

DEBT MANAGEMENT REPORT

-- Presented by Todd Grosvenor, Financial Services Director, 573-751-4626.

ISSUE: Attached are reports that provide an update on the Missouri Highways and Transportation Commission's (MHTC) outstanding debt. Between December 2000 and December 2021, the MHTC borrowed \$4,079,520,000 through new money bonds and \$1,631,660,000 through refunding bonds. As of June 30, 2022, the amount of outstanding bonds is \$1,265,170,000.

RECOMMEND that the Commission:

- No action is required. This report is for informational purposes.

DEPARTMENT VIEW:

- Bond financing allowed the Missouri Department of Transportation (MoDOT) to provide much needed infrastructure improvements to the traveling public sooner than pay-as-you-go funding allowed. Building projects sooner results in cost savings by reducing project inflation costs, while at the same time advancing economic development, improving safety and easing congestion.
- The following major activities took place in fiscal year 2022 regarding the MHTC's debt portfolio:
 - Principal of \$232.5 million paid for scheduled debt service payments.
 - The Series A 2010 Tax Exempt Federal Reimbursement State Road Bonds were paid off.
 - The MHTC borrowed \$89.0 million in Series A 2021 bonds to fully fund the Focus on Bridges Program that was recommended by the Governor and supported by the General Assembly in the 2019 legislative session which made available \$351.0 million in funds to pay the estimated costs to plan, design, construct, reconstruct, rehabilitate and significantly repair 250 bridges on the State Highway System that were programmed in the Statewide Transportation Improvement Program for 2020 to 2024. The Focus on Bridges Program provided \$50 million of General Revenue in fiscal year 2020 to fund approximately 45 bridge projects. The remaining \$301 million is funded by bond proceeds with General Revenue Fund monies being made available for debt service payments over seven years. The Series A 2021 bonds have a True Interest Cost (TIC) of 0.495 percent.
- MoDOT staff will continue to work with the MHTC's financial advisor, Public Financial Management (PFM) which is comprised of Public Financial Management, Inc. and PFM Financial Advisors LLC, to monitor refinancing opportunities that provide cost savings to MoDOT, while falling within the guidelines established by the MHTC Debt Management Policy.
- Attachment 1 provides a summary of the bonds outstanding by series as of June 30, 2022.
- The MHTC has a five-lien structure in place: Senior Lien, Amendment 3 (First Lien, Second Lien and Third Lien) and Federal Reimbursement Lien (Grant Anticipation Revenue Vehicle (GARVEE) Bonds). Attachment 2 identifies the sources of revenue pledged to repay the debt under each lien.

- MoDOT’s fiscal year 2023 budget includes \$288.6 million for debt service on outstanding bonds. Attachment 3 provides projections of future debt service payments by year. The current outstanding bonds are projected to be paid in full on May 1, 2033.
- The Commission first approved its MHTC Debt Management Policy in May 2000, with the latest revision approved by the Commission in February 2019. The MHTC adopted a Debt Management Policy to ensure that each debt financing is completed in the most efficient and effective manner and in accordance with the best practices of the industry to achieve the Commission’s fiscal management goals and objectives. The Debt Management Policy limits the amount of debt the MHTC can borrow by capping annual debt service to no more than five (5) percent of the annual Total Road and Bridge Revenue, not including Amendment 3 revenues. New or additional funding sources, such as Amendment 3 or General Revenue Fund monies, may be designated for the exclusive purpose of covering debt service to advance construction projects and these may be considered beyond and apart from the percentage limit set forth above. Debt obligations include debt service on bonds and loan repayments to the State Infrastructure Bank (**SIB**); leases of one-year or longer; and repayments to local entities for accelerated program payments. The accelerated program is MoDOT’s reimbursement to other entities, usually local governments, for proceeds they provided to accelerate construction projects. Attachment 4 reports the MHTC’s estimated debt obligations compared to the estimated debt limitations, which are in compliance with the Debt Management Policy.
- Attachment 5 reports the call dates of the outstanding bonds. The next earliest call date is in 2024.
- MoDOT staff will continue to work with the Bond Trustee, BOK Financial, N.A., to ensure: (1) bondholders are paid on time, (2) certain financial and operational information is disclosed on an ongoing basis as required and (3) the MHTC stays in compliance with its Master Bond Indentures.

OTHER VIEWS:

- Credit rating agencies view MHTC’s Debt Management Policy and its conservative approach to using debt in a positive manner. The result is credit ratings assigned to the MHTC’s outstanding bonds ranging from “AAA” to “AA+” (see Attachment 2). The MHTC has \$433.1 million or 34 percent in outstanding bonds rated by at least one of the credit rating agencies as “AAA” or “Aaa,” which is the highest credit rating available.

