



November 17, 2025

Memorandum

To: SANDAG Board of Directors
From: PFM Financial Advisors LLC
RE: 2026 Refunding Opportunity

INTRODUCTION

PFM Financial Advisors LLC (“PFM”), as the financial advisor to SANDAG, works with SANDAG staff to monitor the debt portfolio and track the financial markets to identify refunding opportunities. SANDAG’s Series 2016A bonds are callable on April 1, 2026, at par and present a “current refunding” opportunity (refunding up to 90 days before the call date) for debt service savings. SANDAG has other bonds outstanding with call dates in the future that may be “advance refunded” (refunding more than 90 days in advance of the call date) to capture incremental savings. Specifically, we reviewed SANDAG’s two taxable bonds Series 2019A and Series 2021A. These bonds have a 10-year call date and may be refunded prior to their final maturity for additional potential debt service savings.

As of November 2025, the current refunding of Series 2016A is estimated to produce nearly \$40 million in present value (PV) savings. Advance refunding of select maturities for Series 2019A and Series 2021A can generate another estimated \$3.4 million in PV savings. Based on the market conditions over the summer, Series 2016A refunding savings ranged from \$22 million to \$40 million on account of rate volatility. The advance refunding savings have ranged from \$2.0 million to \$3.4 million.

This memorandum discusses current bond market conditions, SANDAG’s existing debt portfolio, the refunding analysis and recommendation and outlines the next steps for successful execution.

SANDAG’S OUTSTANDING DEBT OVERVIEW

SANDAG, serving as the San Diego County Regional Transportation Commission, has \$2.2 billion of outstanding long-term debt. It is comprised solely of fixed-rate bonds. A summary of the outstanding bonds is tabulated below.

Series	Lien	Tax Status	Coupon	Purpose	Original Par	Final Maturity	Outstanding Par	Call Date	Callable Par
2010A	Senior	Taxable	Fixed Rate	New Money	338,960,000	4/1/2048	338,960,000	Make-Whole	-
2016A	Senior	Tax-Exempt	Fixed Rate	New Money	325,000,000	4/1/2048	278,750,000	4/1/2026	272,020,000
2019A	Senior	Taxable	Fixed Rate	Refunding	442,620,000	4/1/2048	314,062,000	4/1/2030	314,062,000
2020A	Senior	Tax-Exempt	Fixed Rate	Multi-Purpose	74,820,000	4/1/2048	66,290,000	4/1/2030	55,495,000
2021A	Senior	Taxable	Fixed Rate	Refunding	149,840,000	4/1/2048	140,180,000	4/1/2031	84,800,000
2023A	Senior	Tax-Exempt	Fixed Rate	Refunding	433,355,000	4/1/2042	395,715,000	4/1/2033	178,840,000
2021B	Sub.	Tax-Exempt	Fixed Rate	Refunding	116,150,000	4/1/2039	116,150,000	4/1/2031	94,125,000
TIFIA*	Jr. Sub.	Taxable	Fixed Rate	New Money	537,484,439	10/1/2045	561,831,833	Anytime	561,831,833
Total							2,211,938,833		1,561,173,833

*Accrued as of 10/1/2025

Three Lien Structure. SANDAG has debt obligations on three separate lien levels, providing different priority of sales tax payment to investors based on their respective lien level. Senior lien obligations are



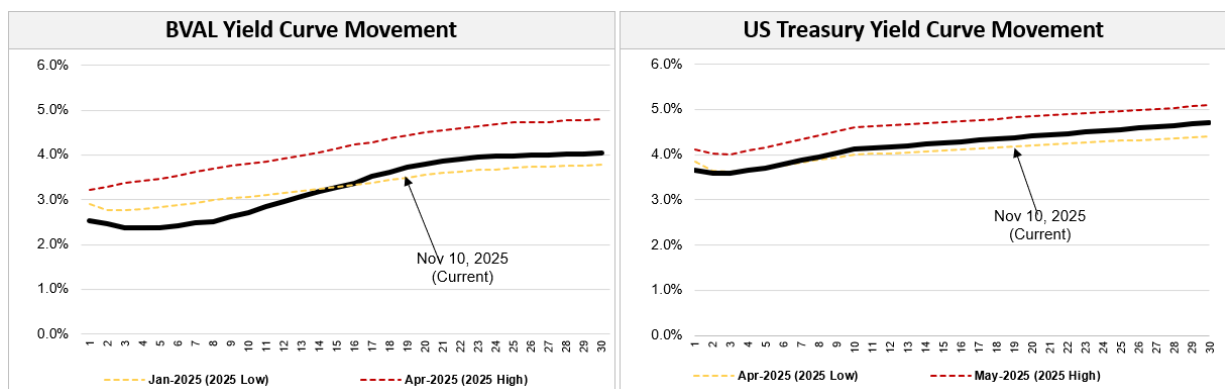
paid first, followed by subordinate lien obligations and then junior subordinate lien obligations (i.e., TIFIA loan). The TIFIA loan is repayable from a third lien that is subordinate to the senior lien bonds, the 2021B Bonds, and the commercial paper notes. This three-tiered lien structure has been developed by SANDAG to maximize program capacity, keep senior lien ratings as high as possible, and minimize borrowing costs.

