

## **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 2019, the MHTC borrowed \$3,990,565,000 through new money bonds and \$1,631,660,000 through refunding bonds. As of June 30, 2021, the amount of outstanding bonds is \$1,408,715,000.

### **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.
- In fiscal year 2021, \$215.5 million of principal was paid off through scheduled debt service payments.
- 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, 2021.
- 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 2022 budget includes \$292.2 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 above. Debt obligations include debt service on bonds and loan repayments to the State Infrastructure Bank (SIB); lease

payments on vehicles, equipment and office buildings; 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. There were \$2.7 million in bonds un-called in fiscal year 2021, which remain callable until their maturity. The next earliest call date for bonds 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 \$559.0 million or 40 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 seven 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. In December 2019, MHTC borrowed \$178.4 million in bonds as part of the Focus on Bridges Program. The Focus on Bridges Program is to construct, reconstruct, rehabilitate or significantly repair 250 bridges from around the state. These bonds were issued under the third lien of Amendment 3. The remaining \$100.0 million in Focus on Bridges bonds are planned to be issued later in calendar year 2021.

- 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 (\$749.3 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 \$659.5 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 expected to be reduced by approximately \$0.7 million in fiscal year 2021, resulting in higher net debt service. However, due to COVID-19 and the IRS slowing down its processing of payments, the MHTC is still waiting on two of the three BABs subsidy payments from the November 1, 2020 debt service payment date. This results in approximately \$2.4 million in additional net debt service in fiscal year 2021.
- Attachment 6 provides a list of the MHTC's top ten bondholders as of May 28, 2021. The top ten bondholders owned approximately 28 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, 2021 is 2.71 percent.

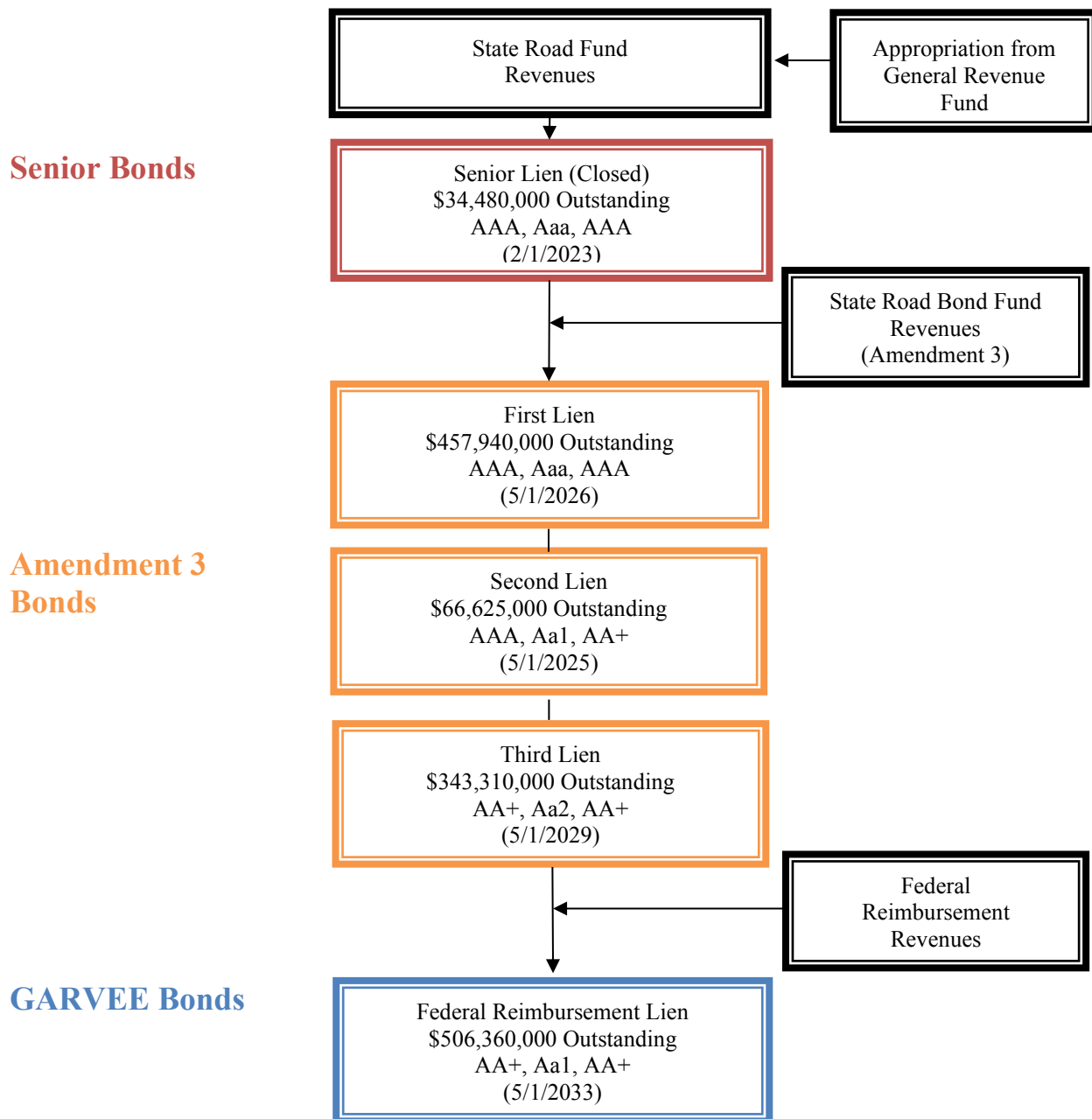
**SOURCE OF FUNDING:** Principal and interest on the bonds will be paid from revenues deposited into the State Road Fund and the State Road Bond Fund as defined in the Master Bond Indentures. In the case of BABs, the MHTC authorizes the federal government to send the interest subsidy payments directly to the Bond Trustee on behalf of the MHTC. For the Series B 2019 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.

