MEMORANDUM

DATE: **April 27, 2016**

TO: **Members, Capital Planning Committee**

FROM: **Edward D. Reiskin**
Director of Transportation

SUBJECT: ***SFMTA Revenue Bond Program (Series 2016)***

SUMMARY

The San Francisco Municipal Transportation Agency (SFMTA or Agency) is proposing to issue, in one or more series, revenue bonds in an amount not to exceed $207,000,000 (the "Series 2016 revenue bonds"), which includes up to $45,000,000 for the Mission Bay Component; and up to $162,000,000 for other projects, such as the light rail vehicle procurement, the Van Ness Transit Improvement Project and for various financing costs. The Charter and Administrative Code authorize the SFMTA to issue revenue bonds, with the concurrence of the Board of Supervisors and in accordance with State law. The SFMTA Board of Directors approved a resolution recommending that the Board of Supervisors authorize this bond issuance on April 5, 2016.

BACKGROUND

The SFMTA issued a first series of revenue bonds in the amount of $63.8 million in July 2012, consisting of $38 million in refunding bonds (the "Series 2012A Bonds") and $25.8 million in new money proceeds (the "Series 2012B Bonds" and together with the Series 2012A Bonds, the "Series 2012 Bonds").

In September 2013, the Board of Supervisors approved the issuance of up to $165 million ($150 million for direct project costs) in revenue bonds by the SFMTA. Subsequent to the original approval in September 2013, the SFMTA decided to split the $150 million into two sales of approximately $75 million each in 2013 and 2014. The 2013 bond financing in the amount of $75,440,000 closed in December 2013. The Board approved the third issuance of revenue bonds of up to $89,560,000 in October 2014. The 2014 bond financing in the amount of $70,605,000 closed in December 2014.

The reimbursement resolution language will be adopted in accordance with Internal Revenue Code regulations 1.150. It will allow the SFMTA to reimburse itself for hard costs already incurred and paid for with operating revenue.

ANTICIPATED USE OF BOND PROCEEDS
Series 2016 revenue bond proceeds are anticipated to fund (i) planning, design, construction or improvement of the SFMTA's transportation assets, (ii) a bond reserve account, if necessary, and (iii) the costs of issuance.

The SFMTA currently anticipates that it will fund light rail vehicle (LRV) procurement (estimate $100-$110 million), the Van Ness Bus Rapid Transit Project /Improvement Project (estimate $30-$60 million) and Mission Bay transportation capital improvements (estimate $30-$40 million) with all or part of these Bonds.

On November 3, 2015, the SFMTA Board took various actions with regards to the Golden State Warriors Event Center and Mixed Use Development at Mission Bay Blocks 29-32 (the Project), including recommending legislation to the Board of Supervisors for the establishment of a fund to help pay for capital improvements. The Board of Supervisors adopted Ordinance No. No. 230-15, establishing the Mission Bay Transportation Improvement Fund (the Fund). The City has agreed to reimburse the SFMTA for debt service and financing costs as described in documents approved by the Board of Supervisors and SFMTA Board of Directors. However, there will potentially be a need for cash flow financing due to timing differences between the need for funds and the availability of funds. Based on discussions with the City Controller's Office, the City's obligation to reimburse all related financing costs will be set forth in a memorandum of understanding or similar agreement between the Controller and the SFMTA prior to the issuance of any Bonds for this purpose.

Additionally, the Director may determine that some portion of the bond proceeds should be used to fund projects in the four categories described below, based on the Capital Budget and Capital Improvement Plan approved by the SFMTA Board of Directors.

<u>Pedestrian Safety/Transit Signal Improvements</u>: This program is intended to improve the safety and usability of City streets for pedestrians and includes project development and capital costs for: the installation of red light photo enforcement equipment; pedestrian islands in the medians of major thoroughfares; sidewalk bulb-outs and sidewalk widening; installation of traffic and pedestrian signals which include countdown and accessible pedestrian signal equipment; and targeted traffic calming projects, such as traffic humps and traffic circles, to slow traffic. Examples of potential project areas include the Excelsior and South Bernal Heights.

<u>Muni Transit System Safety and Spot Improvements</u>: This program is intended to improve the safety of the Muni transit system and includes project development and capital costs for: the replacement of the SFMTA's communication and dispatching system; new vehicle on-board and fixed route ITS components to provide information for core operational capabilities including Computer Aided Dispatch and Automatic Vehicle Location (CAD/AVL) vehicle monitoring systems, on-board ADA-compliant traveler information, transit signal priority, and automated fare collection; training equipment and simulators for Muni operators; power supplies, networking

system, operator consoles and management servers; transit spot improvements, including signal changes, bus bulbs, striping changes and other localized uses of the transit priority toolkit.

Complete Street Capital Improvements: This program is intended to develop safe and complete streets through integrated major corridor capital projects and includes project development and capital costs for: the construction of bicycle facilities and improvements to the existing bicycle network; bicycle sharing; new bike lanes and paths; bicycle parking facilities; bicycle boxes, bicycle boulevards, buffered bicycle lanes, cycle tracks, bicycle signals, and green wave traffic signal coordination; curb extensions, storm water management features, traffic signal timing changes, signs, installation of pedestrian signals, including countdown and accessible pedestrian signal equipment, sidewalk extensions, medians, refuge islands, and bulb-outs.

