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Memorandum

Date: 02.08.17 **RE:** Finance Committee February 14, 2017

To: Finance Committee: Fewer (Chair), Cohen (Vice Chair), Kim, Ronen, Yee and Peskin (Ex Officio)

From: Cynthia Fong – Deputy Director for Finance and Administration CF

Through: Tilly Chang – Executive Director TC

Subject: **ACTION** – Recommend Authorization to Borrow up to $46,335,835, to a Total Amount Not to Exceed $140,000,000 from the Revolving Credit Agreement with State Street Public Lending Corporation

Summary

The purpose of this memo is to brief the Finance Committee on our debt management strategy for the Prop K sales tax program and to request a recommendation for authorization to borrow up to $46,335,836, to a total amount not to exceed $140,000,000 in remaining capacity from our Revolver Credit Agreement (Revolver) with State Street Public Lending Corporation. We expect to need to draw down these funds within the next six months to meet the anticipated capital reimbursement requests for the Prop K program. The Revolver is short-term variable rate financing method and is basically a loan directly from a commercial bank. As of February 8, 2017, $93,664,164 of the Revolver balance was outstanding and $46,335,836 is available to draw upon to fund upcoming Prop K expenditures. Through ongoing discussions with our sponsors (particularly SFMTA) and financial advisors, KNN Public Finance, we have conducted cash flow analyses and anticipate the need to borrow $25 million over the next few months from the Revolver and possibly up to $46,335,835 in total over the next six-plus months to meet our financial commitments. This higher amount is not unexpected as we have been tracking some of the largest Prop K projects (largest in terms of the amount of Prop K funds allocated and remaining to be reimbursed), many of which are long-term projects that are now reaching completion or other milestones that will trigger large Prop K reimbursement requests. Among the major cash driver projects are the SFMTA's Radio Replacement Project, associated Central Control and Communications Projects, and the purchase of new fleets of motor coaches, trolleybuses and light-rail vehicles. 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). Based on our analysis of the Prop K major cash flow drivers, we are currently working on a schedule that calls for the Transportation Authority to be ready to issue a long-term bond in Fiscal Year 17/18.

BACKGROUND

The Proposition K (Prop K) Strategic Plan is the financial tool that guides the implementation of the 30-year voter-approved Expenditure Plan, reconciling the timing of expected Prop K sales tax revenues with the schedule for availability of state, federal and other funds beyond Prop K, the Transportation Authority's debt issuance capacity, the Transportation Authority's own assessment of the deliverability schedule for proposed projects, and the costs associated with project escalation and debt financing. The Strategic Plan also sets policy (touching on programming, allocations, invoicing, reporting, financing, etc.) and provides guidance for the administration of the program ensuring prudent stewardship of the funds.

In order to help structure our efforts, we use three guiding principles that are fundamental in ensuring implementation of the Expenditure Plan as approved by the voters:

- Optimize leveraging of sales tax funds
- Support timely and cost-effective project delivery
- Maximize cost effectiveness of financing

Since 2004, the Transportation Authority has managed the cash needs of the Prop K program using annual Prop K revenues and short-term debt instruments even though the Strategic Plan anticipated the need for long-term debt earlier. Our ability to use short-term debt to cost effectively meet the Prop K programs capital reimbursement needs thus far is the result of a combination of factors including:

- Slower than anticipated allocations;
- Slower and lower amounts of reimbursement requests for capital projects (e.g. caused by sponsors billing other sources first as supported by Prop K policy, securing other fund sources and then de-obligating Prop K funds, lags in invoicing, and slower project delivery); and
- Working with project sponsors, particularly of the largest Prop K projects, to closely monitor project delivery and reimbursement rates, amending approved Prop K reimbursement schedules, as needed.

In 2005, the Board authorized the use of up to $200 million in commercial paper, of which only $150 million was outstanding at any time. In 2015, the Board authorized the replacement of the commercial paper program with a $140 million tax-exempt revolving credit agreement (Revolver), an alternative variable rate financing method to traditional Commercial Paper Notes. The Revolver is basically a loan directly from a commercial bank and has resulted in reduced financing costs. The Revolver is secured by the transactions and use tax (Prop K sales tax) administered by the Transportation Authority, and provides a flexible source of financing for projects funded by Prop K. As of February 8, 2017, $93,664,164 of the Revolver balance was outstanding and $46,335,836 is available to draw upon to fund upcoming Prop K expenditures.

DISCUSSION

The purpose of this memo is to brief the Finance Committee on our debt management strategy for the Prop K program and to request a recommendation for authorization to borrow up to $46,335,836, to a total amount not to exceed $140,000,000 in remaining capacity from the Revolver. We anticipate needing to draw down these funds within the next six months to meet the anticipated capital reimbursement requests for the Prop K program.

