will maintain the same criteria for advance refundings (if allowed on a tax-exempt basis in the future), and clarify that current refunding transactions of outstanding MTA and TBTA fixed rate bonds are permitted if the refunding transaction achieves positive net present value (NPV) savings in the aggregate, while providing the latitude to structure savings patterns within a refunding transaction by permitting individual maturities of bonds to be refunded without regard to savings on an individual bond basis.

In addition, from time to time, to take advantage of market conditions, MTA issues short or medium-term fixed rate bonds. Although principal installments for these bonds are deemed, pursuant to the applicable bond resolution, to amortize over a long-term period based on substantially level debt service as estimated by MTA or TBTA as issuer, pledged revenues are not deposited with the trustee as such short or medium-term bonds are anticipated at the time of issuance to be refinanced with future refunding bond proceeds. The updated Refunding Policy will allow refundings of such short/medium-term fixed rate bonds at the discretion of the CFO or CFO designees notwithstanding the debt service savings criteria applicable to current or advance refundings.

ALTERNATIVES:

The Board could determine that the 2018 Policy remain in effect without change, requiring staff to seek approval for specific refundings that cannot be structured within the existing 2018 Policy. This alternative is not advised as the timing of the Board cycle could result in missed market opportunities.

RECOMMENDATION:

The Board approves the Refunding Policy. The Refunding Policy will apply to 2024 refundings previously authorized by the Multiple Series Refunding Bond Supplemental Resolutions and which will be executed after the approval of the Refunding Policy and shall continue in effect without any further action by the Board, until the Board shall have amended, modified or repealed the Refunding Policy.

BOND AND OTHER DEBT OBLIGATIONS REFUNDING POLICY

WHEREAS, The Metropolitan Transportation Authority has a large portfolio of outstanding bonds and other debt obligations; and

WHEREAS, The Metropolitan Transportation Authority desires to achieve the lowest possible interest cost for such bonds; and

WHEREAS, The Metropolitan Transportation Authority desires, from time to time, to benefit from favorable capital market conditions to undertake refundings of the outstanding bonds and other debt obligations; and

WHEREAS, The Metropolitan Transportation Authority has determined that in order to provide guidance in the issuance of refunding bonds, a refunding policy ("Refunding Policy") is desirable; and

WHEREAS, such refunding bonds must be authorized by the Board in accordance with a supplemental resolution for each of the MTA and TBTA credits; therefore

BE IT RESOLVED by the Metropolitan Transportation Authority that, except as otherwise provided by separate action of the Authority relating to a particular refunding, the Refunding Policy as set forth below shall be adopted and shall apply to all refundings of bonds or other debt obligations described therein hereafter.

Metropolitan Transportation Authority and Triborough Bridge and Tunnel Authority Bond and Other Debt Obligations Refunding Policy

This bond and other debt obligations refunding policy establishes conditions precedent to any issuance of fixed rate bonds for the purposes of refunding fixed rate bonds previously issued by the MTA or any of the Related Entities.

1. A current refunding is permitted if, at the time of final pricing, the refunding transaction in aggregate achieves positive net present value (NPV) savings.
2. An advance refunding that complies with applicable law is permitted if, at the time of final pricing, (a) the aggregate NPV savings is at least 3.0% of the par amount of the refunded bonds, and (b) the refunding of each bond to be called prior to its scheduled maturity achieves NPV savings (expressed as a percentage of the par amount of such refunded bond) of at least the following amount:

		Years to Call		
		0 to 2	3 to 7	8 plus
Years From Call to Maturity	0 to 5	0.5%	1.0%	2.0%
	6 to 10	1.0%	2.5%	4.0%
	11 to 15	3.0%	4.0%	5.0%
	16 plus	4.0%	5.0%	5.5%

3. The arbitrage yield of the refunding issue must be utilized in calculating NPV savings.
4. Actual escrow investments must be used in calculation of refunding savings at the time of pricing.

<u>Additional Criteria and Instructions</u>

1. In the evaluation of refunding opportunities, the State Bond Issuance Charge (BIC), unless expressly waived, shall be included as a cost of issuance in calculating NPV savings, both in the aggregate and for individual bonds.
2. If it is possible to meet the arbitrage yield in a refunding escrow with SLGS, they should be used. In the event SLGS could provide a yield higher than the arbitrage yield, as many rolling 0 percent SLGS as possible should be used to blend down the arbitrage yield. If the arbitrage yield cannot be met with SLGS or the SLGS window is not open, Treasury securities and other open market securities can be considered, consistent with the investment restrictions in the applicable bond resolution.
3. This policy does not restrict (a) the refunding of either fixed or variable rate debt with new variable rate debt, (b) the refunding of variable rate debt with new fixed rate debt, including the refunding of debt in a short-term fixed rate mode with long-term fixed rate debt, (c) the changing or conversion of interest rate modes in variable rate debt, or (d) the refunding of fixed rate bonds for which principal installments are deemed to amortize over a period of time based on substantially level debt service as estimated by the issuer of the fixed rate bonds for purposes of determining calculated debt service as required by the applicable bond resolution (Balloon Bonds). Any such refundings described in (a) through (d) of this section, may be undertaken if the Chief Financial Officer (CFO), or Deputy Chief, Financial Services or the Director of Finance, as the designee of the CFO,

determines that it is in the best interest of the MTA to do so.

4. This policy does not restrict the CFO, or Deputy Chief, Financial Services or the Director of Finance in structuring the savings pattern of any refunding, provided the above requirements are met.