MHTC POLICY:

- Financial – Debt Management – Debt Management Policy.

OTHER PERTINENT INFORMATION:

- During the 2000 legislative session, the Missouri General Assembly passed legislation authorizing the MHTC to borrow up to \$2.25 billion of bonds. The intent was to jumpstart road and bridge construction prior to passing a statewide tax increase for transportation. From December 2000 through November 2003, the MHTC borrowed a total of \$907.0 million for statewide construction projects through four bond series. The MHTC did not utilize the entire bonding authority after Proposition B, a proposal to increase the state motor fuel tax by four cents per gallon and the general sales tax by one-

half percent, was defeated by voters by a 3-to-1 margin in 2002. The funds borrowed under this authority are referred to as Senior Lien Bonds. A portion of these bonds were refunded in December 2006 and November 2010, resulting in savings of \$27.0 million and \$13.0 million, respectively. On two occasions the MHTC has authorized the calling of Senior Lien Bonds. First in December 2010 and again in December 2016. These bonds were called in February 2011, February 2017 and May 2017, resulting in savings of \$0.6 million, \$12.8 million and \$9.8 million, respectively. This lien is closed except for refunding and the final payment date for the Senior Lien Bonds is February 1, 2023.

- In November 2004, Amendment 3 was voter-approved as a constitutional amendment and redirected a portion of the statewide sales tax on motor vehicle purchases from the state's General Revenue Fund to a newly created State Road Bond Fund. The law mandated the redirected revenue be used to repay bonds until January 1, 2009. After January 1, 2009, the amount not needed for debt service or to maintain a reserve would require a General Assembly appropriation of the unused funds from the State Road Bond Fund to the State Road Fund, which would then be used on pay-as-you-go projects. Using the new revenue for bond repayment allowed the MHTC to deliver projects faster. The MHTC borrowed a total of \$2.2 billion through eight series of Amendment 3 Bonds. A significant decrease in the annual debt service payment occurs in fiscal year 2027 as a result of the First Lien Bonds being paid in full. The final payment date for the Amendment 3 Bonds is May 1, 2029. A portion of these bonds were refunded in June 2014 resulting in savings of \$123.0 million. The MHTC borrowed \$178.4 million in December 2019 and \$89.0 million in December 2021 in bonds for the Focus on Bridges Program. The Focus on Bridges Program constructs, reconstructs, rehabilitates or significantly repairs 250 bridges from around the state. These bonds were issued under the third lien of Amendment 3.
- From 2008 to 2010, three other major projects utilized debt financing: The New I-64 in St. Louis, the Safe and Sound Bridge Improvement Program and the Stan Musial Veterans Memorial Bridge in St. Louis. The MHTC used GARVEE Bonds, which is debt used to finance federal transportation improvements, to pay for all or a portion of the projects. The MHTC borrowed a total of \$927.7 million through five GARVEE Bond series. The final payment date for the GARVEE Bonds is May 1, 2033. A portion of these bonds were refunded in May 2019 resulting in savings of \$9.5 million.
- The MHTC borrowed funds using various types of bonds. The largest percentage was tax-exempt fixed rate debt (\$662.3 million outstanding). In 2009 and 2010, the MHTC utilized Build America Bonds (**BABs**), which are sold as fixed rate taxable bonds that receive an interest subsidy payment from the U.S. Treasury. The BABs utilized by the MHTC resulted in lower net interest rates when compared to the traditional tax-exempt bonds. The MHTC currently has \$602.9 million of BABs outstanding.
- Due to sequestration (spending cuts mandated under the 2011 federal budget resolution), the MHTC may not receive the full amount of the interest subsidy payments due from the federal government on the BABs. The interest subsidy payments were reduced by approximately \$0.7 million in fiscal year 2022, resulting in higher net debt service.
- Attachment 6 provides a list of the MHTC's top ten bondholders as of May 23, 2022. The top ten bondholders owned approximately 31 percent of the MHTC's outstanding debt at that time.
- The overall weighted average true interest cost for the bonds outstanding as of June 30,

2022 is 2.63 percent.

SOURCE OF FUNDING: Principal and interest on the bonds will be paid from revenues deposited into the State Road Fund and the State Road Bond Fund as defined in the Master Bond Indentures. In the case of BABs, the MHTC authorizes the federal government to send the interest subsidy payments directly to the Bond Trustee on behalf of the MHTC. For the Series B 2019 and Series A 2021 bonds, a transfer from the General Revenue Fund into the State Road Fund will be made annually to cover the debt service payments for the current fiscal year.