As of December 31st, 2016, Prop K capital projects costs total to $27,288,660 and represent only the first quarter of expenditures[1]. Typically, reimbursement rates ramp up over the course of the fiscal year, with the fourth quarter resulting in the highest level of Prop K capital reimbursements paid by the Transportation Authority. The adopted budget assumed $200 million in Prop K capital expenditures. It also projected borrowing $25 million from the Revolver to be able to pay that level of Prop K reimbursements, given the forecast sales tax revenues.

Through ongoing discussions with our sponsors (particularly the San Francisco Municipal Transportation Agency (SFMTA)) and financial advisors, KNN Public Finance, we have conducted cash flow analyses

[1] See Agenda Item #3 for the internal Accounting and Investment Report for the quarter ending December 31 2016.

that reinforce our budget assumption of needing to borrow $25 million over the next few months from the Revolver and possibly up to $46,335,835 in total over the next six-plus months to meet our financial commitments if the pace of project delivery and reimbursements ramp up as anticipated. If more than $25 million is needed from the Revolver this fiscal year, we would incorporate this revision into the mid-year budget amendment. The outstanding loan balance on the Revolver is required to be paid at the end of the Revolving Credit Agreement on June 8, 2018 and has a rate of interest equal to the sum of 70% of 1-month LIBOR plus .30%. As of December 31, 2016, $93,664,165 of the Revolver balance was outstanding, with an interest rate of 0.732%.

This need to address a rapid peaking in reimbursement request is precisely why we have a flexible debt instrument like the Revolver in place and why we have been closely tracking some of the largest Prop K projects (largest in terms of the amount of Prop K funds allocated and remaining to be reimbursed), many of which are long-term projects that are now entering active construction phases or reaching completion or other milestones that will trigger large Prop K reimbursement requests. Among the major cash driver projects are the SFMTA's Radio Replacement Project, associated Central Control and Communications Projects, and the purchase of new fleets of motor coaches, trolleybuses and light-rail vehicles. Attachment 1 shows that in aggregate, if these five sets of projects were to seek the maximum Prop K reimbursement allowable per the grant agreement as amended, reimbursements could total up to an additional $103.7 million for just these projects. While we don't anticipate that this full amount is likely to be requested for reimbursement this fiscal year, we are expecting to see a significant portion of the $100+ million requested for reimbursement in the next six months. We will provide an update to the Board in the spring when we bring the mid-year budget revision for action.

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). Based on our cash flow analysis, we are currently working on a schedule that calls for the Transportation Authority to be ready to issue a long-term bond in Fiscal Year 2017/18. 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 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.

ALTERNATIVES

1. Recommend authorization to borrow up to $46,335,835, to a total amount not to exceed $140,000,000 from the Revolving Credit Agreement with State Street Public Lending Corporation, as requested.
2. Recommend authorization to borrow up to $46,335,835, to a total amount not to exceed $140,000,000 from the Revolving Credit Agreement with State Street Public Lending Corporation, with modifications.
3. Defer action, pending additional information or further staff analysis.

CAC POSITION

The CAC was briefed on this item at its January 25, 2017 meeting and unanimously adopted a motion of support for the staff recommendation.

FINANCIAL IMPACTS

The adopted Fiscal Year 2016/17 budget already incorporates the need to borrow $25 million from the Revolver to help pay for anticipated Prop K capital project reimbursement requests. Any additional amount borrowed will be included in the mid-year Fiscal Year 2016/17 budget amendment as well as the budget for future fiscal years, as appropriate.

RECOMMENDATION

Recommend authorization to borrow up to $46,335,835, to a total amount not to exceed $140,000,000 from the Revolving Credit Agreement with State Street Public Lending Corporation.

Attachment:

1. Prop K Major Cash Drivers

Attachment 1
Prop K Major Cash Drivers

Prop K Major Cash Drivers	Total Prop K Allocations (as amended)	Remaining Balance as of 01.18.2017	Max Remaining FY16/17 Reimbursement[1]
Motor Coach Procurement	$ 119,564,460	$ 66,770,433	$ 58,250,519
Radio Replacement	$ 59,174,932	$ 54,960,674	$ 23,785,742
C3	$ 35,313,094	$ 12,013,357	$ 11,449,565
Trolley Coach Procurement	$ 26,192,073	$ 11,656,004	$ 7,156,004
Light Rail Vehicle Procurement	$ 131,153,144	$ 131,153,144	$ 3,092,490
Totals	**$ 371,397,703**	**$ 276,553,613**	**$ 103,734,321**

[1]Max Remaining FY 16/17 Reimbursement represents the maximum reiimbursement amount the project sponsor could request this fiscal year based on the currently approved Prop K cash flow reimbursement schedule.