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Memorandum

Date: March 21, 2018

To: Transportation Authority Board

From: Cynthia Fong – Deputy Director for Finance and Administration

Subject: 04/10/18 Board Meeting: Authorization for the Executive Director to Enter Into an up to $140 Million Revolving Credit Agreement with State Street Public Lending Corporation and U.S. Bank National Association

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

- Authorize the Executive Director:
  - Enter into an up to $140 million Revolving Credit Agreement with State Street Public Lending Corporation (State Street) and U.S. Bank National Association (U.S. Bank)
  - Enter into an Alternate Credit Facility if negotiations with State Street are not successful
  - Amend or enter into the associated legal documents
  - Take all necessary related actions
  - Negotiate payment terms and non-material terms and conditions

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

SUMMARY

In order to ensure we have sufficient funds in hand when needed to support delivery of the projects and programs in the Prop K sales tax Expenditure Plan, we plan to continue to utilize an interim borrowing program in combination with pay-go sales tax revenues and bond proceeds. The Transportation Authority's existing Revolving Credit Facility with State Street expires in June 2018. In advance of the expiration date, the Transportation Authority solicited financial institutions seeking up to $200 million of replacement credit facilities. We issued a Request for Proposals (RFP) in February 2017, and by the proposal due date, we had received proposals from four financial institutions. The review panel recommends that the Transportation Authority enter into a new Revolving Credit Agreement with State Street and U.S. Bank.

DISCUSSION

Background.

The Transportation Authority has historically relied on pay-go sales tax revenues and interim financing – initially through a $200 million commercial paper (CP) facility which was converted to a $140 million revolving loan (Revolving Credit Agreement) with State Street Bank – to fund the capital projects and programs included in the Prop K Expenditure Plan. We currently have $49 million in remaining capacity, out of a total $140 million, under the Revolving Credit Agreement with State Street.

In November 2017, the Transportation Authority issued its first sales tax revenues bonds: $248,250,000 Senior Lien Bonds, Series 2017. As part of the bond issuance, we prepared a Third Amended and Restated Indenture (Indenture) which created three tiers of debt: "Senior Lien Debt," "Parity Debt," and "Subordinate Obligations." The Transportation Authority's current Revolving Credit Agreement is considered Parity Debt under the Indenture. The replacement credit facility established through the subject RFP will also be Parity Debt under the Indenture.

Procurement Process.

On February 16, 2018, the Transportation Authority issued a RFP to various banks for up to $200 million of credit facilities for Direct-Pay Letter of Credit ("LOC"), Standby Bond Purchase Agreement ("SBPA") and/or alternative credit facilities such as a direct purchase or a revolving credit facility to support the Transportation Authority's interim borrowing program. While a pre-proposal conference was not held, proposers were able to submit questions to the Transportation Authority and receive responses by February 28. We advertised the RFP in both the San Francisco Chronicle and San Francisco Examiner.

By the due date of March 9, 2018, we received four proposals from financial institutions in response to the RFP, as shown in Attachment 1. The proposals included bank commitments to provide LOC and SBPAs as credit facilities to support a CP program and Revolving Credit Agreements as alternate new financing structures. Each bank offered the Transportation Authority a three-year to five-year commitment, terms and fees. See Attachment 1 for a summary of the credit facility pricing received from the four bank proposals.

Facility Type Analysis.

Traditional CP or Notes are a form of variable rate financing, which mature and become due every 270 days or less. The issuance of CP requires the support of a bank credit facility in two basic forms: (1) a direct-pay LOC or (2) a SBPA (sometimes called a liquidity facility). If the CP notes are not remarketed, then the commercial bank (not the remarketing agent) pays the maturing CP Notes through the LOC or SBPA. The primary difference between the LOC and SBPA is that the LOC provides liquidity in the event of a failed roll as well as a guarantee of principal and interest payments by the issuer while a SPBA provides only liquidity support in the event of a failed roll.

A tax-exempt Revolver is an alternative variable rate financing method to traditional CP notes and is a loan directly from a commercial bank. The value of the Revolver over the traditional CP Note structure is from both cost and administrative perspectives. The Revolver structure charges interest cost only on the drawn portion of the facility and a minimal commitment fee on the undrawn portion of the facility. Additionally, given the direct purchase structure, the Transportation Authority minimizes its transaction costs by eliminating costs associated with a public offering (offering document, ratings, etc.). Further, the Transportation Authority does not need to manage the ongoing remarketing of CP Notes, procure a remarketing agent, and pay remarketing agent fees.

Recommended Facility Type.