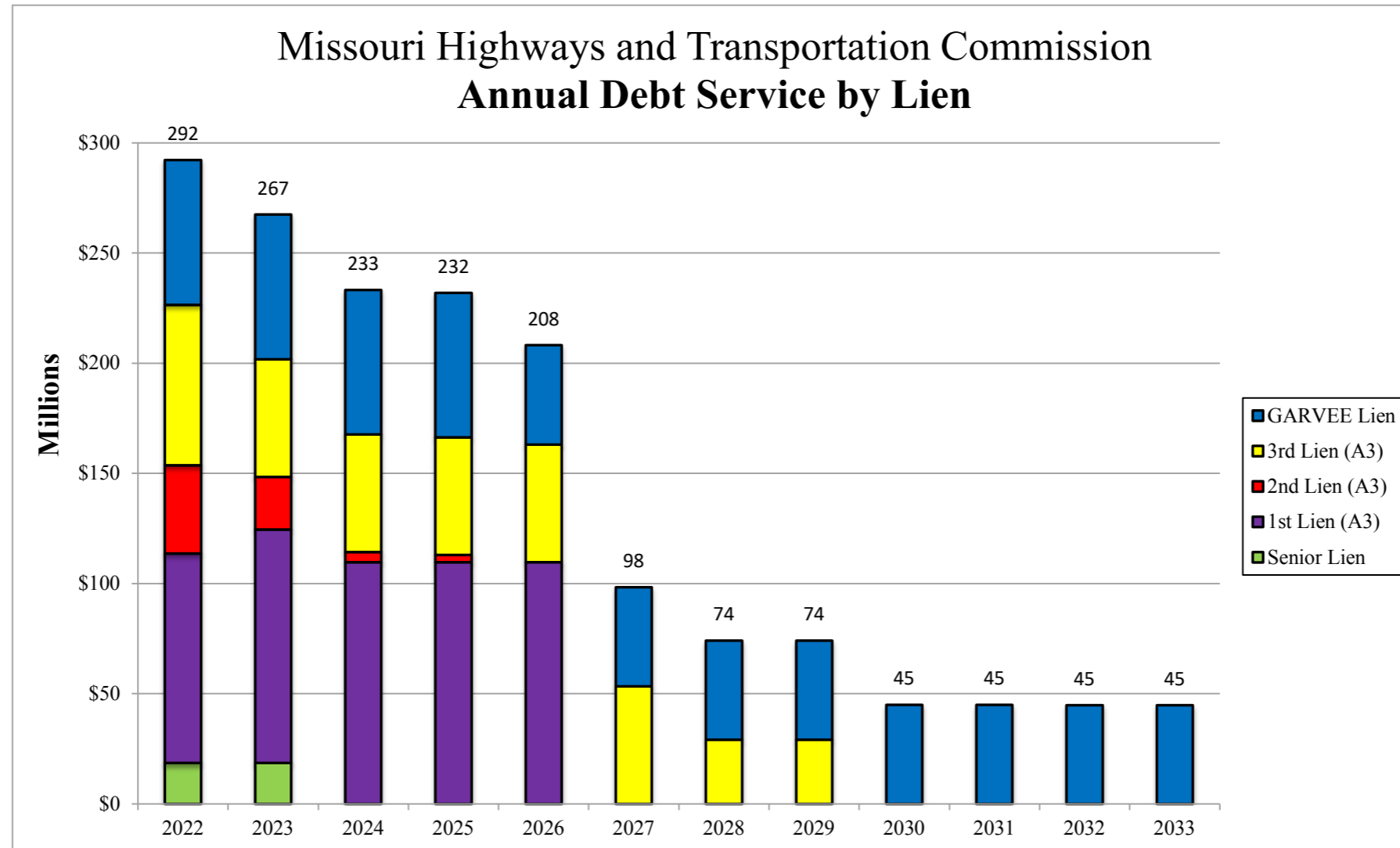
# Missouri Highways and Transportation Commission

