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SMART Cuts Costs by Refinancing Construction Bonds

Petaluma, CA –Sonoma Marin Area Rail Transit (SMART) announced that it successfully sold $122.97 million in "Green Bonds" to refinance its outstanding debt related to the construction of the new transit system generating average annual savings in debt service of $3.47 million which will support operating costs going forward.

"This is a great result for SMART and for taxpayers," said Eric Lucan, Chair of the SMART Board of Directors. "Moving to take advantage of the historically low rates available and reduce our annual costs makes good fiscal sense and provides stability for the future."

SMART conducted a successful pricing of bonds in the market on Wednesday, October 21, 2020, and the transaction closed on Thursday, October 29th. The bonds were rated AA by Standard and Poor's and designated as "Green Bonds," which is a designation under the International Capital Markets Associations' (ICMA) Green Bond Principles (GBP). SMART's "Green" designation means that investors are choosing bonds that have previously financed environmentally beneficial projects.

"Our staff and team of experts saw a great opportunity for us and moved to make it happen," said Vice Chair Barbara Pahre. "The pandemic has challenged every aspect of public service, and we are so pleased to have a positive achievement for the public in the midst of this difficult environment."

The refinancing was completed on a taxable basis and allowed SMART to reduce its annual payments for the next nine years. SMART's prior debt payments escalated from $17.4 million in FY 2021 to $22.0 million in FY 2028, the year of maximum debt service. The new debt eliminates the escalation of payments after Fiscal Year 2026 and ensures that payments do not exceed what SMART would have paid in the current year. The cashflow savings start at $3.1 million in the current year and grow to $5 million in 2028. Overall savings adjusted for time (Net Present Value savings) are over $12 million. SMART's overall cost of debt (known as the "True Interest Cost" or TIC) was reduced to 1.72%. As a comparison, the older bonds carried a TIC of 3.31%.

"Investors have access to any financial product in the world, and they chose to invest in SMART," said Erin McGrath, Chief Financial Officer for SMART. "The outcome of the bond sale authorized by the Board is a significant accomplishment toward the future of SMART's stability and puts us on solid financial ground."

The bonds were primarily purchased by firms with managed retail investment accounts, with a smaller portion purchased by institutional accounts such as bond funds and insurance companies and a very small amount by individual retail investors. In total, 17 different accounts placed orders for SMART's bonds, and the orders from these investors totaled $199 million – approximately 1.6 times the size of the bond offering.

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