



# Memorandum

## AGENDA ITEM 9

**DATE:** June 20, 2024

**TO:** Transportation Authority Board

**FROM:** Cynthia Fong - Deputy Director for Finance and Administration

**SUBJECT:** 07/09/24 Board Meeting: Authorize Borrowing of up to \$65,000,000 under the Revolving Credit Agreement with U.S. Bank National Association; the Extension of Such Agreement for up to Six Months; the Execution and Delivery of Related Legal Documents; and the Taking of All Other Actions Necessary or Desirable in Connection Therewith

<p><b>RECOMMENDATION</b>   <input type="checkbox"/> Information   <input checked="" type="checkbox"/> Action</p> <ul style="list-style-type: none"> <li>• Authorize Borrowing of up to \$65,000,000 from the Revolving Credit Agreement with U.S. Bank National Association and an up to Six-Month Extension to Revolving Credit Agreement with U.S. Bank National Association</li> <li>• Authorize the Execution and Delivery of Related Legal Documents; and the Taking of All Other Actions Necessary or Desirable in Connection Therewith</li> </ul> <p><b>SUMMARY</b></p> <p>The purpose of this memo is to brief the Board on our debt management strategy for the sales tax program and to request authorization to borrow up to \$65,000,000, from our \$125,000,000 Revolver Credit Agreement (Revolver) with U.S. Bank National Association (U.S. Bank) and to extend the term of the Revolver for up to six months. We need to draw down these funds to meet the anticipated capital reimbursement requests for the sales tax program. The Revolver is a short-term variable rate financing method and is basically a loan directly from a commercial bank. As of June 20, 2024, \$125,000,000 was available to draw upon to fund upcoming sales tax capital expenditures. Through ongoing discussions with our sponsors (particularly San Francisco Municipal</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Fund Allocation</li> <li><input type="checkbox"/> Fund Programming</li> <li><input type="checkbox"/> Policy/Legislation</li> <li><input type="checkbox"/> Plan/Study</li> <li><input type="checkbox"/> Capital Project Oversight/Delivery</li> <li><input checked="" type="checkbox"/> Budget/Finance</li> <li><input type="checkbox"/> Contract/Agreement</li> <li><input type="checkbox"/> Other: _____</li> </ul>
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Transportation Agency (SFMTA)) and financial advisor, KNN Public Finance, we have conducted cash flow analyses and anticipate the need to borrow \$65 million over the next few months from the Revolver to meet our financial commitments. We have been tracking some of the largest sales tax projects and programs in terms of the amount of funds allocated and remaining to be reimbursed, most of which are in active construction phases or reaching other milestones that will trigger large sales tax reimbursement requests. Among the major cash driver projects are the purchase of new SFMTA Light Rail Vehicles, Motor Coaches, L-Taraval Transit Enhancements, Signals and Signs, Van Ness Bus Rapid Transit, Paratransit; TJPA's The Portal; and BART's next generation fare gates. Consistent with our debt management approach, we would use the Revolver to meet short-term cash needs, providing time for us to prepare to issue long-term debt (e.g., bonds) over the next few years, if needed.

## **BACKGROUND**

We receive revenues from the one-half of one percent sales tax which are dedicated toward financing transportation improvements in the voter approved sales tax Expenditure Plan (Prop L, approved in 2022, which superseded Prop K, approved in 2003). In Fiscal Year (FY) 2022/23 our sales tax revenues were \$111.5 million, and we projected FY 2023/24 sales tax revenue collections at \$106.2 million in FY 2023/24 and \$108.3 million in FY 2024/25. To fund transportation projects under the Expenditure Plans, we have historically relied on pay-go sales tax revenues and interim financing under the Revolving Credit Agreement Loan (Revolver) program to fund transportation projects under the Expenditure Plans. The Revolver is an alternative variable rate financing method to traditional commercial paper notes and is a loan directly from a commercial bank. From time to time, we have utilized available funding under our interim borrowing program to fund peak capital expenditures that could not be met with available sales tax revenues.

In 2017, we issued our first and only long-term bond issuance to date - the Senior Sales Tax Revenue Bond, Series 2017, which provided approximately \$200 million in bond proceeds for projects as well as repaying amounts previously drawn under a prior revolving credit agreement and paying related costs. Following the issuance of the 2017 Senior Bonds, we have had no further long-term or short-term borrowing needs. As of June 20, 2024, \$179,640,000 of the Senior Lien Bonds were outstanding



and we will pay approximately \$21.9 million of principal and interest payments through FY 2033/34.