Annual Debt Service. Excluding the TIFIA loan, SANDAG has a level debt service profile with senior lien annual debt service ranging from \$102.9 million to \$106.6 million per year through FY2048. The aggregate senior and subordinate lien debt service ranges from \$110.3 million to \$114.0 million. With the TIFIA loan, SANDAG’s aggregate debt service is ascending, with peak debt service of \$161.3 million in FY2045.

Debt Service Coverage. Senior lien debt service coverage, based on sales tax receipts of \$431.4 million for the 12 months ending September 30, 2025, is 4.05 times. Meaning, for every \$1 of senior lien debt service, SANDAG received \$4.05 of sales tax revenue providing ample coverage, supporting SANDAG senior lien triple-A ratings. Total coverage, when comparing the annual revenues for the 12 months ending September 30, 2025, to peak debt service in FY2045, is 2.56 times.

MARKET UPDATE

The Bloomberg Valuation Service's AAA yield curve (or the “BVAL AAA” yield curve is a widely accepted benchmark for tax-exempt municipal bond rates) has been very volatile over the course of 2025 but is experiencing a period of stability since September. The two charts below show the current AAA BVAL yield curve and the current US Treasury yield curve (benchmark of taxable municipal bond rates) in comparison to the lowest and highest rates this year. As seen in the chart, the BVAL AAA curve has seen reductions along the curve and is currently at year-to-date lows on the short end as the result of recent Fed cuts and the additional expected cuts. The long end of the BVAL AAA yield curve has also seen reductions, impacted by various headline news, most pertinently the softening labor market and until recently the government shutdown. While Treasury rates have also backed off from the 2025 peak, they have stayed in a narrow band throughout 2025. On the short end, both yield curves maintain slight inversion in reaction to a variety of market uncertainties reigniting fears of a recession. In general, market volatility has eased since September, largely due to the emergence of a firm consensus around the Fed’s future rate path and a pause in new economic data releases following the government shutdown. Overall rates remain attractive: the current 30-year BVAL AAA bond yield is 4.05%, which is 9 bps lower than its long-term average of 4.14%. Despite a record municipal issuance year, there has been sufficient demand to absorb the supply.





Tax-exempt Advance Refunding of Series 2019A and Series 2021A:

The IRS allows a tax-exempt current refunding of taxable bonds once the original escrow purchased with taxable proceeds has been fully retired (as one tax-exempt issuance can be outstanding at a time associated with the original tax-exempt asset). The taxable Series 2019A bonds refunded the tax-exempt Series 2012A bonds, callable April 1, 2022, and portion of the tax-exempt Series 2014A bonds, callable April 1, 2024. The taxable Series 2021A bonds advance refunded the remaining Series 2014A bonds. Since we are past the 2022 and 2024 call dates, SANDAG can advance refund the taxable Series 2019As and Series 2021As with tax-exempt debt.

The refunding escrow for such an advance refunding is typically invested to offset its carrying cost during the escrow period, but unlike a current refunding, the IRS limits the escrow yield at the borrowing rate, or more technically the arbitrage yield for the refunding bonds. But if the arbitrage yield of the transaction can be raised, the escrow can be invested up to that higher rate. The refunding of the Series 2016A bonds has a higher arbitrage yield. This provides an opportunity to combine the advance refunding of Series 2019A and Series 2021A bonds with the 2016A current refunding under a “common plan of finance” and *blend-up* the yield on the advance refunding piece.

Unlike a traditional refunding where savings are derived by replacing higher coupon debt with lower cost debt, savings here are generated through “positive carry” of the blended escrow investment rate over the standalone borrowing rate. Additionally, the prevailing interest rate environment supports this strategy as elevated short-term interest rates make it possible to achieve the high escrow yields essential to this strategy.

