100 Montgomery Street
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February 2026

Memorandum

To: Sacramento Transportation Authority

From: PFM Financial Advisors LLC

RE: A Potential Bank Line of Credit to Support the I-Street Bridge Replacement Project

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INTRODUCTION

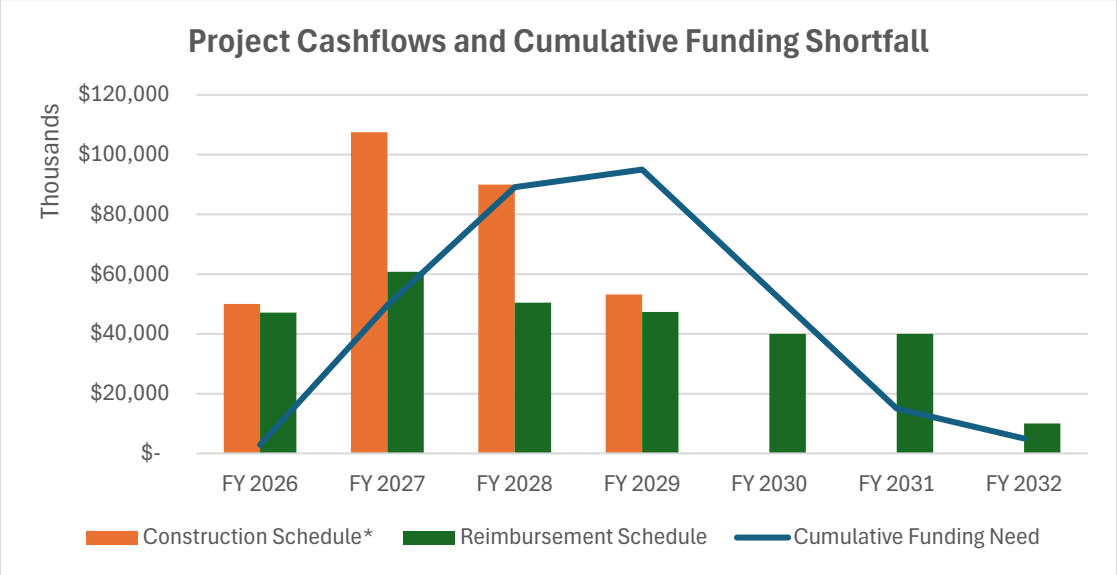
PFM Financial Advisors LLC ("PFM"), as the financial advisor to the Sacramento Transportation Authority ("STA"), has prepared this memorandum evaluating the potential feasibility and cost of implementing a bank line of credit, established by STA, to help support the construction of the I-Street Bridge Replacement Project (the "Project") which will be delivered by the City of Sacramento.

The I-Street Bridge Replacement Project has an estimated cost of approximately $300 million, with most construction costs occurring between FY 2026 and FY 2029. Note that STA's fiscal year (FY) is July 1 to June 30 for the purposes of the analysis. While state and federal grant funding will ultimately pay for construction costs, the reimbursement schedule for those grant funds extends beyond Project completion, creating a cash flow gap. One option to meet the mismatch in timing between costs and grant reimbursement is a bank revolving line of credit (LOC). The LOC would be used to fund project construction in the near-term, with future grant reimbursements used to repay the LOC balance.

In this memorandum we first identify the timing and amount of estimated cash shortfalls during the construction period. We then evaluate the use of a LOC to address these cash shortfalls and provide an estimated cost analysis of this product. Finally, we will assess potential financing risks the STA may face and provide a risk management framework to address them.

NEED FOR INTERIM FINANCING

The mismatch in the I-Street Bridge Replacement Project expenditures and grant fund reimbursements is expected to create cash shortfalls for Project delivery. Annual costs and reimbursements have been estimated for the Project to determine potential annual and cumulative funding shortfalls. This data is depicted below in the graph and summary table