Missouri Highways and Transportation Commission
Bonds Outstanding as of June 30, 2022

<u>Lien</u>	<u>Series</u>	<u>Par Amount of Original Issuance</u>	<u>Bonds Outstanding (6/30/2022)</u>	<u>Principal Payment Due in FY 2023</u>	<u>Total Debt Service Due in FY 2023 ¹</u>
Senior Lien Bonds: (Principal & Interest in February and Interest in August)					
	2000 A	\$ 250,000,000	\$ 0	\$ 0	\$ 0
	2001 A	200,000,000	0	0	0
	2002 A	203,000,000	0	0	0
	2003 A	254,000,000	0	0	0
	Refunding 2006		0	0	0
	Refunding 2010 C		17,665,000	17,665,000	18,548,250
	Total Senior Lien Bonds	907,000,000	17,665,000	17,665,000	18,548,250
Amendment 3 Bonds: (Principal & Interest in May and Interest in November ²)					
1st Lien	2005 A	278,660,000	0	0	0
	2006 A	296,670,000	0	0	0
	2006 B	503,330,000	0	0	0
	Refunding 2014 A		385,655,000	86,795,000	106,027,750
		1,078,660,000	385,655,000	86,795,000	106,027,750
2nd Lien	2007 A	526,800,000	0	0	0
	Refunding 2014 B		29,805,000	22,430,000	23,857,650
		526,800,000	29,805,000	22,430,000	23,857,650
3rd Lien	2005 B	72,000,000	0	0	0
	2009 C	300,000,000	176,865,000	22,790,000	29,204,027 ³
	2019 B ²	178,370,000	107,075,000	19,335,000	24,205,375 ⁴
	2021 A ²	88,955,000	88,955,000	17,020,000	21,042,250 ⁴
		639,325,000	372,895,000	59,145,000	74,451,652
	Total Amendment 3 Bonds	2,244,785,000	788,355,000	168,370,000	204,337,052
GARVEE Bonds: (Principal & Interest in May and Interest in November)					
	2008 A	142,735,000	0	0	0
	2009 A	195,625,000	0	0	0
	2009 B	404,375,000	381,200,000	23,890,000	37,541,856 ³
	2010 A	128,865,000	0	0	0
	2010 B	56,135,000	44,845,000	14,480,000	15,958,793 ³
	Refunding 2019 A		33,105,000	10,500,000	12,155,250
	Total GARVEE Bonds	927,735,000	459,150,000	48,870,000	65,655,899
	Total of all Bonds	\$ 4,079,520,000	\$ 1,265,170,000	\$ 234,905,000	\$ 288,541,201

Notes: ¹ Does not include various annual trustee fees.

² Series B 2019 and Series A 2021 Bonds for the Focus on Bridges Program have principal & interest in November and interest in May.

³ Series 2009 B & C Bonds and Series 2010 B Bonds are Build America Bonds and the debt service is net of budgeted interest subsidy payments from the U.S. Treasury.