## Lien Structure as of June 30, 2021

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

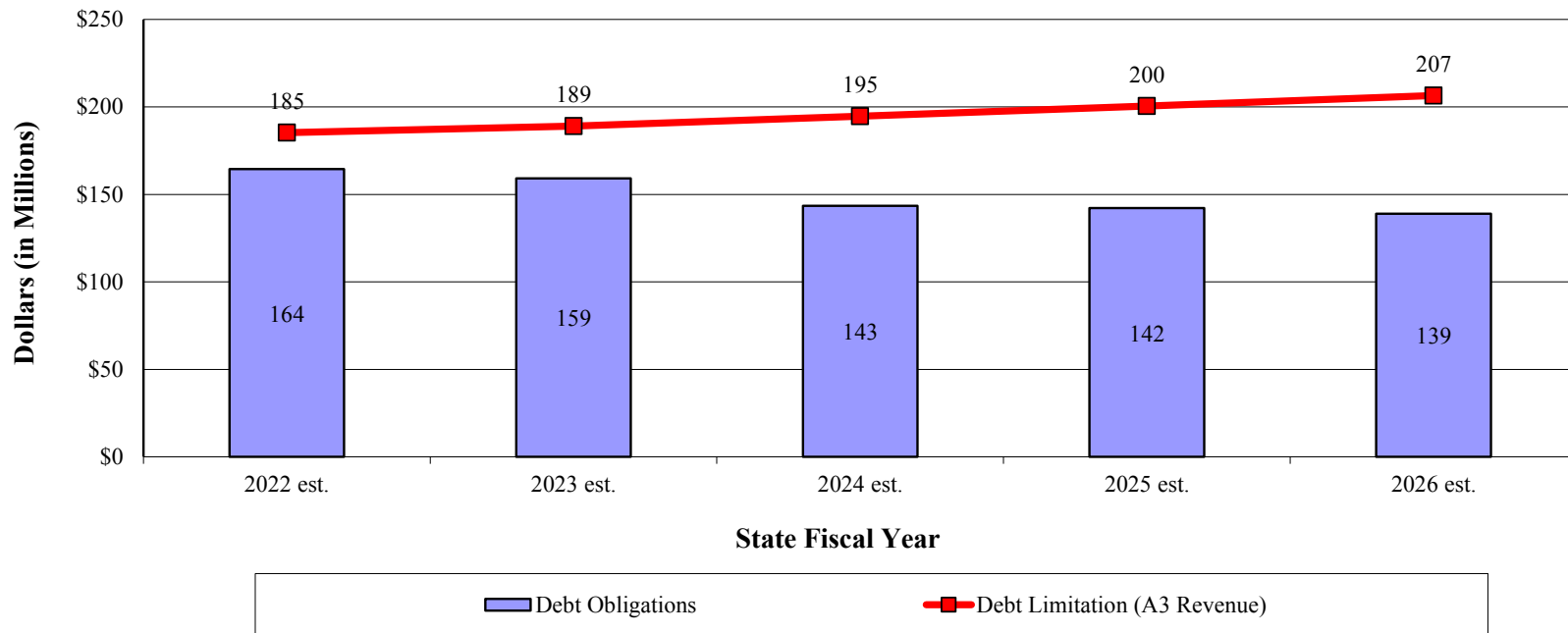
## Annual Debt Service by Lien

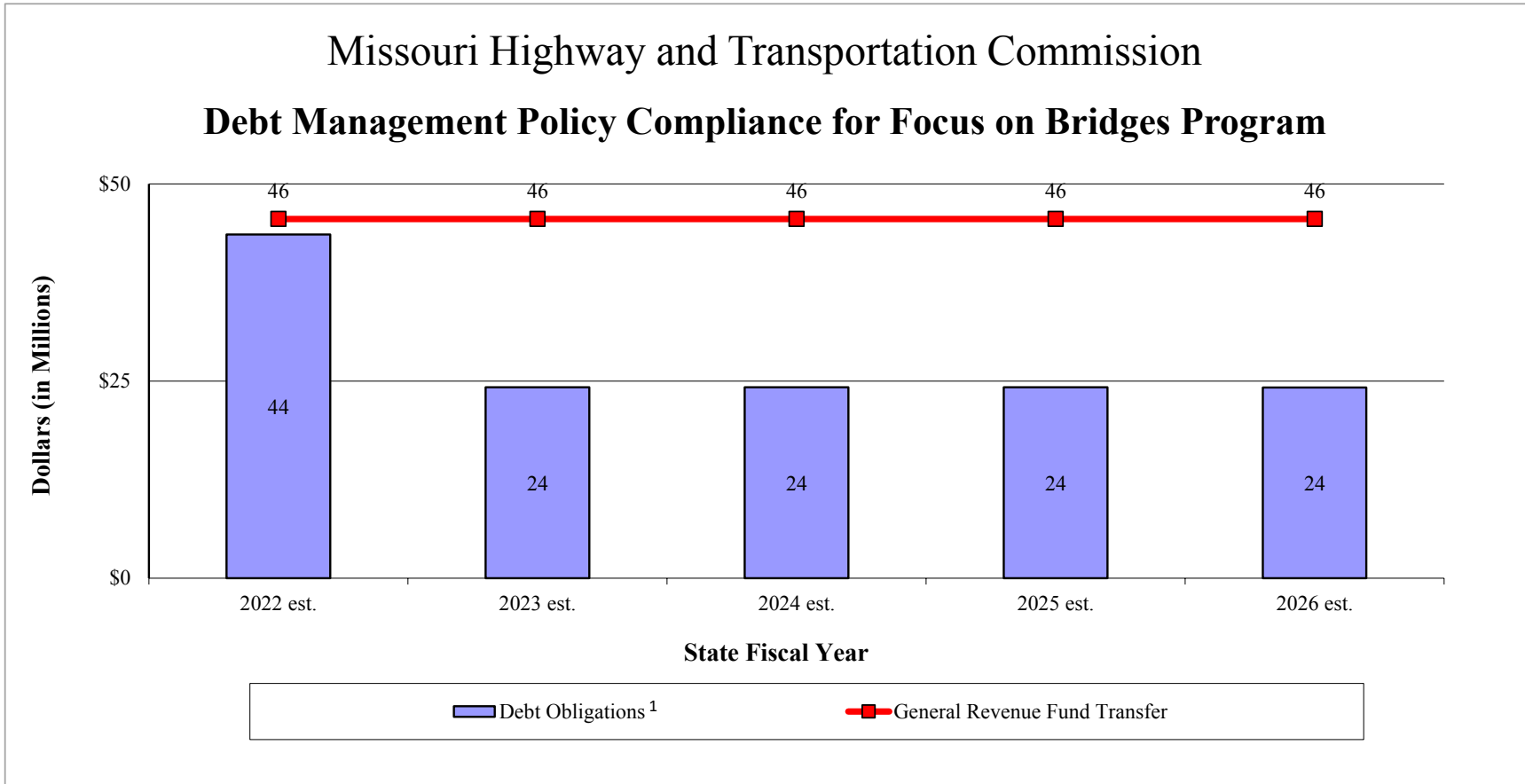
Fiscal Year	Senior Lien Bonds	(A3) 1st Lien Bonds	(A3) 2nd Lien Bonds	(A3) 3rd Lien Bonds <sup>1</sup>	(A3) Subtotal Bonds	GARVEE Lien Bonds <sup>1</sup>	Total Annual Debt Service Payment <sup>2</sup>	Bonds Outstanding (June 30)
2022	18,539,000	95,112,000	40,088,650	72,789,424	207,990,074	65,687,683	292,216,757	1,176,215,000
2023	18,548,250	106,027,750	23,857,650	53,409,402	183,294,802	65,655,900	267,498,952	958,330,000
2024		109,733,000	4,551,150	53,390,143	167,674,293	65,618,747	233,293,040	764,805,000
2025		109,737,250	3,223,900	53,369,766	166,330,916	65,584,176	231,915,092	564,020,000
2026		109,735,500		53,340,377	163,075,877	45,088,327	208,164,204	377,995,000
2027				53,310,386	53,310,386	45,039,650	98,350,036	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: <sup>1</sup> 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.

