Memorandum

To: City and County of San Francisco
From: Derek Hansel, Chief Financial Officer, Peninsula Corridor Joint Powers Board
Re: Caltrain Funding Needs and Proposed Plan of Finance
Date: May 25, 2021

Peninsula Corridor Joint Powers Board ("JPB") has prepared this memorandum to provide an update on the Peninsula Corridor Electrification Project ("PCEP"), the related funding requirements and JPB's proposed funding strategy, including the issuance of new tax-exempt bonds secured by Measure RR (and to be repaid by revenues associated with Low Carbon Fuel Standards ("LCFS") credits that the JPB will receive upon the commencement of electrified revenue service). **The security for these bonds relies entirely on Measure RR sales tax revenues, is not expected to have any adverse financial impact on any of the JPB's member agencies and may, in fact, relieve them of obligations they may otherwise have with respect to PCEP funding.**

The funding strategy has several components. The first component is to replace the JPB's two existing credit facilities that currently are secured by a subordinate pledge of farebox revenues with two new credit facilities, in differing amounts, that will be secured by a subordinate pledge of Measure RR sales tax revenues. The second component is to issue senior lien sales tax revenue bonds secured by Measure RR sales tax revenues to finance a portion of additional PCEP costs utilizing anticipated receipts of State LCFS to repay bond principal once PCEP enters revenue service (the "2021 Bonds"). The third component is to refund the $47,635,000 Farebox Revenue Bonds, 2019 Series A (the "2019 Farebox Bonds") with Measure RR-backed sales tax revenue bonds if and when such a refunding becomes economically feasible. It is possible that there may be additional PCEP costs that materialize after the issuance of the 2021 Bonds.

Background and Update

<u>Background.</u> On October 23, 2018, following a public hearing held and Budget & Finance, the Board of Supervisors adopted a Resolution 363-18 which approved a plan of finance (the "2019 Plan of Finance") consisting of three components:

- The issuance of the 2019 Farebox Bonds - which refinanced for savings prior farebox revenue bonds issued by the JPB in 2007 and 2015 and financed the acquisition of two facilities that the JPB had previously been leasing.

- An increase in the amount of the JPB's existing revolving credit facility with an affiliate of JP Morgan Chase Bank for the PCEP from $150,000,000 to $170,000,000 (the "PCEP Credit Facility"). The intent of the original PCEP Credit Facility was to address timing mismatches between the incurrence of expenditures and the receipt of Federal and State grant funds for PCEP. The increase in the PCEP Credit Facility was prompted by the Transit and Intercity Rail Capital Program ("TIRCP") grant awarded to the JPB for capacity and system improvements, including the acquisition of electrical multiple unit ("EMU") vehicles. The PCEP Credit Facility has an expiration date of December 31, 2022.

- An additional $30,000,000 revolving credit facility with the same affiliate of JP Morgan Chase Bank for working capital (the "Working Capital Credit Facility" and, with the PCEP Credit Facility, the "Existing Credit Facilities") – which provided matching funds and cash flow financing related to the installation of a signal and train control system and working capital for Caltrain system needs. The Working Capital Credit Facility also has an expiration date of December 31, 2022.

Recent Developments

Since implementing the 2019 Plan of Finance, two notable developments have impacted the JPB: increased working capital demands and PCEP cost overruns and delays.

With a 97% decline in ridership due to Covid-19, the JPB's operating cash flow has been severely challenged. Subsidies from Federal stimulus measures have largely filled the void of farebox revenues over the past year. However, the prognosis for additional Federal stimulus is uncertain and it is unclear when Caltrain ridership will return to pre-Covid levels. While the voter-approved Measure RR sales tax strengthens the JPB's credit profile by providing a much-needed dedicated revenue source to Caltrain, collections begin on July 1, 2021, with the first remittance expected in September 2021. For each of Fiscal Years 2021-22 and 2022-23, the JPB projects a mismatch in the timing of operating expenses and sales tax receipts together with other funds expected to be available for operations.

As noted, the PCEP project will be subject to additional costs due to two factors: the need to address gate crossing signaling associated with the conversion to an electrified system and COVID-related delays. While the project team is continuing to work with contractors to refine both the schedule and the magnitude of the additional costs, the JPB currently expects that: (a) PCEP will require a minimum of an additional $75 million in funding beyond the original $1.98 billion budget and (b) the completion date will be delayed from 2022 to 2024.

2021 Plan of Finance

Replace Existing Credit Facilities – The Existing Credit Facilities, which are secured by a subordinate pledge of farebox revenues, have a typical pricing structure that consists of:

- A standby fee for the unused portion of the available credit, expressed as a percentage of the maximum available amount and
- A margin to a base index (LIBOR) for amounts actually borrowed under the Existing Credit Facilities. That margin differs as to whether the borrowing is on a taxable or tax-exempt basis

The table below shows the current pricing terms:

Standby/Unused Fee	0.60%
Tax-Exempt Margin	2.20%
Taxable Margin	2.75%

The JPB is seeking to replace the Existing Credit Facilities with two new Credit Facilities that will be restructured in the following manner:

- ***Resized amounts***: The Existing Credit Facilities were initially sized at $170,000,000 for the PCEP Credit Facility and $30,000,000 for the Working Capital Facility. The new Credit Facilities would be in the same aggregate amount but resized at $100,000,000 each. In general, draws upon the PCEP Credit Facility are anticipated to be repaid from grant proceeds tied to PCEP. The re-sized Working Capital Facility assures the JPB adequate funding for operations in light of the timing considerations associated with Measure RR receipts and the uncertainty as to Caltrain ridership; it can also be used as a backup for additional PCEP cash flow funding needs, if necessary.