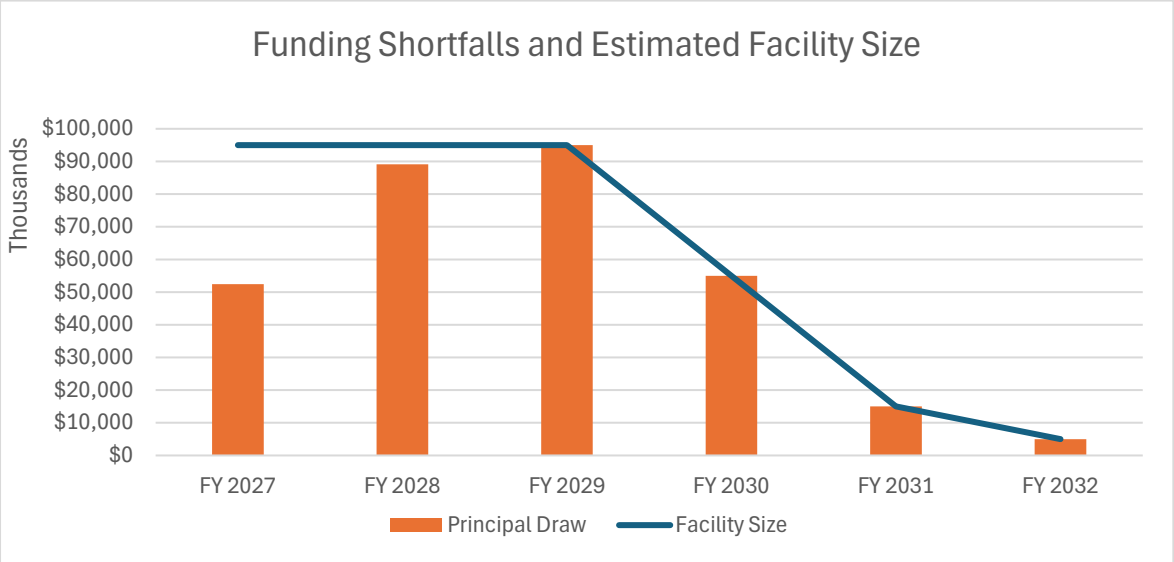
Based on currently forecasted cashflows, annual shortfalls begin in FY2026 and reach a peak cumulative shortfall of $95.0 million in FY2029 based on current funding estimates. Until formal bids are solicited and received, the peak draw requirement must be estimated by STA and could ultimately change from the numbers provided in this memorandum. As grant proceeds continue to come in on a reimbursement basis after Project completion, this cumulative shortfall declines rapidly, eventually reaching zero in FY2033.

Annual Funding Need (Thousands $)				
Fiscal Year	Construction Schedule	Reimbursement Schedule*	Annual Draw Need	Cumulative Funding Need
FY 2026	$ 50,000,000	$ 47,128,463	$ 2,871,537	$ 2,871,537
FY 2027	$ 107,500,000	$ 60,799,668	$ 46,700,332	$ 49,571,869
FY 2028	$ 90,000,000	$ 50,428,970	$ 39,571,030	$ 89,142,899
FY 2029	$ 53,200,000	$ 47,342,899	$ 5,857,101	$ 95,000,000
FY 2030	$ -	$ 40,000,000	$ -	$ 55,000,000
FY 2031	$ -	$ 40,000,000	$ -	$ 15,000,000
FY 2032	$ -	$ 10,000,000	$ -	$ 5,000,000
* Preliminary Estimate	**$300,700,000**	**$295,700,000**	**$95,000,000**	

These annual shortfalls represent the borrowing need to finance the Project through construction and until grant reimbursements are received. Given the front-loaded nature of the shortfalls and significant upfront construction costs, it would be advantageous to establish the LOC at the start of construction to meet the peak cumulative shortfall for the Project. Once established, the LOC may be drawn upon, as needed, and the size of the LOC could be reduced as grant funds are received.

REVOLVING LINE OF CREDIT (LOC)

A LOC agreement may be established with a commercial bank, which sets a not-to-exceed amount and a maximum term to the agreement. For example, STA could enter into a LOC agreement with a commercial bank for 3 years with a not to exceed amount equal to $95 million. Over that 3-year period, STA can draw down funds from the LOC on an as-needed basis. As grant proceeds are received, the line of credit may be immediately repaid and the full amount of the $95 million limit is reconstituted. Furthermore, as Project financing needs reduce with the receipt of grant funds, the LOC limit may be reduced in kind to save on unutilized fees. We present a potential LOC sizing and reduction schedule based upon the cumulative shortfall of the Project below. This can be adapted based upon actual costs and grant receipts over time.



Flexibility is a key attribute of a revolving LOC. STA may borrow, repay, and re-borrow as needed up to the full available balance in the maximum amount of $95 million: hence, the “revolving” nature of the LOC. This differs from bond or note proceeds where when those proceeds are borrowed and spent, the ability to repay those bonds is limited to the call date and additional proceeds may not be drawn again without initiating a new transaction.