<sup>2</sup> Does not include various annual trustee fees.

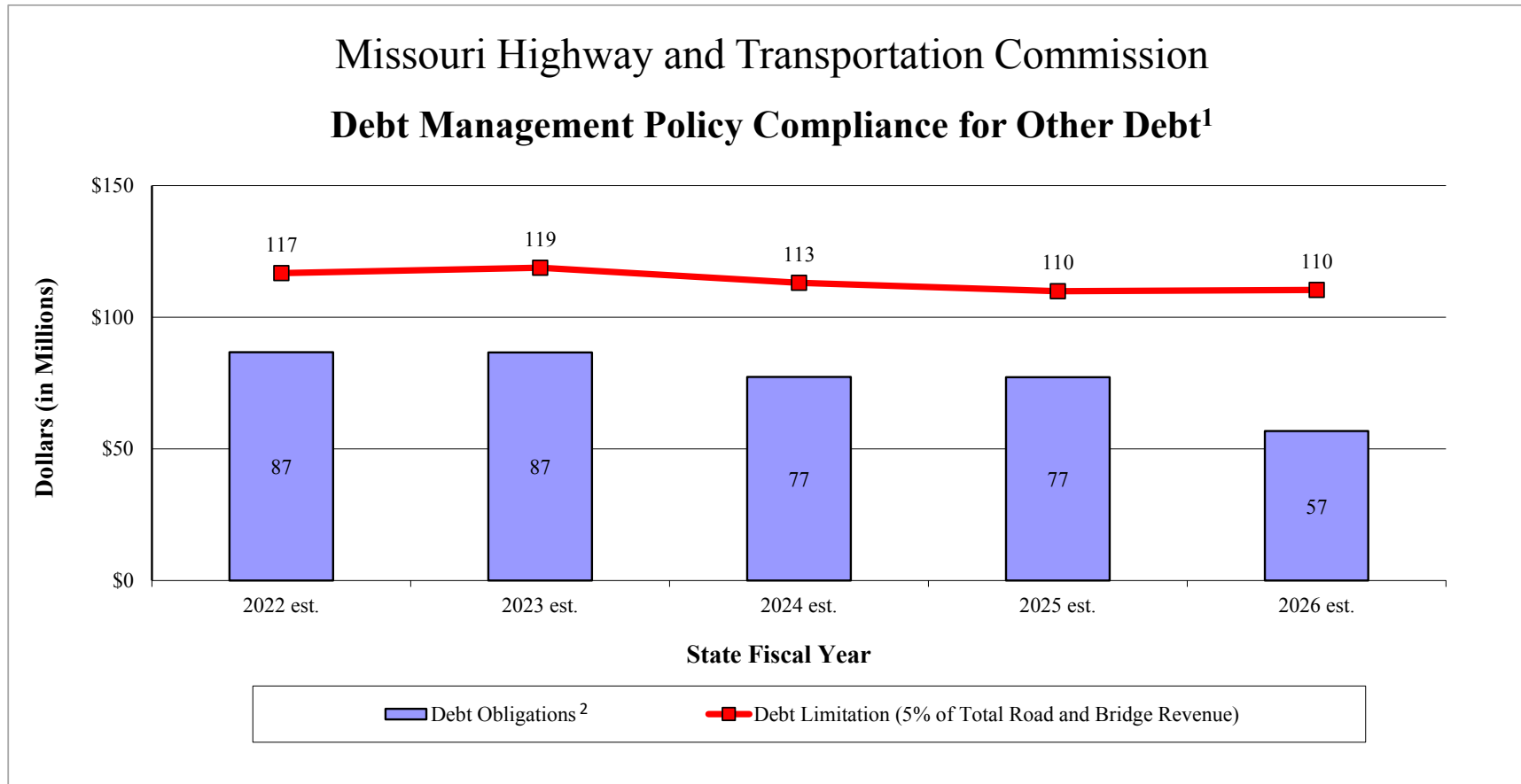
### Missouri Highway and Transportation Commission Debt Management Policy Compliance for Amendment 3 Debt





Note: <sup>1</sup> Includes first issuance and does not include second issuance planned for November 2021.