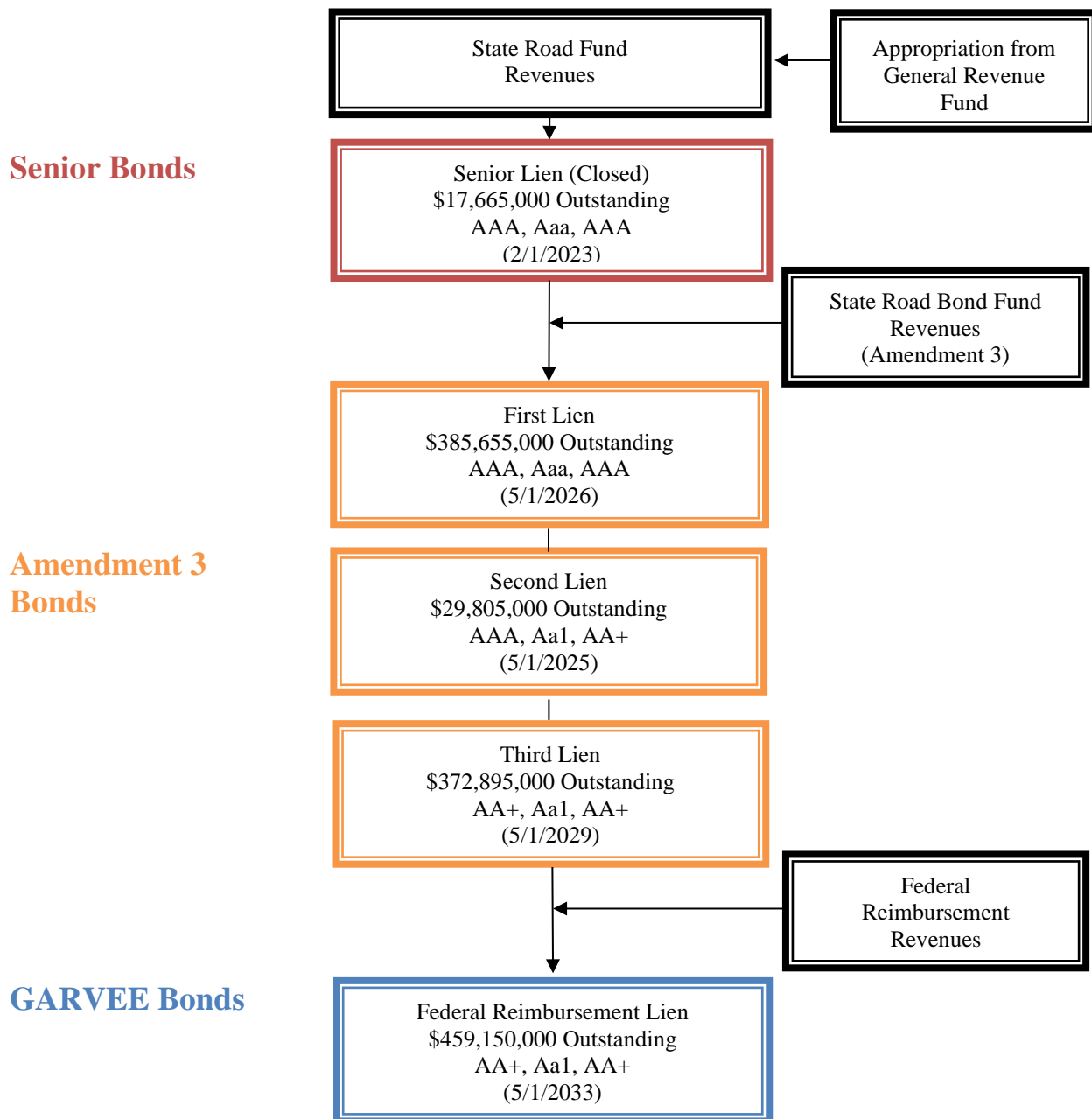
⁴ Debt service payment for the Focus on Bridges Program will be made from State Road Fund with funds transferred from the General Revenue Fund.

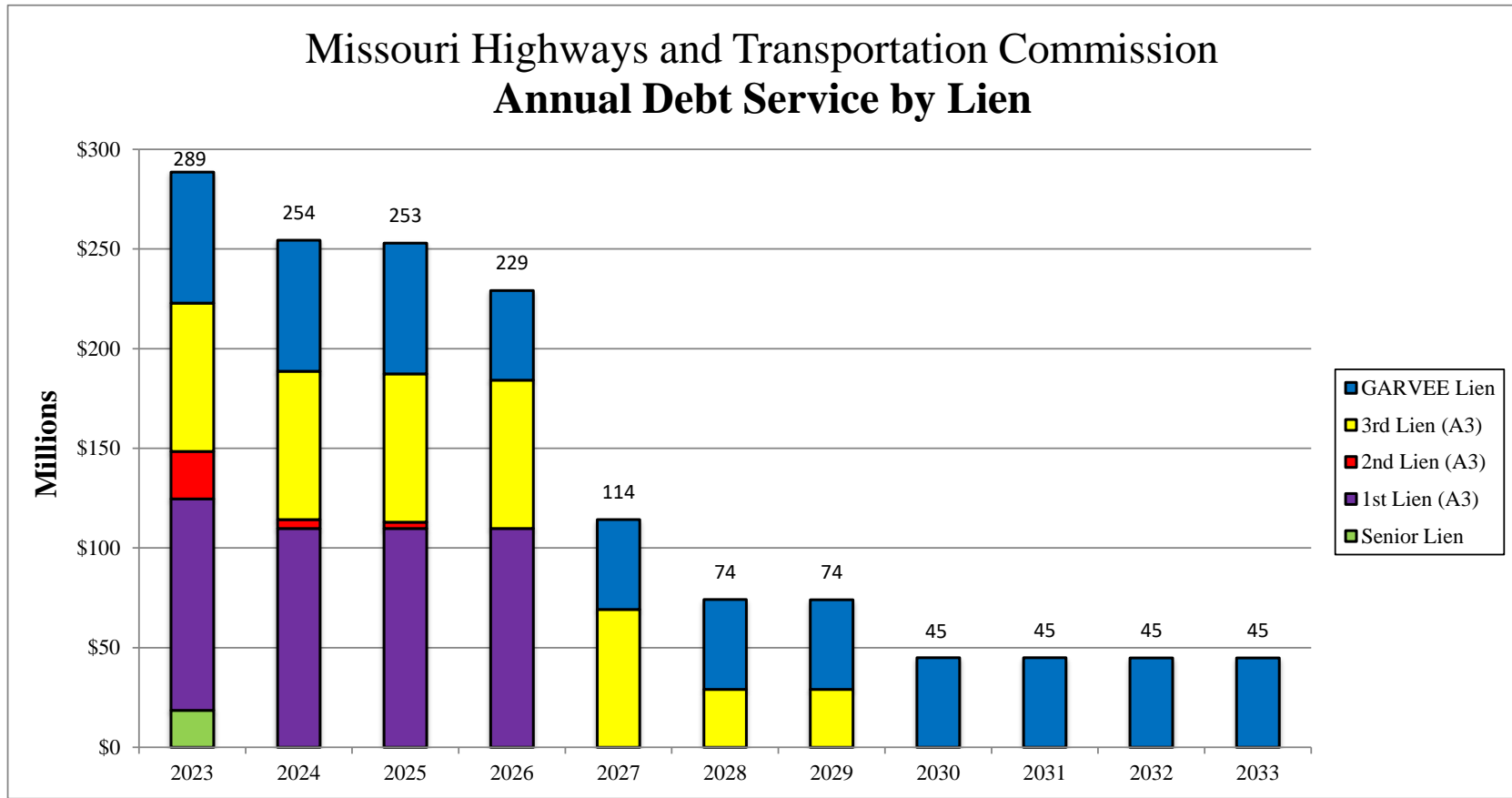
Missouri Highways and Transportation Commission