There is about \$314.1 million outstanding on the Series 2019A bonds and all of it is callable debt. There is about \$140.2 million outstanding on the Series 2021A bonds of which \$84.8 million is callable and the remaining \$55.4 million non-callable debt. A maturity-by-maturity analysis is performed to inform what portion of these bonds can be refunded. SANDAG should look at each individual maturity across both series of bonds and select those individual maturities that provide the most attractive candidates for savings in today’s market. For non-callable debt, any maturities with positive savings, however modest, should be refunded. For any callable maturities, SANDAG has the option to wait till the call date in 2030 and 2031 to execute a current refunding for a possibility of higher savings. However, the two series being considered carry relatively low coupon rates that have limited potential for refunding savings and are generally less attractive candidates. For that reason any callable bonds that presently produce savings higher than a hypothetical future current refunding assuming rates remain unchanged, should be advance refunded.

Two maturities for Series 2019A bonds and 10 maturities for the Series 2021A bonds totaling about \$115 million meet the refunding criteria and produce an additional PV savings of \$3.4 million or 3.1% of refunded par. SANDAG has the option to continue to monitor the refunding candidates for savings and make a decision closer to pricing in February.

RECOMMENDATION

Our recommendation is to refund all of the Series 2016A bonds at their call date to capture the strong estimated PV savings of nearly \$40 million. There is potential to capture some positive arbitrage (estimated \$300,000 based on current rates and schedules) by executing the refunding a little in advance of the call date.

A partial refunding of the Series 2019A bonds and Series 2021A bonds can provide some additional debt service savings. We recommend establishing clear and strategic refunding criteria in advance. The



criteria ought to be different for non-callable and callable maturities. The final decision on refunding candidates can be made at the time of pricing based on the criteria.

Non-callable maturities are typically never refunded and the blending of the yields as previously described is the only reason these maturities are producing a positive savings. These maturities should be refunded if there are any positive savings to be had.

As for the callable maturities, since these are low coupon bonds there is limited option value in waiting for the call date. Waiting could result in lower rates and improved savings but is offset by the risk of higher rates and lower savings. There is no way to predict future interest rates and no guarantee they will be lower than current rates. If SANDAG can achieve PV savings with an advance refunding that are in excess of a future current refunding assuming current rates, we recommend locking in the savings today instead of waiting.

Based on this criteria, we recommend refunding the 12 maturities totaling \$115 million (which may change depending on marketing conditions at the time of pricing) for a PV savings of \$3.4 million. This still leaves \$330 million outstanding between the two series which may be refunded in the future. PFM believes this targeted approach both optimizes savings within the current rate environment while retaining future optionality on a large portion of the bonds.

The rate environment and the coupling with the 2016A refunding provide this unique opportunity for tax-exempt advance refunding to realize debt service savings on Series 2019A and Series 2021A. Although savings may be modest, this strategy would allow SANDAG to pick up incremental savings that might not otherwise have ever been available.

NEXT STEPS FOR TRANSACTION EXECUTION

Team Selection: SANDAG has selected their underwriting team as well as their bond counsel and disclosure team through a competitive RFP process. SANDAG has also engaged a financial advisor to round out the team. All team members are engaged and working on the potential transaction.

Size and Structure: The proposed refunding will be executed to reduce debt service costs on existing bonds. The basic structure of the refunding bonds will be “matched” to the refunded bonds and result in uniformly lower annual debt service costs. The final maturity of the bonds will not be extended. The bonds will be issued as senior lien securities with a 10-year par call feature and will not be required to fund a debt service reserve fund. The financing team will continue to work with SANDAG as we approach pricing to evaluate any structural adjustments that would benefit SANDAG.

Rating Agency Strategy: SANDAG currently maintains senior lien long-term ratings of “AAA” from S&P and Fitch, and a rating of “Aa2” from Moody’s. SANDAG staff and the financing team will meet with S&P and Fitch to highlight SANDAG’s credit strengths to the rating analysts including the long-term strength and stability of San Diego’s regional economy, very strong debt service coverage, and the well-managed TransNet program. Ratings should be received in January.

Documents and Schedule: Staff and the financing team are preparing documents for the Board’s consideration at their January 23, 2026, Board meeting. With Board approval, documents will be distributed to potential investors with a sale date in February 2026. If there are adverse changes in the market, SANDAG preserves the ability to delay the bond sale and monitor conditions until they are favorable and support SANDAG’s objective with the refunding.