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Memorandum

Date: September 6, 2017

To: Transportation Authority Board

From: Cynthia Fong – Deputy Director for Finance and Administration

Subject: 09/12/17 Board Meeting: Authorization of the Issuance and Sale of Senior Limited Tax Bonds in an Amount Not to Exceed $255 million; the Execution and Delivery of Legal Documents Relating Thereto; and the Taking of All Other Actions Appropriate or Necessary in Connection Therewith

RECOMMENDATION ☐ **Information** ☒ **Action**

- Authorize the issuance and sale of Senior Limited Tax bonds in an amount not to exceed $255 million
- Approve the financing documents for the bond issuance
- Authorize the taking of appropriate action in connection with the bond and any related matters

SUMMARY

The purpose of this action is to authorize the issuance of fixed rate, tax-exempt sales tax revenue bonds in an aggregate principal amount not to exceed $255 million, at a maximum 12% annual interest rate, with a final maturity no later than March 31, 2034. This action would also approve the financing documents and authorize any actions in relation to the issuance of the bonds. As anticipated in the Prop K Strategic Plan, the bonds are needed to have sufficient cash on hand to meet the cash flow needs of the Prop K capital program.

☐ Fund Allocation
☐ Fund Programming
☐ Policy/Legislation
☐ Plan/Study
☐ Capital Project Oversight/Delivery
☒ Budget/Finance
☐ Contract/Agreement
☐ Other:

DISCUSSION

Background.

Pursuant to Sections 131109 and 131120 of the California Public Utilities Code and an ordinance (Prop K) approved by San Francisco voters in November 2003, the Transportation Authority is authorized to issue limited tax bonds or bond anticipation notes in a total aggregate amount not to exceed $1,880,000,000 secured by and payable from the proceeds of the sales tax levied by the Transportation Authority to finance transportation projects in the Prop K Expenditure Plan. The Transportation Authority's borrowing capacity is separate and distinct from that of the City and County of San Francisco.

Since 2004, the Transportation Authority has administered the Prop K program primarily on a pay-as-you go basis, with the use of short-term debt instruments to meet cash flow needs. Issuing debt facilitates delivery of projects and benefits to the public sooner than would be possible using pay-as-you-go funding.

Although the Strategic Plan previously anticipated the need for bond financing, our ability to use interim financing – initially through a $200 million commercial paper (CP) facility which was later converted into a $140 million revolving loan (Revolver) – has allowed us to more flexibly and cost effectively meet Prop K capital program needs. In April 2017, in order to meet the multi-year funding needs of large projects such as the San Francisco Municipal Transportation Agency's (SFMTA's) vehicle replacement and expansion program and those of other project sponsors, the Board authorized the drawdown of $46 million from the Revolver and we presented our plan to additionally seek authority to issue a long-term bond later this calendar year. As of August 31, the total outstanding balance of the Revolver is $139.6 million.

Consistent with our debt management plan, we will continue to pay down a portion of the outstanding Revolver balance (the remaining debt from our original CP program) through Fiscal Year (FY) 2020/21, and will convert the remaining $46 million r into a long-term bond as part of the proposed transaction.

At this time, we seek authorization to issue long-term debt (e.g. sales tax revenue bonds when they are truly needed and advantageous to the Transportation Authority) to accelerate delivery of the Prop K program, restore capacity in the Revolver to flexibly manage cash needs, and provide a hedge against potentially rising interest rate environment and associated financing costs.

Plan of Finance.

The purpose of this action is to authorize the issuance of senior lien fixed rate, tax-exempt sales tax revenue bonds (2017 Bonds) in an aggregate principal amount not to exceed $255 million, at a maximum 12% annual interest rate, with a final maturity no later than March 31, 2034 (the expiration of the Prop K tax based on the end date of the current expenditure plan). The Transportation Authority could sell the 2017 Bonds in one or more series at a time or times and in an amount and manner (competitive or negotiated sale) determined by the Transportation Authority. The proceeds of the bonds would be used to refinance the $46 million Revolver draw, freeing up Revolver capacity to retain flexibility in terms of quick access to cash at a variable interest rate. Approximately $200 million in bond proceeds would be used to finance anticipated new Prop K capital expenditures over the next three years, to pay costs of issuance and to fund capitalized interest on the bonds. The bonds would be repaid from the Prop K half-cent sales tax revenue collected by the Transportation Authority. The final term of the 2017 Bonds is expected to be in FY 2033/34, the last year of the Prop K Expenditure Plan. The proposed bonds will be issued with a lien on Prop K revenues that is senior to that of the Revolver.

Use of Proceeds.