A review panel consisting of Transportation Authority staff evaluated the bank credit facility proposals based on responsiveness to the RFP, as well as qualifications and other criteria identified in the RFP, with an emphasis on proposers' fees, length of agreement, their credit ratings and various terms. Based on this competitive selection process and due to the need to address the expiring

Revolving Credit Agreement with State Street in June 2018, with concurrence from KNN Public Finance and Nixon Peabody LLP (the Transportation Authority's municipal advisors and bond counsel, respectively), the review panel recommends extending the current Revolving Credit Agreement with State Street under a new Revolving Credit Agreement with State Street and U.S. Bank. The banks have offered a combined commitment of $140 million, with $70 million from each bank, allowing them to offer the most cost-effective financing solution to the Transportation Authority.

Both State Street and U.S. Bank have provided bank credit support to a number of issuers in the San Francisco community. State Street provides SBPA support for the San Francisco Public Utilities Commission (SFPUC) and LOCs for the City and County of San Francisco, the San Francisco Municipal Transportation Agency, San Francisco International Airport, and the Moscone Center. U.S. Bank provides Revolver facilities to the City and County of San Francisco and the SFPUC.

Given the Transportation Authority's recent partnership with State Street, we do not foresee any challenges in the contract negotiations. However, the review panel recommends that, as a contingency if negotiations reach an impasse with the banks, the Executive Director should be authorized to secure an alternate credit facility from one or more of the other proposers.

Taking into account fees and terms proposed, trading differentials between banks, and the relative risks of the different alternatives presented, the review panel determined that the State Street/U.S. Bank Revolver is the most advantageous and cost effective to the Transportation Authority. As with the existing Revolver, the Transportation Authority will be entering into a loan agreement directly with the bank, eliminating the need to regularly remarket the CP Notes and procure a remarketing agent, which will reduce costs, complexity, administrative burden, and bank credit downgrade risk.

Attachment 2 is the RFP response containing the term sheet for the State Street/U.S. Bank Revolver. Information deemed proprietary and/or a trade secret for a financial institution has been redacted per California Government Code Section 6254.

FINANCIAL IMPACT

The proposed Fiscal Year 2018/19 budget already assumes fees for the Revolver. Based on the fees and interest rates proposed for a three-year agreement and assuming the Transportation Authority's current utilization under the Revolver. The all-in total cost is estimated to be $1,130,000 in year one and $1,085,000 in the subsequent years. Assuming a fully drawn Revolver facility at $140 million, the Transportation Authority's total annual cost in subsequent years is estimated to be $2,452,000.

CAC POSITION

The CAC will consider this item at its March 28, 2018 meeting.

SUPPLEMENTAL MATERIALS

Attachment 1 – Table of RFP Responses
Attachment 2 – State Street/U.S. Bank RFP Response (Term Sheet Included)

Attachment 1: Table of RFP Responses

Bank	Estimated All-in Cost of Debt in Basis Points[1] (3-year term / Current Utilization)	Estimated All-in Cost of Debt in Basis Points[2] (3-year term / Full Utilization)	Type of Facility in the Amount of $140,000,000	Credit Ratings (Moody's / Standard & Poor's/Fitch)	Credit Worthiness
Current: State Street Revolver[3] (Expires June 2018)	*79.3*	*180.2*	*Revolver*	*Aa1/AA-/AA*	Very Strong
Barclays Bank PLC	83.5	159.5	SBPA	A1 (neg) / A / A	Strong
JP Morgan Chase Bank, N.A	79.9	154.0	SBPA	Aa3 / A+ / AA-	Very Strong
JP Morgan Chase Bank, N.A	111.8	245.2	Revolver	Aa3 / A+ / AA-	Very Strong
State Street Public Lending Corporation / U.S Bank National Association	76.4	150.5	SBPA	Aa1 / AA- / AA Aa2 (neg) / AA- / AA-	Very Strong
State Street Public Lending Corporation / U.S Bank National Association	77.6	175.2	Revolver	Aa1 / AA- / AA Aa2 (neg) / AA- / AA-	Very Strong
Sumitomo Mitsui Banking Corp.	76.0	152.0	LOC	A1 / A / A	Strong

[1] Estimated All-In Cost of Debt is based on the RFP proposal responses (bank fees and upfront fees) and estimated interest rates based on short-term interest rates as of February 28, 2018. All-In Cost of Debt changes with changing interest rates, market conditions and credit. Assumes the Transportation Authority's current interim borrowing utilization - $49 million outstanding; $91 million unutilized.
[2] Estimated All-In Cost of Debt is based on the RFP proposal responses (bank fees and upfront fees) and estimated interest rates based on short-term interest rates as of February 28, 2018. All-In Cost of Debt changes with changing interest rates, market conditions and credit. Assumes full utilization of the interim borrowing program at $140 million.
[3] All-in cost of current Revolver including the application of the State Street Margin Rate Factor – 1.2154 multiplier.