FINANCING COST ESTIMATES

There is typically both a “utilized” and an “un-utilized” fee associated with a LOC. Based on recent market solicitations for LOCs, we estimate that an un-utilized fee would be approximately 0.35%. That is, the STA would pay 0.35% on the portion of the LOC that is not drawn or utilized. This is essentially a “capacity” fee charged by commercial banks that allows borrowers immediate access to liquidity with one to two days’ notice. There are also transaction costs associated with establishing the line of credit, which are estimated at approximately $350,000 for initial establishment, and $50,000 for each 3-year renewal. STA staff costs associated with the financing, due to its unique City of Sacramento benefit, will be charged to the Project’s share of Measure A CIP funds. They are anticipated to amount to approximately $30,000 for initial establishment and $15,000 a year for maintenance of the facility. All financing costs, establishment costs and renewal fees would be charged to the Project’s share of Measure A CIP funds.

When the STA draws on the LOC, it will likely pay an interest rate equal to 95% of the Secured Overnight Financing Rate (SOFR) plus an "applicable spread". We estimate the applicable spread equal to 0.50% (based on STA's current credit ratings). As of February 10, 2026, the total estimated interest rate on drawn amounts would equal 3.42%. Payment will come from the Project's share of Measure A CIP funds.

This rate will reset each month, based on where SOFR resets. Under current market conditions, short-term rates – including SOFR – are somewhat high when compared to a 5-year average of the index. It is possible that the Federal Open Markets Committee (FOMC) may decrease the Fed Funds rate in the future, which would decrease SOFR and related short-term rates, however PFM makes no judgement as to the likelihood of this event.

In order to approximate a potential "return to mean" for SOFR, we have also run a parallel analysis utilizing the 5-year average of SOFR plus the 0.50% applicable spread, resulting in an interest rate of 3.11%. These two rates provide a range of costs between the current market environment, as well as a potential reversion to the lower 5-year average. The STA's cost over the 3-year term would likely be somewhere in between these two rate benchmarks. A summary of utilized and un-utilized rate assumptions is presented below.

Rates

Utilized Rate	SOFR	80% of SOFR	Spread	Final Rate
Current Rates	3.65%	2.92%	50 bps	3.42%
5Y Average	3.26%	2.61%	50 bps	3.11%
Unutilized Rate	0.35%			

Based on monthly shortfalls and borrowing needs, we estimate the total borrowing costs (i.e., origination, utilized and unutilized fees) below for both the current interest rate conditions and interest rates based on the 5-year average. Under current rates, using a LOC draw schedule based on the annual shortfalls, total borrowing costs for the LOC through FY2032 totals $11.2 million. Using the 5-year average of SOFR, borrowing costs total $10.2 million. It is important to note that these costs are interest and fees, and do not include principal repayments. Principal is expected to be repaid with grant funds as they are received. These interest and fee costs are additional borrowing costs associated with the LOC and would be paid from the Project's share of Measure A CIP funds.

Current Rates

$ in thousands

Fiscal Year		Principal Draw	Facility Size	Total Interest and Fees
FY 2027	$	52,443,406	$95,000,000	$2,292,513
FY 2028	$	89,142,899	$95,000,000	$3,069,187
FY 2029	$	95,000,000	$95,000,000	$3,249,000
FY 2030	$	55,000,000	$55,000,000	$1,931,000
FY 2031	$	15,000,000	$15,000,000	$513,000
FY 2032	$	5,000,000	$5,000,000	$171,000
				$11,225,700

5Y Average

$ in thousands

Fiscal Year		Principal Draw	Facility Size	Total Interest and Fees
FY 2027	$	52,443,406	$95,000,000	$2,127,966
FY 2028	$	89,142,899	$95,000,000	$2,789,492
FY 2029	$	95,000,000	$95,000,000	$2,950,928
FY 2030	$	55,000,000	$55,000,000	$1,758,432
FY 2031	$	15,000,000	$15,000,000	$465,936
FY 2032	$	5,000,000	$5,000,000	$155,312
				$10,248,066

MANAGING RISK TO THE AUTHORITY

While future grant receipts funding the I-Street Bridge Replacement Project are expected to repay any draws on the potential line of credit, those grant receipts would not serve as a strong source of security to a bank lender. The specific timing of grant reimbursement is often not guaranteed, making it challenging to use those receipts as the sole source to repay loans. Instead, Measure A sales tax revenues could provide credit support as the pledge or security. STA's Measure A sales tax revenue bonds are currently rated "AAA" from Fitch and S&P – the highest possible rating for bonds. The very high credit strength of the Measure A sales tax revenues would help establish a line of credit at the lowest possible cost. That said, If STA provides credit support by pledging Measure A revenues, STA will be ultimately responsible for repaying any outstanding draws under a line of credit. Understanding and managing any risk under this structure is an important consideration for STA.