Lien Structure as of June 30, 2022

The Missouri Highways and Transportation Commission has three bonding programs that conservatively leverage state and federal revenues to expedite the completion of important transportation projects.

The flow chart reflects the pledged revenues, amount of debt outstanding, the credit ratings (Standard & Poor's, Moody's and Fitch) and the final payment date by lien.





Missouri Highways and Transportation Commission

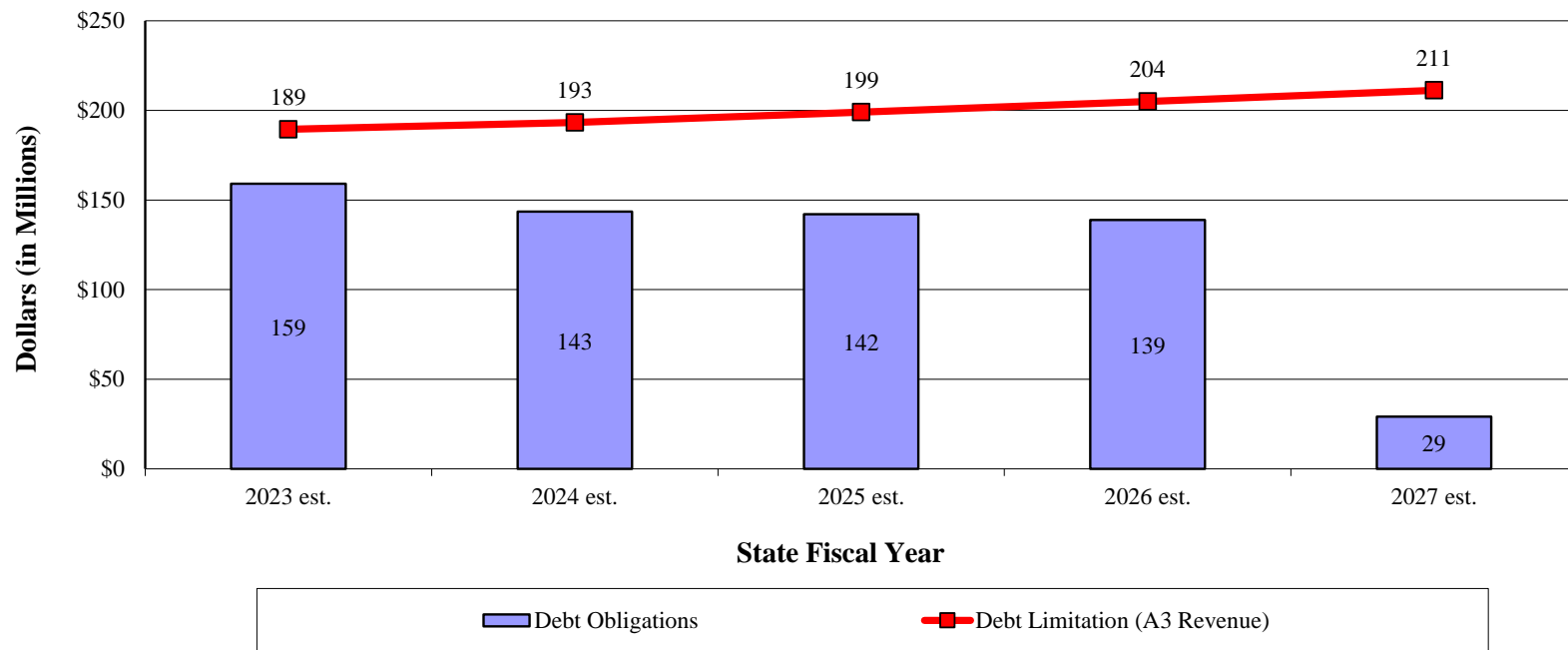
Annual Debt Service by Lien

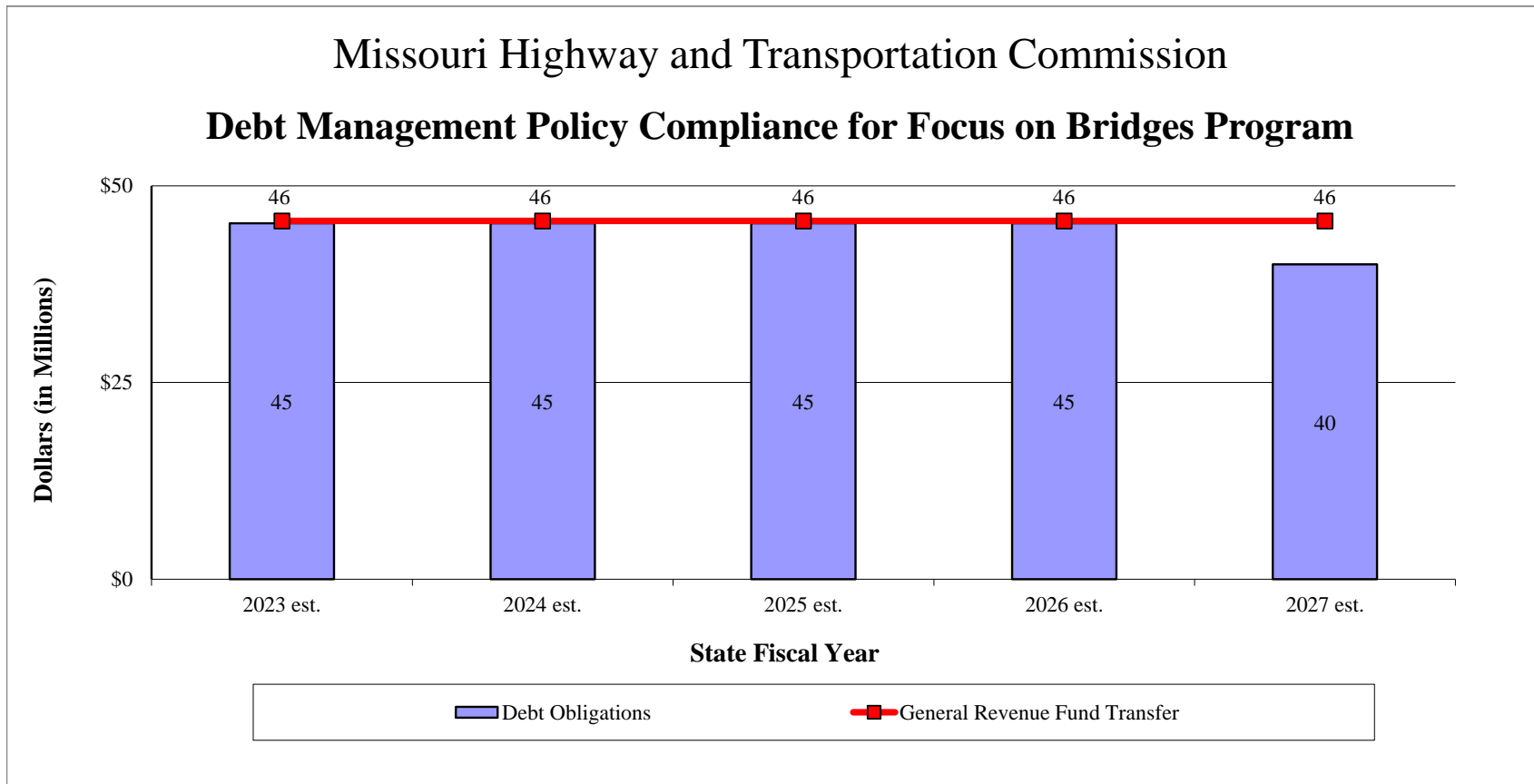
Fiscal Year	Senior Lien Bonds	(A3) 1st Lien Bonds	(A3) 2nd Lien Bonds	(A3) 3rd Lien Bonds ¹	(A3) Subtotal Bonds	GARVEE Lien Bonds ¹	Total Annual Debt Service Payment ²	Bonds Outstanding (June 30)
2023	18,548,250	106,027,750	23,857,650	74,451,652	204,337,052	65,655,900	288,541,202	1,030,265,000
2024		109,733,000	4,551,150	74,429,643	188,713,793	65,618,747	254,332,540	818,850,000
2025		109,737,250	3,223,900	74,406,891	187,368,041	65,584,176	252,952,217	599,260,000
2026		109,735,500		74,383,002	184,118,502	45,088,327	229,206,829	393,460,000
2027				69,162,011	69,162,011	45,039,650	114,201,661	293,265,000
2028				29,096,926	29,096,926	45,010,339	74,107,265	229,925,000
2029				29,072,238	29,072,238	44,975,430	74,047,668	164,300,000
2030						44,943,463	44,943,463	125,350,000
2031						44,907,615	44,907,615	85,015,000
2032						44,866,243	44,866,243	43,250,000
2033						44,827,707	44,827,707	0