San Francisco County Transportation Authority

Proposal to Provide Revolving Credit Agreement

Indicative Terms and Conditions — March 21, 2018

Borrower: San Francisco County Transportation Authority ("SFCTA," the "Authority" or the "Borrower").

Debt Issue: A Revolving Credit Agreement among the Borrower, State Street, individually and as Administrative Agent (the "Agent") and U.S. Bank (the "RCA") pursuant to which the Banks will make tax-exempt Loans to the Borrower (the "Loans").

Security: The Loans and the obligations owed to the Banks under the Facility are secured as Parity Debt under the Indenture by Sales Tax Revenues to be received from the collection of a one-half of one percent (1/2%) retail transactions and use tax imposed in the City and County of San Francisco.

Facility: RCA providing interim financing on a tax-exempt basis.

Facility Documents: Documentation will include the RCA and such other documents, instruments, certificates, and agreements executed and/or delivered by the Borrower in connection with the Facility as reasonably determined by the Banks (collectively, the "Facility Documents").

Banks: State Street Bank and Trust Company's wholly-owned subsidiary State Street Public Lending Corporation ("State Street") and U.S. Bank National Association ("U.S. Bank" and together with State Street, individually referred to herein as a "Bank" and collectively as the "Banks").

1. Credit Rating

	Moody's	S&P	Fitch
State Street Ratings:	Aa1 / P-1 Stable Outlook Not On Watch	AA- / A-1+ Stable Outlook Not On Watch	AA / F1+ Stable Outlook Not On Watch
U.S. Bank Ratings:	Aa2 / P-1 Negative Outlook Watch	AA- / A-1+ Stable Outlook Not on Watch	AA- / F1+ Stable Outlook Not on Watch

Please refer to Appendix A for the Banks' ratings over the past three years.

2. Bank Counsel

Counsel: Chapman and Cutler LLP
111 West Monroe Street

David Field, Partner
Telephone: (312) 845-3792

	Chicago, IL 60603-4080	E-mail: dfield@chapman.com
Legal Fees:	Estimated at [redacted] and capped at [redacted], plus disbursements.	

3. Fees

Revolving Credit Agreement

Please refer to Appendix B (Attachment 1) for the corresponding pricing matrix in the RFP.

Commitment Amount: Up to $140,000,000 of principal:

State Street	$70,000,000
U.S. Bank	$70,000,000

Term: 3 Years.

Index Rate: Prior to the Maturity Date, the Loans and the Bank Note shall bear interest at a tax-exempt per annum rate of interest equal to the sum of (i) 80% of 1-month LIBOR plus (ii) the Applicable Spread set forth below (collectively, the "Index Rate"), subject to adjustment as provided herein.

The Loans and the Bank Note shall bear interest at the Index Rate prior to the Maturity Date, so long as no Event of Taxability or Event of Default exists.

Tenor	Applicable Spread
3 Years	[redacted]

Commitment Fee: The undrawn portion of the RCA will be charged the Commitment Fee set forth below, subject to adjustment as provided herein.

Tenor	Commitment Fee
3 Years	[redacted]

Downgrade Rate/Fee Adjustments: The Applicable Spread and Commitment Fee shall be adjusted according to the schedules below for any rating downgrade as well as for any rating suspension, withdrawal, or cancellation ("WD/NR"):

Rating Level	Applicable Spread	Commitment Fee
Aa2/AA and above	[redacted]	[redacted]
Aa3/AA-	[redacted]	[redacted]
A1/A+	[redacted]	[redacted]
A2/A	[redacted]	[redacted]
A3/A-	[redacted]	[redacted]
Baa1/BBB+	[redacted]	[redacted]
Baa2/BBB	[redacted]	[redacted]
Below Baa2/BBB*	Default	Default

WD/NR*	Default	Default

* Note: Event of Default rate/fee adjustment applies.

The lowest long-term unenhanced rating assigned to SFCTA's Senior Lien Bonds will determine the Applicable Spread and the Commitment Fee. An Applicable Spread and Commitment Fee adjustment shall become effective on the date a rating action is announced by the applicable rating agency. In the event of the adoption of any new or changed rating system, each of the ratings referred to above shall be deemed to refer to the rating category under the new rating system which most closely approximates the applicable rating category currently in effect.