## **DISCUSSION**

We anticipate drawing on the funding available under the Revolver as soon as August 2024 to meet the anticipated capital reimbursement requests for the sales tax program. Through ongoing discussions with our sponsors (particularly the San Francisco Municipal Transportation Agency or SFMTA) and analysis conducted with our financial advisor, KNN Public Finance, we have conducted the necessary cash flow review that confirms our budget assumption of needing to borrow \$65 million over the next few months from the Revolver. Further, if the pace of project delivery and reimbursements ramp up as anticipated, we may return to the Board for permission to drawdown more funds over the next 18 months.

This need to address a rapid peaking in reimbursement requests is precisely why we have a flexible debt instrument like the Revolver in place and it is why we have been closely tracking some of the largest projects (largest in terms of the amount of sales tax funds allocated and remaining to be reimbursed), most of which are in active construction phases or reaching other milestones that will trigger large sales tax reimbursement requests. Among the major cash driver projects for FYs 2023/24 and 2024/25 are the SFMTA's Light Rail Vehicles procurement, Motor Coaches procurement, Paratransit, L-Taraval Transit Enhancements, various signals and signs projects, and Van Ness Bus Rapid Transit; the Transbay Joint Powers Authority's The Portal/Caltrain Downtown Extension; and BART's Next Generation Fare Gates. Attachment 1 shows that in aggregate, if these projects were to seek the maximum reimbursement allowable per the grant agreement as amended, reimbursements could total up to an additional \$107.2 million just for these projects by the end of FY 2024/25. While we do not anticipate that this full amount is likely to be requested for reimbursement in FY2024/25, we are expecting to see a significant portion requested for reimbursement in the next six months, particularly since we are seeing more regular reimbursement requests for the SFMTA vehicle procurements.

We have begun to receive requests for third quarter reimbursements this month. Typically, capital reimbursements from sponsors ramp up over the course of the fiscal year, with the fourth quarter resulting in the highest level of capital reimbursements paid by our agency.



The Revolver expires in fall 2024 and therefore, we are in the process of procuring a replacement interim borrowing facility and anticipate bringing this item before the Community Advisory Committee (CAC) and Board in September and October 2024, respectively. Should staff need more time to finalize the replacement interim borrowing facility beyond the current Revolver stated expiration date of October 4, 2024, then the recommended authorization provides the authority for the Executive Director or Chief Deputy Director of our agency to extend the current Revolver under substantially the same terms for a period of up to six months. We expect to continue to utilize an interim borrowing program in tandem with pay-go sales tax revenues to meet our near-term transportation expenditure needs. Concurrently, we are working on a schedule that calls for our agency to be ready to potentially issue our second long-term bond within the next several years. The intrinsic flexibility of the Revolver, in combination with a long-term bond, supports our long-term financing plan to advance funds for projects to deliver the benefits sooner to the public, while minimizing financing costs. We will continue to monitor sales tax revenues and capital spending closely through a combination of cash flow needs for allocation reimbursements, progress reports, and conversations with project sponsors, particularly for our largest grant recipient, the SFMTA.

## **FINANCIAL IMPACT**

The proposed FY 2024/25 budget already incorporates the need to borrow \$65 million under the Revolver to help pay for anticipated capital project reimbursement requests. The amount borrowed under the Revolver is assumed to bear a rate of interest equal to the sum of Securities Industry and Financial Markets Association Index (SIFMA, a tax-exempt variable rate index) plus a fixed credit spread (subject to adjustment if our credit rating changes). As of June 18<sup>th</sup>, 2024, our cost of borrowing (interest rate) under the current Revolver facility is 3.78% and its cost of maintaining the facility on an unutilized basis is 0.20%. If we identify the need for additional borrowing from the Revolver, we would seek Board approval to do so and would reflect the additional amount in the mid-year Fiscal Year 2024/25 budget amendment as well as the budget for future fiscal years, as appropriate. The outstanding loan balance is required to be paid off or transferred to a replacement interim borrowing facility at the expiration date of the current Revolver, October 4, 2024, unless certain conditions are met. The interest rate on amounts not paid by October 4, 2024 would be substantially higher.



