



September 3, 2013

**Honorable Board of Supervisors
City and County of San Francisco
1 Carlton B. Goodlett Place, Room 244
San Francisco, California 94102**

Subject: SFMTA Revenue Bond, Series 2013

Honorable Members of the Board of Supervisors:

The San Francisco Municipal Transportation Agency (SFMTA or Agency) is proposing to issue revenue bonds in an amount not to exceed \$165 million (the “Series 2013 Bonds”), to finance the costs of certain transportation projects (the “Project”). 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 bond financing is expected to close later this calendar year. The SFMTA Board of Directors approved a resolution recommending that the Board of Supervisors authorize this bond issuance on September 3, 2013.

Edwin M. Lee
Mayor

Tom Nolan
Chairman

Cheryl Brinkman
Vice-Chairman

Malcolm Heinicke
Director

Jerry Lee
Director

Joél Ramos
Director

Cristina Rubke
Director

Edward D. Reiskin
*Director of
Transportation*

Background

The City Charter 8A.102(b)13 states “To the maximum extent permitted by law, with the concurrence of the Board of Supervisors, and notwithstanding the requirements and limitations of Sections [9.107](#), [9.108](#), and [9.109](#), [the Agency will] have authority without further voter approval to incur debt for Agency purposes and to issue or cause to be issued bonds, notes, certificates of indebtedness, commercial paper, financing leases, certificates of participation or any other debt instruments. Upon recommendation from the Board of Directors, the Board of Supervisors may authorize the Agency to incur on behalf of the City such debt or other obligations provided: 1) the Controller first certifies that sufficient unencumbered balances are expected to be available in the proper fund to meet all payments under such obligations as they become due; and 2) any debt obligation, if secured, is secured by revenues or assets under the jurisdiction of the Agency.”

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”). As of August 2013, \$17 million of Series 2012B Bonds have either been spent or encumbered and mainly for the following projects: Green Center Rail Rehabilitation; Sunset Tunnel Rail Rehabilitation; Metro Turnback Rail Rehabilitation; and the Metro system public announcement and public display system replacement.

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Use of Bond Proceeds

The SFMTA has a policy to prioritize revenue bonds for state of good repair and other projects where other funding sources have traditionally not been available or to fill funding gaps.

The Series 2013 Bond proceeds will be applied to fund (i) construction or improvement of the SFMTA's transportation assets (including costs for planning and design), (ii) a bond reserve account, (iii) 0.2% Set Aside for City Auditor services; and (iv) the costs of issuance. The Series 2013 Bond proceeds are anticipated to be applied as follows:

Project Detail
(projects below are funded by multiple funding sources including bond funds)

Project Description	Proposed bond Fund Allocations
Pedestrian Safety/Transit Signal Improvements	\$ 16,000,000
Muni Transit System Safety and Spot Improvements	\$ 18,500,000
Complete Street Capital Improvements	\$ 14,000,000
Facility Improvements	\$ 46,000,000
Transit Fixed Guideway Improvements	\$ 30,500,000
Muni Light Rail Vehicle Procurement	\$ 25,000,000
Total Uses of Funds	\$150,000,000

Outlined below is a description of the projects, which are funded not only by bond proceeds but also by other funding sources.

Pedestrian Safety/Transit Signal Improvements: This bond funded capital 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.

Muni Transit System Safety and Spot Improvements: This bond funded 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 to provide interoperable digital voice communications, new vehicle on-board and fixed route system components to provide information for core operational capabilities including Computer Aided Dispatch and Automatic Vehicle Location (CAD/AVL), vehicle health monitoring, on-board ADA-compliant traveler information, transit signal priority, and automated fare collection; training equipment and simulators for Muni Operators; the replacement of the fire-safety mandated emergency telephones including phone



switches, phone stations, blue-light units, raceways, communication cables, UPS power supplies, networking system, operator consoles and management servers; signals, bus bulbs 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 bond funded capital program is intended to reduce Muni operational issues, increase system reliability and includes project development and capital costs for: replacement of the overhead wires and related poles and traction power systems serving Muni’s light rail and trolley coach lines; improvement to the SFMTA’s transportation central control facility and systems; ADA ramps for LRV boarding; replacement of the trackway and related systems serving the light rail and cable car lines to mitigate excessive noise and/or vibration.

Muni Light Rail Vehicle Procurement: This program is intended to provide funding for the purchase of replacement light rail vehicles for the Muni system, as well as new vehicles to provide for growth in service.