We have been closely tracking the largest Prop K projects (in terms of the amount of Prop K funds allocated and remaining to be reimbursed), all of which are in active construction phases or reaching completion or other milestones that will trigger large Prop K reimbursement requests within the next 1-3 years. Among the major cash drivers are SFMTA's Radio Replacement project, associated Central Control and Communications projects, and the replacement of the motor coach, trolleybus and light-rail vehicle fleets. Attachment 1 lists out the bond-eligible program categories from the Prop K Expenditure Plan.

The adopted FY 2017/18 budget anticipates $106,530,189 in total Prop K sales tax revenues and $250,000,000 in Prop K capital expenditures. We expect a modest increase in sales tax revenues each year following FY 2017/18. Beginning with FY 2017/18 and over the next three years, projected capital expenditure reimbursements, as shown in Attachment 2, are expected to significantly exceed sales tax revenues collected. A parallel bond reimbursement resolution (agenda Item 8) expands bond-eligible expenditures to those incurred prior to bond issuance in order to provide additional administrative flexibility.

In summary, the bond proceeds would be used to:

A) Refund $46 million of the Transportation Authority's outstanding Revolver to restore the availability of interim financing availability for Prop K capital project expenditures;
B) Finance bond-eligible expenditures authorized in the Prop K Expenditure Plan;
C) Pay capitalized interest on the bonds; and
D) Pay issuance costs on the bonds.

This action would also approve the forms of the financing documents for the bond issuance and allow the Executive Director to complete and finalize the documents at the point of sale of the bonds. The draft documents included as Enclosures 1-6 are the:

- Preliminary Official Statement (POS), disclosure describing the bond terms and the Transportation Authority.
- Continuing Disclosure Certificate, which outlines the Transportation Authority's disclosure reporting requirements during the term of the bonds.
- Amended and Restated Indenture setting forth agreements between the Transportation Authority and U.S. Bank, National Association, as trustee (the "Trustee"), amending the existing indenture and providing for the issuance of debt (including the Revolver and the bonds) secured by and payable from the Prop K sales tax.
- Supplemental Indenture between the Transportation Authority and the Trustee setting forth the terms of the bonds.
- Official Notice of Sale, which notifies potential underwriters regarding the bidding parameters for a competitive bond sale.
- Bond Purchase Contract, which outlines the terms of the bond sale should the Transportation Authority elect to enter into a negotiated transaction.

If approved by the Board in September, the Transportation Authority management would then meet with rating agencies and anticipate completing the sale of up to $255 million in sales tax revenue bonds in October 2017.

FINANCIAL IMPACT

The requested 2017 Bonds, including approximately $200 million-new money for capital projects and the refinancing of $46 million of the Revolver, and the related debt service costs have been included in the adopted FY 2017/18 budget. The table on the following page shows the estimated sources and uses for the 2017 Bonds offering. As actual sources and uses will vary based on market conditions and final bond sizing at the time of pricing the 2017 Bonds, we are requesting a not-to-exceed issuance amount of $255 million.

Table 1	
Sources:	
Bond Proceeds Par Amount	$247,515,000
Net Premium	27,169,434
Total:	**$274,684,434**
Uses:	
Capital Projects Fund	$204,000,000
Revolver Refinancing	46,000,000
Capitalized Interest Fund	21,456,389
Cost of Issuance	3,228,045
Total:	**$274,684,434**

Annual debt service is estimated to be approximately $22 million, or a total of $342.8 million over the life of the bonds, which includes $247.5 million of principal and $95.3 million of interest expense an average coupon rate of 3.8%, though actual results will vary based on market conditions and interest rates secured by the Transportation Authority on the day of sale. If approved, this action would allow for up to $255 million in long-term bond obligations, while bringing the total outstanding Revolver balance down to $93 million. As noted above, the remaining Revolver balance will be gradually paid down annually with sales tax revenues by FY 2020/21.

CAC POSITION

The CAC will consider this item at its September 6, 2017 special meeting.