Facility Improvements: This program is intended to deliver critical safety and seismic upgrades to SFMTA parking garages and Muni operations and maintenance facilities. These upgrades will enable improved transit operations and performance while also improving working conditions for staff. SFMTA parking garages are in varying degrees of disrepair and these funds will rehabilitate this important revenue generating asset.

Transit Fixed Guideway Improvements: This program enhances Muni operations and maintenance and increases system reliability. It includes project development and capital costs for: replacement of overhead wires and related poles and traction power systems serving Muni's light rail and trolley coach lines; improvement to the SFMTA's central control facility and systems; replacement of the trackway and related systems serving the light rail and cable car lines to mitigate excessive noise and/or vibration.

PLANS OF FINANCE

The SFMTA currently has $185,835,000 in outstanding revenue bonds issued under the City Charter. The table below reflects outstanding balance and final maturity of the various SFMTA series.

Series Previously Issued	Outstanding Par	Final Maturity
2012A	$24,600,000	2032
2012B	$25,835,000	2042
2013	$67,725,000	2033
2014	$67,675,000	2044
Total	**$185,835,000**	

The SFMTA will issue fixed-rate tax-exempt revenue bonds for the proposed transaction(s). The proposed bonds will be issued as parity bonds with the Series 2012 Bonds, Series 2013 Bonds and Series 2014 Bonds. It is anticipated that the proposed bonds will mature in approximately 30 years. In the current market, the SFMTA would issue approximately $190 million in revenue bonds at an estimated True Interest Cost (TIC) of 4.32%. This represents annual debt service ranging from approximately $8.2 million to $16.1 million. It is likely that actual interest rates on the date of sale will differ from the current market environment. To the extent that interest rates rise, interest costs and annual debt service to the SFMTA will also increase.

The SFMTA's outstanding bonds are currently rated AA by Standard & Poor's and Aa2 by Moody's Investors Service. The SFMTA will meet with the ratings agencies to provide an update on the SFMTA and discuss the issuance of the proposed bonds. Prior to pricing, the ratings analysts will review the SFMTA's credit and assign ratings to the proposed bonds. Generally, two investment grade ratings enhance the ability of SFMTA to sell bonds in the capital markets.

As in the 2012, 2013 and 2014 bond financings, the underwriters could be selected through a Request for Proposals process using the existing underwriting pool established by the Office of Public Finance. Alternatively a competitive sale based on market conditions and other considerations closer to the time of sale may be considered, in consultation with the Financial Advisors and the Controller's Office of Public Finance.

SOURCES AND USES *(Estimated, subject to change)*

Sources	
Bond Principal	$190,000,000
Premium	17,000,000
Total Sources	**$207,000,000**

Uses	
Capital Projects	$190,000,000
Debt Service Reserve Fund	15,000,000
Costs of Issuance	2,000,000
Total Uses	**$207,000,000**

Bond authorization is requested up to $207,000,000 to accommodate potential shifts in interest rates or a different coupon structure. Such events could require that the SFMTA issue more bonds to fund the proposed projects.

The SFMTA's financial advisors will review the viability of issuing the proposed bonds without a Debt Service Reserve Fund (DSRF) subject to the credit rating agencies feedback. A DSRF is a fund held by the bond trustee. Should a DSRF be deemed necessary, it will be funded from bond proceeds at the bond closing in such manner as is recommended to be most cost-effective and credit appropriate. The DSRF would only be used to pay debt service if pledged revenues are insufficient. The tax law limits the deposit to the DSRF to the lesser of: (i) maximum annual debt service, (ii) 125% of average annual debt service or (iii) 10% of the outstanding principal amount of the bonds. Costs of issuance for the transaction include fees for the co-financial advisors, co-bond counsel, disclosure counsel, underwriters (and their counsel), rating agency fees, printing and other expenses related to the issuance of the bonds.

The repayment of the bonds will be secured by certain revenues pledged by the SFMTA under the Indenture of Trust and generally includes all revenue of the SFMTA other than the General Fund transfer and designated grant funds whose uses are restricted.

DOCUMENTATION AND NEXT STEPS

The SFMTA Board has approved several legal documents in connection with the future issuance of revenue bonds by the SFMTA. These documents include the following:

- Fourth Supplemental Indenture of Trust
- Bond Purchase Contract
- Notice of Intention to Sell
- Notice of Sale
- Continuing Disclosure Certificate
- Form of Preliminary Official Statement

As stated in the City Charter, the Board of Supervisors will be asked to consider a resolution approving this bond issue. The Controller will also need to issue a certification of the SFMTA's ability to support the debt service payments.

The financing schedule will be determined based on the funding needs for the projects identified above. At that time, the SFMTA Board of Directors will be asked to approve a Preliminary Official Statement and authorize the Director of Transportation to execute documents necessary for the transaction.

The Director of Transportation will be authorized to make any necessary modifications, changes, or additions to the following documents as long as they are within the parameters of the resolution: the Second Supplemental Indenture of Trust, the Bond Purchase Contract and the Continuing Disclosure Certificate.