### **PUBLIC NOTICE – GOVERNMENT CODE, SECTION 5852.1**

The following information is made available in accordance with Government Code, Section 5852.1 to provide certain public disclosures related to the proposed borrowing. All figures represent good faith estimates based on the current U.S. Bank Revolver terms and assume i) a drawn facility up to the proposed amount of \$65 million, ii) a variable rate of interest based on the current U.S. Bank Revolver rate, iii) our current credit ratings, and iv) a borrowing term beginning in July 2024 and extending through the term of the current Revolver facility of October 4, 2024.

- 1)** True Interest Cost of the Revolver. Based on the current SIFMA variable rate index, a good faith estimate of the true interest cost of borrowing \$65,000,000 under the Revolver is 3.78%. The unutilized cost of the remaining \$60,000,000 undrawn on the Revolver is 0.20%. On a weighted average basis, the True Interest Cost of the Revolver is 1.49%.
- 2)** Finance Charge of the Revolver. The sum of all fees and charges paid to third parties (or costs associated with the issuance of the Bank Note), is \$5,250.
- 3)** Revolver Proceeds to be Received. The amount of proceeds expected to be received by the Transportation Authority for borrowings under the Revolver less the finance charge to third parties described in 2 above and any reserves or capitalized interest paid or funded with proceeds of the Revolver, is \$65,000,000. The finance charge to third parties described in #2 above is not expected to be paid from Revolver proceeds.
- 4)** Total Payment Amount. Assuming an aggregate principal amount of \$65,000,000 of borrowings under the Revolver and based on an assumed current variable rate of interest over the remaining term of the current Revolver, a good faith estimate of the total payment amount, which means the sum total of all payments the Transportation Authority will make to pay debt service on the Revolver plus the unutilized cost associated with the \$60,000,000 remaining undrawn amount, calculated to the term of the current Revolver, is \$470,500.

### **CAC POSITION**

The CAC will consider this item at its June 26, 2024 meeting.



## **SUPPLEMENTAL MATERIALS**

- Attachment 1 - Largest Cash Flow Drivers FY23/24 - FY 24/25

# ATTACHMENT 1

## Transportation Sales Tax Capital Expenditures - Largest Cash Flow Drivers FY 2023/24-FY 2024/25

	A	B	C	D	E	F	G
Name	Remaining Balance as of May 31, 2024 (Assumes Pending Invoices Paid)	Reimbursed from July 1, 2023 - May 31, 2024	Pending Invoices as of May 31, 2024	Reimbursed and Pending Invoices for FY 2023/24 as of May 31, 2024 (B + C)	Maximum Remaining Reimbursement Through FY 2024/25	Maximum FY23/24- FY24/25 Reimbursements (D + E)	Bond Eligible (for reference only)
Muni Light Rail Vehicles	\$18,680,174	\$56,066,415	\$22,885,490	\$78,951,905	\$18,680,174	\$97,632,079	Yes
Muni Motor Coaches	\$12,982,711	\$7,164,682	\$460,179	\$7,624,861	\$12,982,711	\$20,607,572	Yes
Paratransit	\$15,752,372	\$2,308,674	\$0	\$2,308,674	\$15,752,372	\$18,061,046	No
The Portal/Caltrain Downtown Extension	\$13,684,637	\$3,414,966	\$661	\$3,415,627	\$13,684,637	\$17,100,264	Not Recommended (design phase)
Signals and Signs	\$10,381,665	\$4,442,295	\$141,181	\$4,583,476	\$9,669,629	\$14,253,105	Yes
L-Taraval Transit Enhancements	\$12,473,256	\$0	\$2,822,107	\$2,822,107	\$10,855,513	\$13,677,620	Yes
Van Ness BRT	\$13,347,173	\$0	\$0	\$0	\$13,347,173	\$13,347,173	Yes
BART Fare Gates	\$12,234,736	\$0	\$290,264	\$290,264	\$12,234,736	\$12,525,000	Yes
<b>Totals</b>	<b>\$109,536,724</b>	<b>\$73,397,033</b>	<b>\$26,599,882</b>	<b>\$99,996,915</b>	<b>\$107,206,945</b>	<b>\$207,203,860</b>	

As of 5/31/2024