

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst
SUBJECT: September 18, 2013 Budget and Finance Committee Meeting

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Item 1
File 13-0784

Department:
Office of the Treasurer and Tax Collector

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend various sections of the City's Business and Tax Regulations Code to comply with the provisions of Proposition E and to streamline the administration and collection of the City's business taxes.

Key Points

- Proposition E, approved by San Francisco's voters on November 6, 2012, resulted in the establishment of a Gross Receipts Tax, which will be phased in from January 1, 2014 through December 31, 2018 and ultimately replace the City's existing Payroll Expense Tax. Proposition E also made changes to the Payroll Expense Tax, the Business Registration Fee, and the Common Administrative Provisions of the Business and Tax Regulations Code.
- The proposed ordinance would amend various sections of the City's Business and Tax Regulations Code to (a) make all of the Common Administrative Provisions consistent with Proposition E, (b) require monthly installment payments rather than prepayments of Hotel and Parking Taxes, (c) eliminate prepayments of Revenue Control Equipment certification, (d) eliminate the requirement for annual Parking Tax bond renewals, (e) make monthly tax payments consistent with the filing of monthly tax returns, (f) establish a due date for Business Registration fees, (g) exclude penalties from the calculation of interest on tax determinations, (h) add a substantial underreporting penalty for failure to file a return when the tax liability exceeds \$5,000, (i) change the penalties for failure to register or update a business' registration, misstatements, disallowing inspections of records and failure to file a tax return, (j) require that copies of the Business Registration Certificate rather than a separate Business Tax Registration Tag be displayed on company vehicles, (k) eliminate the Tax Collector's authority to suspend a Business Registration Certificate, (l) provide that interest applies only to unpaid penalties but not unpaid fees and interest, (m) change the dates for filing Central Market Street and Tenderloin Area Tax exclusion affidavits from January 31 to December 31 and (n) establish December 31 as the date that the Revenue Control Equipment Compliance Fee is due.

Fiscal Impacts

- Several of the amendments included in the proposed ordinance potentially have fiscal impact, although the Tax Collector's Office estimates that the overall fiscal impact will be negligible.

Recommendation

- Approve the proposed ordinance.

MANDATE STATEMENT / BACKGROUND

Mandate Statement

Charter Section 2.105 requires that legislative acts in San Francisco be by ordinance, subject to approval by a majority of the Board of Supervisors.

Background

Proposition E, approved by San Francisco's voters on November 6, 2012, resulted in the establishment of a Gross Receipts Tax, which will be phased in from January 1, 2014 through December 31, 2018 and ultimately replace the City's existing Payroll Expense Tax. Proposition E also made changes to the Payroll Expense Tax, the Business Registration Fee, and the Common Administrative Provisions of the Business and Tax Regulations Code.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend various sections of the City's Business and Tax Regulations Code to comply with the provisions of Proposition E and to streamline the administration and collection of the City's business taxes.

Tables 1, 2, 3 and 4 below summarize the amendments in the proposed ordinance, the impacted sections of the existing Business and Tax Regulations Code and the background and purpose for each of the proposed amendments.

Table 1: Amendments to Articles 6 and 9 of the Business and Tax Regulations Code

Amendments	Section(s)	Background and Purpose
Inclusion of the Gross Receipts Tax in all Common Administrative Provisions.	6.6-1, 6.8-1, 6.9-1, 6.9-5, 6.9-6, 6.17-2, 6.21-1	San Francisco voters approved a Gross Receipts Tax in November 2012, as codified in Article 12-A-1 of the Business and Tax Regulations Code, which would now be included in all Common Administrative Provisions.
Deletion of all references to prepayments	6.9-1, 6.9-3, 6.9-4, 6.9-6, 6.11-3, 607	The proposed deletions would make Article 6 and 9 consistent with Proposition E by deleting references to <u>prepayments</u> of Hotel and Parking Taxes and Revenue Control Equipment Compliance Fees, which, under the proposed ordinance, would be reported and paid on a <u>monthly</u> basis, thus making prepayments invalid.