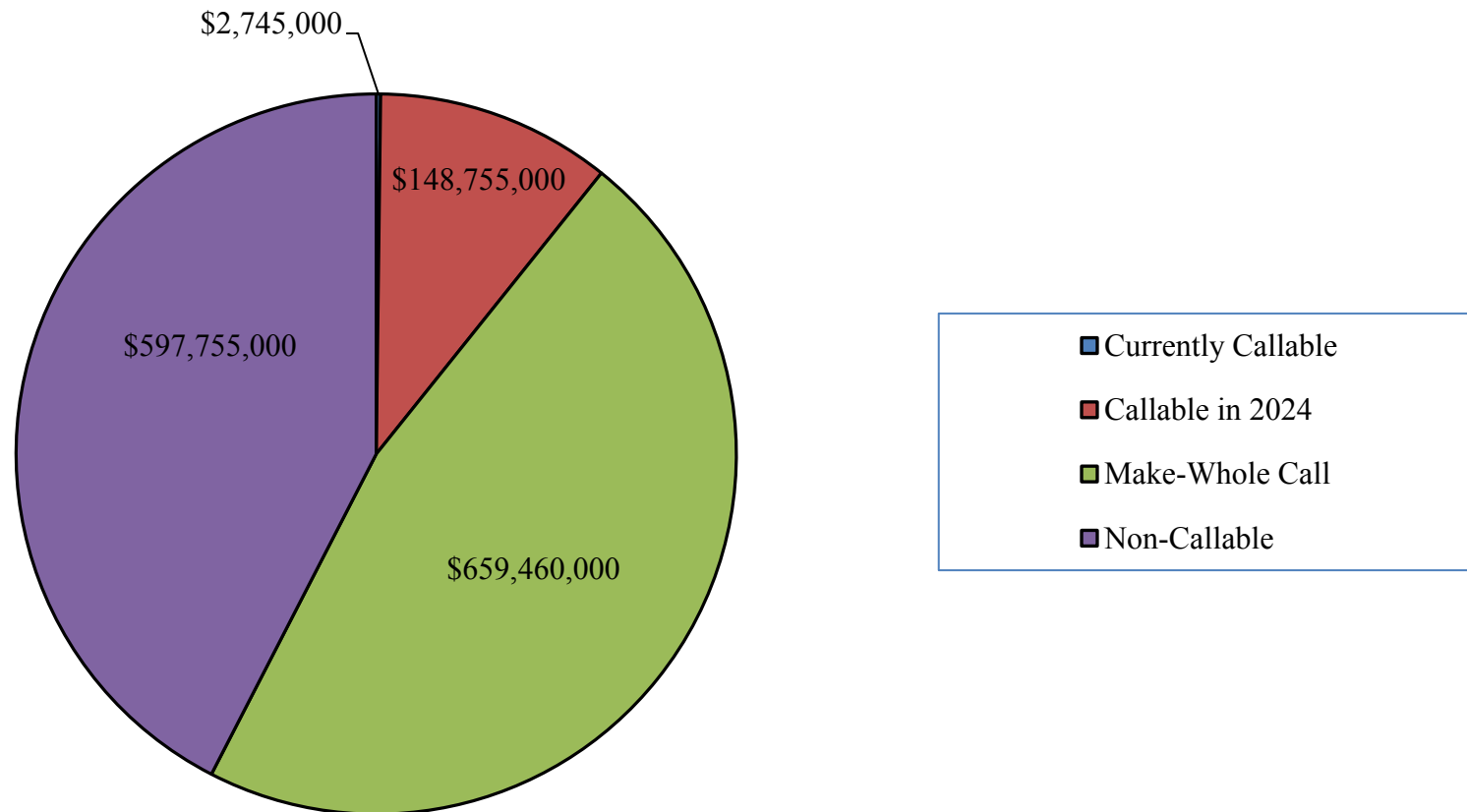


Notes: <sup>1</sup> Other Debt excludes Amendment 3 and the Focus on Bridges Program.

<sup>2</sup> Debt Obligations include debt service on bonds; lease payments on vehicles, equipment and office buildings; 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, 2021



# Missouri Highways and Transportation Commission

## Top 10 Bondholders

- Blackrock \$83 million
- The Vanguard Group, Inc. \$78 million
- Metropolitan Life Insurance Co. (MetLife) \$53 million
- J.P. Morgan Chase & Co. \$35 million
- Northern Trust Corp. \$33 million
- Goldman Sachs Group Inc. \$27 million
- State Farm Mutual Auto Insurance \$23 million
- Prudential Financial Inc. \$22 million
- Deutsche Bank AG \$21 million
- Bank of New York Mellon Corp. \$16 million

Source: Bloomberg as of May 28, 2021