There are both interest costs as well as repayment of the principal amounts drawn under the line of credit that will be periodically due to the lending bank. As discussed above, interest costs and fees will vary based upon the prevailing interest rate. At current rates total costs are estimated to range between ~$200,000 to ~$3.3 million per fiscal year, from FY2027 through FY2032.

Grant reimbursements to STA are expected to pay 100% of principal draws on the LOC. However, as the party to the bank LOC agreement, STA is guaranteeing payment for 100% of principal and interest. One way to view and manage the potential risk to the Authority and the larger Measure A program is to ensure that forecasted Measure A revenue that will flow to the City of Sacramento through FY2039 is always sufficient to repay the outstanding principal and interest balance due under the LOC. Note that Measure A will sunset in 2039, requiring full repayment of this LOC before that year. If there is an interruption to grant funds, the City of Sacramento's portion of Measure A revenues could still repay the LOC, thereby protecting STA and the other member jurisdictions from any grant funding risk.

There are two categories of Measure A funding that will continue to flow to the City of Sacramento: (1) the City's CIP allocation, which can be used to pay interest and fee costs in addition to principal, and (2) the City's ongoing street & road, traffic & safety, and streetscaping allocations, which can be used only for principal repayment.

For this analysis, STA staff forecasted annual allocations for all categories of funding. We then compare for each future fiscal year, the remaining funding capacity through the life of Measure A (for both funding categories) to the total remaining LOC obligations. Total remaining LOC obligations in a specific year are defined as all current and future interest and fees plus the total principal balance outstanding under the LOC at that time. The total LOC balance would be paid down as remaining allocation becomes available. Under this capacity/risk analysis, the City has sufficient capacity remaining in each year to pay all remaining principal, interest and fees on the LOC in its entirety through FY2039. It may require an encumbrance of those remaining funds to repay the LOC over time, but there would be sufficient allocation to do so. If the STA and the City proceeded with this LOC structure, PFM and STA staff would likely update this capacity/risk to determine sufficient capacity on an annual basis and report to the Board annually.

We note this is an "extreme-case" risk analysis and assumes no grant funds are received for the Project over time – a highly unlikely scenario. However, this bookend risk analysis demonstrates that

the STA could pledge 100% of Measure A funds to support a bank LOC and still limit the risk of under that pledge to protect all other member jurisdictions. Specific terms and conditions would need to be defined under an inter-local or similar agreement between the City of Sacramento and STA, should both parties choose to proceed with this LOC structure.

CONCLUSION

Given the Project's current financing needs and funding mismatch, a bank LOC would provide a flexible solution. Large capital projects often carry uncertainty with respect to schedule and construction costs and the bank LOC is a financing tool designed to accommodate cost and schedule uncertainty. If cashflow needs reduce, the LOC may be drawn upon less, and vice-versa. As reimbursement grant proceeds come in, those draws may be repaid immediately.

While future grant receipts are expected to repay any draws on a line of credit, those grant receipts would not likely be the security or pledge for the lender. Measure A sales tax revenues could provide credit support as the pledge or security. If STA provides credit support by pledging Measure A revenues, it will be ultimately responsible for repaying any outstanding draws under a line of credit. To manage the associated risk, STA can look to the City of Sacramento's Measure A allocation to ensure the City allocation is sufficient to pay LOC costs, thereby protecting other member jurisdictions from grant funding risk.

As for potential impacts to STA's Senior Lien "AAA" ratings, STA would likely establish a line of credit program on a subordinate lien, paid after senior lien obligations. This will keep senior lien ratings unchanged, however it will require STA to work with Bond Counsel and its financing team to develop documents for subordinate lien obligations. An STA subordinate lien would likely be rated in the "AA" category. A bank line of credit would be viewed as a "financial obligation" of STA and STA would need to report that obligation to financial markets and account for that obligation within their program.