TO: Honorable Members, San Francisco Board of Supervisors

FROM: Jim Hartnett, Executive Director, Peninsula Corridor Joint Powers Board
Eli Kay, Chief Financial Officer, Peninsula Corridor Joint Powers Board

SUBJECT: Legislation Approving Proposed Interim Financing by the Peninsula Corridor Joint Powers Board in Connection with the Peninsula Corridor Electrification Project to Satisfy Section 6586 and Section 6586.5 of Government Code

DATE: October 4, 2016

Recommended Action:

The Peninsula Corridor Joint Powers Board respectfully recommends approval of the attached Resolution by the Budget and Finance Committee in connection with the proposed plan of interim financing for the Peninsula Corridor Electrification Project. Approval is required to satisfy Section 6586.5 of the Government Code. The proposal includes authorization of interim financing by the Peninsula Corridor Joint Powers Board in an aggregate principal amount not exceeding $150 million outstanding at any one time.

Executive Summary:

- Adoption of a resolution after a public hearing approving an interim financing by the Peninsula Corridor Joint Powers Board for the Peninsula Corridor Electrification Project is required to satisfy the requirements of Section 6586 and Section 6586.5 of the Government Code.

Peninsula Corridor Electrification Project:

The Peninsula Corridor Joint Powers Board (the "JPB") was created pursuant to a joint exercise of powers agreement entered into by the City and County of San Francisco ("CCSF"), the Santa Clara Valley Transportation Authority, formerly known as the Santa Clara County Transit District ("VTA"), and the San Mateo County Transit District ("SamTrans"). The JPB operates the Caltrain commuter rail service.

The JPB is undertaking the Peninsula Corridor Electrification Project (the "PCEP") in order to convert the Caltrain commuter rail service running between San Francisco and the Tamien Station in San Jose from diesel-hauled trains to electric multiple unit trains. The JPB anticipates that completion of the PCEP will enable the JPB Board to (i) meet current and future transportation demand between San Jose and San Francisco, (ii) offset existing and future worsening roadway congestion, (iii) address continuing regional air quality issues, (iv) reduce greenhouse gas emissions and (v) provide electrical infrastructure compatible with contemplated future high-speed rail service. The PCEP is expected to be completed by June 2021.

PENINSULA CORRIDOR JOINT POWERS BOARD
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Request for Approval to Satisfy Section 6586 and Section 6586.5 of the of the Government Code:

In order to satisfy the requirements set forth in Section 6586.5 of the of the Government Code, the JPB has requested that the Board of Supervisors of the City and County of San Francisco (i) cause a public hearing to be held, (ii) make a finding of significant public benefit in accordance with the criteria specified in Section 6586 of the of the Government Code after such public hearing has been held, and (iii) approve the proposed financing to be undertaken by the JPB which is described herein in order to satisfy the requirements of Section 6586.5 of the of the Government Code.

Proposed Interim Financing:

The JPB intends to finance on an interim basis certain costs of the PCEP. The interim financing is being undertaken by the JPB to pay costs of the PCEP expected to be due and payable in advance of receipt of funds identified to such costs (the "Project Funding"). The PCEP is expected to be fully funded from local, state and federal grants available under various programs. As with any project funded by grants, the funds are available on a reimbursement basis after expenditures have been incurred and paid. Managing cash flow is critical when funding is provided on a reimbursement basis. The JPB intends to utilize short-term, interim financing in order to mitigate anticipated cash flow challenges.

Local funds are comprised primarily of contributions committed to the PCEP via a nine-party MOU and a 7-party supplemental MOU that leverages local support from Caltrain JPB's member agencies, CCSF, VTA and SamTrans, and other regional agencies. State funds are comprised primarily of California High-Speed Rail Authority ("CHSRA") funds pursuant to an agreement with CHSRA signed on August 9, 2016. Federal funds are expected to be made available by the Federal Transit Administration (the "FTA") primarily under two federal programs. FTA formula funds (i.e., FTA 5307 and 5337 funds) are scheduled to be allocated to the PCEP by the Metropolitan Transportation Commission ("MTC"). In addition, the PCEP qualifies for a "Core Capacity Grant," a discretionary FTA grant awarded to transit corridors for expansion projects. The JPB is working with the FTA to secure a Full Funding Grant Agreement ("FFGA") and expects the FFGA will be signed by the end of 2016 or early 2017.

The indebtedness to be incurred by the JPB in connection with the interim financing is expected to be secured by and payable from receipts of the Project Funding, passenger fares, parking, shuttle and pass revenues and other revenues from the operations of the Caltrain commuter rail servIce. CCSF is not obligated to levy any form of taxes, and no credit, funds, or property of CCSF are pledged to provide for payment of the indebtedness to be incurred by the JPB in connection with the interim financing.

Selection of Financing Structure:

JPB has bond obligations outstanding in the amount of approximately $34 million which are secured by system "Farebox Revenues" under an existing Trust Agreement and related bond documents. The existing borrowing program and document structure provides the most expedient path to issuing additional obligations to support the interim financing of the PCEP. However, as described above, the source of funding for the PCEP, including repaying any short-term borrowed funds, comes from various grant funds. The concept of offering a security interest in "Farebox Revenues" while asking a lending partner to look to various federal, state and local grant funds as the source of repayment for any loan draws required detailed discussion and education to potential lending partners on the project and the grant funding sources. Upon completion of discussions and review of proposals regarding financing structures submitted by potential lending partners with its financial advisor, Public Financial Management, Inc., the JPB identified a direct revolving loan as the preferred financing structure. The direct revolving loan does not involve bank credit and counterparty risk and provides for the JPB to draw and repay funds on a periodic basis at a pre-negotiated rate of interest.

Interim Financing Structure:

Certain basic terms and features of the revolving line of credit, which is essentially a direct loan from a bank, are identified below.

- Program or Facility size: Not to exceed $150 million outstanding at any one time
- Term of Revolving Line of Credit: 6 years
- Purpose: To fund PCEP costs in anticipation of receipt of grant reimbursements
- Security: A subordinate pledge of farebox revenues
- Desired closing timeframe: November 2016
- Covenants: To be negotiated

Your consideration of this matter is greatly appreciated. Please contact Eli Kay at 650-508-6466 if you have any questions.

CC: Angela Calvillo, Clerk of the Board of Supervisors
Harvey Rose, Budget and Legislative Analyst
Nicole Ellliott, Director of Legislative & Government Affairs
Melissa Whitehouse, Acting Mayor's Budget Director
Mark Blake, Deputy City Attorney
Ben Rosenfield, City Controller
Nadia Sesay, Public Finance Director