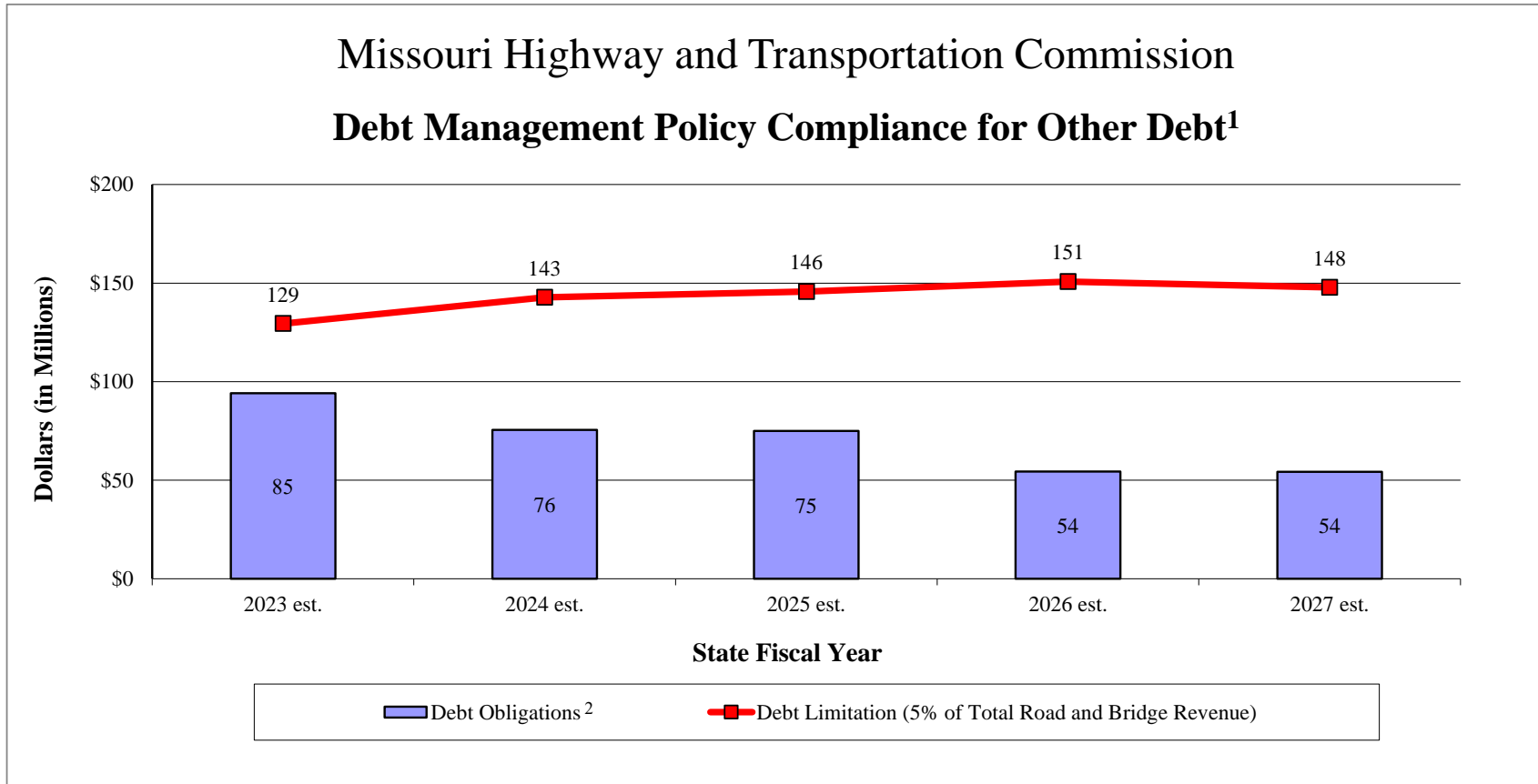
Notes: ¹ Series B & C 2009 Bonds and Series B 2010 Bonds are Build America Bonds and the debt service is net of budgeted receipt of interest subsidy payments from the U.S. Treasury.