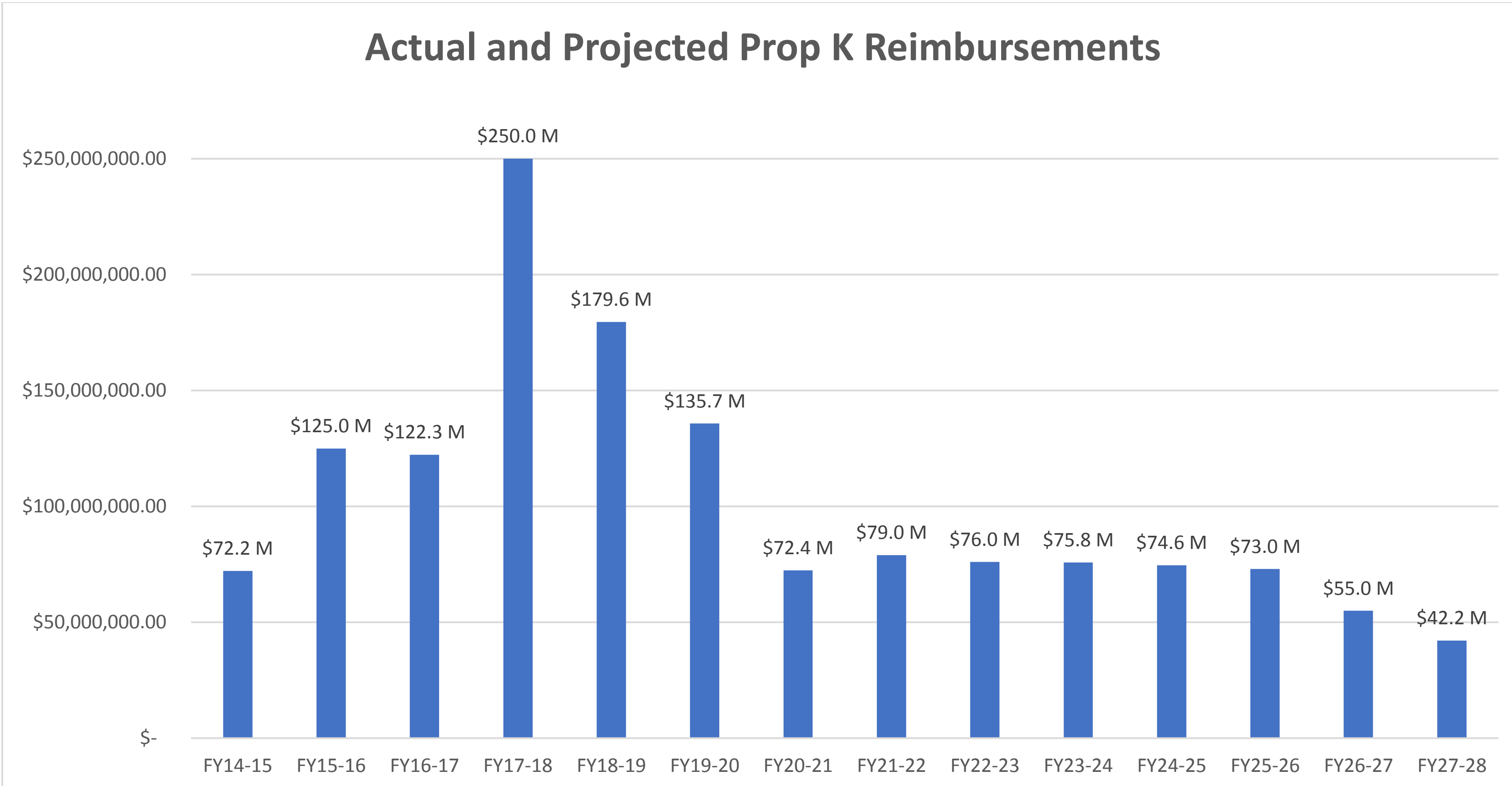
SUPPLEMENTAL MATERIALS

Attachment 1 – Prop K Bond Eligible Project Categories
Attachment 2 – Actual and Projected Prop K Reimbursements
Enclosure A – Form of Preliminary Official Statement
Enclosure B – Form of Continuing Disclosure Certificate
Enclosure C – Form of Amended and Restated Indenture
Enclosure D – Form of Supplemental Indenture
Enclosure E – Form of Official Notice of Sale
Enclosure F – Form of Bond Purchase Contract

Attachment 1

Prop K Bond Eligible Project Categories
BART State of Good Repair (vehicles, facilities, guideways)
BART Vehicles
Bicycle Safety/Circulation
Bus Rapid Transit - Curb and roadway improvements
Caltrain Communications Based Overlay Signal System (CBOSS)
Caltrain Electrification - Components (e.g. poles, substations)
Caltrain Electrification - Electric Multiple Units
Caltrain State of Good Repair (vehicles, facilities, guideways)
Central Control and Communications (C3)
Curb Ramps
Ferry Terminal
Muni Fixed Guideways (e.g. rail replacement, overhead catenary systems)
Muni Forward, including bulbouts and boarding islands (new and extended)
Muni Historic Streetcars
Muni Light Rail Vehicles
Muni Motor Coaches
Muni Trolley Coaches
Pedestrian Safety/Circulation
Radio Replacement
SFgo (e.g. interconnect and traffic signal controller technology)
Signals and Signs (new and upgraded)
Station Area Improvements
Street Improvements (e.g. streetscape)
Street Resurfacing
Traffic Calming
Transbay Transit Center
Transit Facilities (e.g. stations, maintenance facilities) and Facilities-Related Equipment (e.g escalators, faregates)
Underground Rail Extension

Attachment 2



Updated: August 31, 2017