Event of Default Rate/Fee Adjustment: If one or more of the underlying ratings assigned to SFCTA's Senior Lien Bonds are withdrawn or suspended, or shall fall below "Baa2/BBB", or upon the occurrence of an Event of Default, the Loans and the Bank Notes shall bear interest at the Default Rate and the Commitment Fee shall automatically and without notice to the Borrower increase by [redacted] per annum above the level specified in the above pricing matrix for the "Baa2/BBB" rating category.

Taxable Rate: Taxable Rate means an interest rate per annum at all times equal to the product of the Index Rate or the Term Loan Rate, as applicable, then in effect multiplied by the Taxable Rate Factor.

Maximum Federal Corporate Tax Rate: Maximum Federal Corporate Tax Rate means the maximum rate of income taxation imposed on corporations pursuant to Section 11(b) of the Code, as in effect from time to time (or, if as a result of a change in the Code, the rate of income taxation imposed on corporations generally shall not be applicable to the Banks, the maximum statutory rate of federal income taxation which could apply to the Banks). The Maximum Federal Corporate Tax Rate is currently 21%.

Taxable Rate Factor: Taxable Rate Factor means the quotient of (i) one divided by (ii) one minus the then current Maximum Federal Corporate Tax Rate.

Event of Taxability: In the event a determination of taxability shall occur, in addition to the amounts required to be paid with respect to the Loans, the Borrower shall be obligated to pay to the Banks an amount equal to the positive difference, if any, between the amount of interest that would have been paid during the period of taxability if the Loans had borne interest at the Taxable Rate (i.e., the product of the Index Rate and 1.0/1.0-Maximum Federal Corporate Tax Rate) and the interest actually paid to the Banks with respect to the Loans.

Margin Rate Factor: The Index Rate will be subject to adjustment by a Margin Rate Factor. The Margin Rate Factor means the greater of (i) 1.0, and (ii) the product of (a) one minus the Maximum Federal Corporate Tax Rate multiplied by (b) 1.26582. The effective date of any change in the Margin Rate Factor shall be the effective date of the decrease in the Maximum Federal Corporate Tax Rate resulting in such change.

	The Maximum Federal Corporate Tax Rate is currently 21% such that the current Margin Rate Factor equals 1.0 as of the date of this proposal.
Termination/ Reduction Fee:	In the event that the Borrower elects to terminate or permanently reduce the Facility during the first eighteen months of the Facility, the Borrower will be required to pay a termination or reduction fee equal to the Commitment Fee which would have accrued from the date of termination or reduction through the eighteen-month anniversary of the closing date.
Agent Fee:	Waived.
Draw Fee:	[redacted] per draw, capped at [redacted] in any calendar year.
Amendment Fee:	[redacted] plus reasonable fees and disbursements of counsel, if any.
Base Rate:	The greatest of: (i) [redacted] (ii) [redacted] (iii) [redacted]
Term Loan Rate:	Days 1-30: [redacted] Days 31-90: [redacted] Days 91 and after: [redacted]
Default Rate:	[redacted] Interest accruing at the Default Rate shall be payable on demand.
Computation of Payments:	Computations of interest and fees shall be calculated on an actual/360 day basis.
Pro Rata Draws & Repayments:	All draws and repayments under the RCA shall be pro rata between the two Banks.
Term Loan:	5 Years.

4. Terms and Conditions of Revolving Credit Agreement

For the RCA, the Banks propose limited modifications as outlined in the Comment Letter from Chapman and Cutler LLP in Appendix C. All other terms and conditions – including conditions precedent to purchase and closing, representations and warranties, covenants, events of default, and remedies – shall remain consistent with the existing Revolving Credit Agreement between the Authority and State Street Public Lending Corp. dated as of June 1, 2015 (the “Existing RCA”).

5. Formal Credit Approval

Credit Approval:	Any commitment to provide the Facility (including the terms and conditions proposed herein) or to extend credit is subject to all of the Banks' internal approvals and due diligence procedures. In obtaining credit approval, the Banks reserve the right to modify and/or supplement any of the terms and conditions stated herein. State Street and US Bank anticipate obtaining final credit approval within 10 business days of receiving the mandate to provide the Facility.

6. Other Terms and Conditions

Survival:	This proposal does not constitute a Facility Document and shall not survive the execution and delivery of the definitive Facility Documents.
Material Adverse Change:	This proposal may be rescinded, in the sole discretion of the Banks, upon the occurrence of a material adverse change in the financial, operational, or legal condition of the Borrower.
Proposal Expiration:	Unless otherwise extended by the Banks, this proposal shall expire at 5:00 p.m. EST on July 7, 2018.