² Does not include various annual trustee fees.

Missouri Highway and Transportation Commission Debt Management Policy Compliance for Amendment 3 Debt





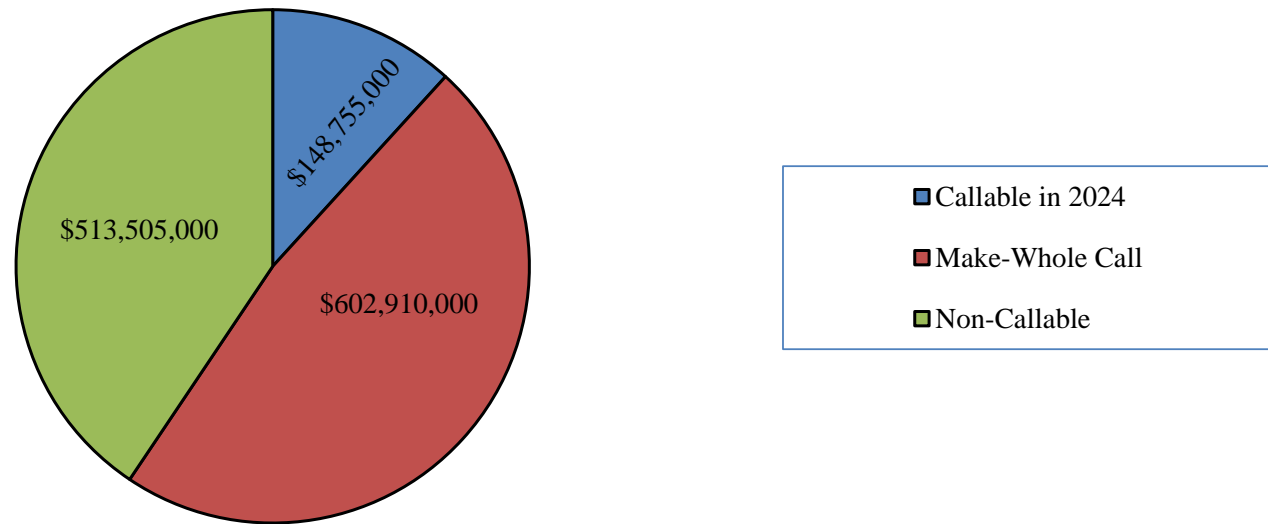


Notes: ¹ Other Debt excludes Amendment 3 and the Focus on Bridges Program.

² Debt Obligations include debt service on bonds; leases of one-year or longer; repayment to local entities for accelerated program payments; and the MTFC/SIB loan for the Rocheport Bridge INFRA grant project.

Missouri Highways and Transportation Commission

Call Dates on Outstanding Bonds as of June 30, 2022



Missouri Highways and Transportation Commission

Top 10 Bondholders

- Blackrock \$89 million
- The Vanguard Group, Inc. \$67 million
- Metropolitan Life Insurance Co. (MetLife) \$48 million
- Deutsche Bank AG \$34 million
- J.P. Morgan Chase & Co. \$31 million
- State Farm Mutual Auto Insurance \$30 million
- Northern Trust Corp. \$25 million
- Goldman Sachs Group Inc. \$23 million
- Prudential Financial Inc. \$22 million
- Wellington Management Group \$19 million

Source: Bloomberg as of May 23, 2022