Plan of Finance

The SFMTA currently has \$60.72 million in outstanding revenue bonds consisting of the Series 2012A Bonds with a final maturity of 2032 and the Series 2012B Bonds with a final maturity of 2042. Outstanding debt service on the outstanding bonds is “front loaded” (i.e., the principal payments are higher in the earlier years of repayment) with a range in debt service from \$6.2 million in FY 2013-14 to \$2.9 million in FY 2021-22. Following FY 2021-22, outstanding debt service decreases to \$2.8 million per year through 2042.

The Series 2013 Bonds will be issued as fixed rate bonds on parity with the Series 2012 Bonds. We anticipate that the Series 2013 Bonds will mature in 2043. In the



current market, the SFMTA would issue approximately \$165 million in revenue bonds at an estimated TIC (True Interest Cost) of 5.0%, which would represent annual debt service of approximately \$12.5 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 "A" by Standard & Poor's and "Aa3" by Moody's Investors Service. The SFMTA will meet with the ratings agencies to provide an update on the finances and operations of the SFMTA and to discuss the issuance of the Series 2013 Bonds. Prior to pricing, the ratings analysts will review the SFMTA's credit and assign ratings to the Series 2013 Bonds.

As with the 2012 bond financing, this proposed transaction will be sold by negotiated sale with an underwriting syndicate composed of JPMorgan Securities, RBC Capital Markets, Morgan Stanley, and Siebert Brandford Shank. The underwriters were selected through a Request for Proposals process using the existing underwriting pool as established by the Office of Public Finance. The City Attorney's Office, on behalf of the SFMTA, selected the legal team by competitive process, including co-bond counsel (Hawkins Delafield & Wood and Rosales Law Firm) and disclosure counsel (Orrick Herrington & Sutcliffe).

The SFMTA believes that, as with the first bond financing, the flexibility and marketing gained through the negotiated sale process will result in a lower cost of borrowing.

Sources and Uses (Estimate, subject to change)

Sources	
Par Amount	\$165,000,000
<i>Total Sources</i>	\$165,000,000

Uses	
Capital Projects	\$150,000,000
Debt Service Reserve Fund	12,300,000
Costs of Issuance	2,000,000
0.2% Set Aside for Audit	300,000
Reserve for Market Uncertainty	400,000
<i>Total Uses</i>	\$165,000,000

The proposed Board Resolution authorizes the issuance of not to exceed par amount of \$165 million, however, the SFMTA expects to issue approximately \$164.6 million under current assumptions. The additional authorized amount above the expected issuance amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Series 2013A Bonds.



The Debt Service Reserve Fund (“DSRF”) will be funded from bond proceeds at the bond closing. The DSRF is a fund held by the bond trustee. The DSRF will only be used to pay debt service if pledged revenues are insufficient. The Series 2013 Bonds will be secured by a separate, stand-alone DSRF. The DSRF will be funded at 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.

Financing Schedule (subject to change)

September 2013	Board of Supervisors Budget and Finance Committee Rating Agency Presentations Receive Ratings
October 2013	Board of Supervisors Approval Final SFMTA FY 2012-13 Financial Audit Available SFMTA Board Update and Approval of and Authorization to Distribute the Official Statement Print and Mail POS
November 2013	Bond Pricing
December 2013	Bond Closing

Documentation and Next Steps

As stated in the City Charter, the Board of Supervisors is being asked to consider a resolution approving this bond issue. The bonds are to be secured solely by SFMTA revenues. The resolution approves this issuance of revenue bonds by the SFMTA and the form of the following documents:

- Preliminary Official Statement
- Second Supplemental Indenture of Trust
- Bond Purchase Contract
- Continuing Disclosure Agreement.

The Controller will also need to issue a certification of the SFMTA’s ability to support the debt service payments.



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The Director of Transportation will be authorized to make any necessary modifications, changes or additions to these documents as long as they are within the parameters of the attached resolution. The SFMTA Board of Directors will approve the final form of the Preliminary Official Statement prior to its release to the marketplace.

Please do not hesitate to contact me if you have any questions or would like any additional information. Thank you for your consideration of this bond financing and for your continued support for the SFMTA!

Sincerely,

A handwritten signature in black ink, appearing to read "E. Reiskin", is positioned below the word "Sincerely,".

Edward D. Reiskin
Director of Transportation

cc: SFMTA Board of Directors
Deputy City Attorney Julia Friedlander

Attachments