- ***Extended maturity***: The Existing Credit Facilities mature on December 31, 2022. The new Credit Facilities will mature no earlier than June 30, 2024, which will accommodate anticipated delays in the PCEP project and the projected operating cash flow constraints on the JPB.

- ***More Favorable Pricing Terms***: The new Credit Facilities will provide for a subordinate pledge of Measure RR sales tax revenues, a far more creditworthy source of security than farebox revenues. The JPB's co-Municipal Advisors issued a request for proposals to 16 credit banks and received 6 strong proposals. The winning bidder, Wells Fargo Bank, has proposed the following pricing terms, which are compared to pricing terms associated with the Existing Credit Facilities:

	New Facilities*	Existing Facilities	Improvement
Standby/Unused Fee	0.23%	0.60%	0.37%
Tax-Exempt Index	80% of 1 Month LIBOR or SOFR	1 Month LIBOR	20% of 1 Month LIBOR
Tax-Exempt Margin	0.29% (LIBOR)	2.20%	1.91%
Taxable Index	1 Month LIBOR or SOFR	1 Month LIBOR	
Taxable Margin	0.40% (LIBOR)	2.75%	2.35%

* For 3-year facility. Wells Fargo provided pricing for up to 5 years. Margins differ for borrowings under LIBOR and SOFR

The following example illustrates the potential annual savings associated with the proposed new Credit Facilities (in aggregate), assuming half is drawn ($100,000,000) and there is a 50-50 split between tax-exempt and taxable borrowing. For purpose of this analysis, it is assumed that the index rate is the same (although there would be an additional benefit for tax-exempt borrowing under the New Facilities:

	New Facilities*	Existing Facilities	Difference
Standby/Unused Fee	$230,000	$600,000	$370,000
Tax-Exempt Margin	$145,000	$1,100,000	$955,000
Taxable Margin	$200,000	$1,375,000	$1,175,000
Total			$2,500,000

Accordingly, the new Credit Facilities will provide a combination of substantial cost savings, greater flexibility to the JPB and an extended term to bridge the JPB over the next few years.

New Money Sales Tax Bonds – As previously noted, the cost of PCEP is estimated to increase by a minimum of $75 million with the commencement of revenue service anticipated to occur in 2024 rather than 2022. The additional costs, which are continually being refined, will not be covered by existing Federal or State grants and must be locally funded. To fund this amount, the JPB proposes to issue the 2021 Bonds as fixed rate tax-exempt sales tax revenue bonds secured by a senior lien pledge of Measure RR revenues. The JPB expects ratings in at least the high "AA" category.

While Measure RR sales tax revenues will be the pledged repayment source, the JPB will look to repay 2021 Bond principal and interest after the capitalized interest period from LCFS credits that it expects to receive following the commencement of post-electrification revenue service. The annual amount of the LCFS credits is estimated at a minimum of $15 million, based on conservative estimates of both service levels and credit prices, and will more than cover projected principal repayment. The JPB will structure into the 2021 Bonds provisions for early bond redemption. In addition, the JPB expects to fund capitalized interest while 2021 Bond proceeds are being drawn down and until LCFS revenue begins to be realized in 2024. Thereafter, principal and interest on the 2021 Bonds are expected to be paid by LCFS credit revenues.

As a result, the JPB expects that the 2021 Bonds, while secured by Measure RR sales tax revenues to ensure maximum creditworthiness and the lowest borrowing cost, will, in actuality, have minimal reliance on Measure RR sales tax revenues to pay debt service, thereby preserving such revenues for Caltrain operations.

The JPB would like to seek authorization to raise 2021 Bond proceeds in an amount not to exceed $140 million to fund additional costs as projected at the time of issuance (which may be higher than the current projections of $75 million), plus capitalized interest and transaction costs.

The JPB is in the process of procuring the services of an underwriting team through an RFP process.

Refunding Sales Tax Bonds – The JPB would like to position itself to refinance the 2019 Farebox Bonds with Measure RR sales tax revenue bonds, if economically feasible. The 2019 Farebox Bonds that mature before October 1, 2039 are callable on October 1, 2029; the 2019 Farebox Bonds that mature in 2044 and 2049 are callable on October 1, 2026. Under current tax laws, any refunding of the 2019 Farebox Bonds before those call dates would need to be implemented on a taxable basis and would not generate economic savings in the current market. However, President Biden's infrastructure proposal, if adopted, may restore tax-exempt advance refundings – which, could result in an economic refunding of the 2019 Farebox Bonds. To position itself to access the market as expeditiously as possible if an opportunity to achieve savings arises, the JPB wishes to obtain each member agency's prior approval to proceed with a refunding of the 2019 Farebox Bonds.