Amendments	Section(s)	Background and Purpose
Elimination of requirement for annual Parking Tax bond renewal.	6.6-1	Parking operators are currently required to file annual bonds with the City in graduated amounts corresponding to their annual gross receipts. According to Mr. Greg Kato, the Tax Collector's Policy and Legislative Manager, the surety bond industry interpreted this provision to mean a new bond must be filed annually in addition to existing bonds, thus requiring parking operators to purchase bonds each year and to post increasing amounts of collateral, which became too costly for many parking operators when the bond amounts were increased in 2010 (File No. 10-1099). Under the proposed amendment, parking operators would be required to file only one bond with the City.
Require monthly filing and remittance of Hotel and Parking Taxes, rather than quarterly.	6.9-1	Currently, third-party taxpayers subject to the City's Hotel and Parking Taxes must file tax returns with the Tax Collector's Office quarterly but must pay such taxes to the Tax Collector's Office monthly. The proposed amendment would coordinate and link monthly payments to monthly returns, simplifying the administration of tax collections for the Tax Collector's Office and taxpayers.
Establishment of due date for the remittance of Business Registration Fees.	6.9-1	The proposed ordinance would re-establish an annual due date of May 31 for Business Registration Fees for the fiscal year commencing the following July 1. Prior to Proposition E, May 31 was the due date for Business Registration Fees; however, a due date was not specified in Proposition E to allow the due date to be subsequently changed by ordinance, without requiring voter approval.
Exclusion of penalties from the calculation of interest on tax determinations when taxpayers fail to pay or underpay a tax.	6.11-1	The proposed amendment would exclude penalty amounts from the calculation of interest on tax determinations in order to streamline the calculation of interest owed on delinquent Payroll Expense and Gross Receipts Taxes.
Amendment of the penalty for "substantial underreporting of tax" to include taxpayers who do not file a tax return.	6.17-2	In 2010 the City added a penalty for "substantial underreporting of tax," when the amount of taxes owed exceeds the amount of taxes reported by 25% or more for a taxable period. By basing the penalty on the amount of tax reported in the taxpayer's return, the penalty does not apply to taxpayers who do not file a return. The proposed amendment would redefine "substantial underreporting of tax" to also include taxpayers who do not file a return, when the tax liability exceeds \$5,000.

Amendments	Section(s)	Background and Purpose
Replacement of the existing method of calculating the penalty for failure to comply with Business Registration requirements with a new method of calculating the penalty.	6.17-3	Currently, the penalty for failing to comply with Business Registration requirements, including failure to register, failure to amend registration within 7 days of a material change, material misrepresentation in a registration, or failure to comply with rules and regulations promulgated by the Tax Collector in a timely manner, is equal to the amount of the Business Registration Fee. Proposition E increased annual Business Registration Fees from a range of \$25 to \$500, depending on the amount of Payroll Expense Tax owed, to a range of \$75 to \$35,000, depending on the amount of Payroll Expense/Gross Receipts Tax owed. According to Mr. Kato, the Tax Collector deemed the existing Business Registration Fee penalties to be overly severe as a result of the new Business Registration Fees. The proposed amendment would set the penalty for the above listed infractions the greater of \$100 or the penalty assessed pursuant to Section 6.17-1, the standard penalty for failure to pay any tax to the City, based on the amount of the Business Registration Fee.

Table 2: Amendments to Article 12 of the Business and Tax Regulations Code: Business Registration

Amendment	Section(s)	Background and Purpose
Replace requirement that certain businesses display a separate Business Tax Registration Tag on company vehicles with requirement that such businesses instead display their Business Registration Certificate on company vehicles.	859	Currently only roofing contractors are required to display a separate Business Tax Registration Tag on company vehicles, for which the Tax Collector charges an annual fee of \$30, which covers the cost of issuing the tag. The proposed amendment would eliminate the use of such Business Tax Registration Tags, and allow roofing contractors to display their Business Registration Certificate on company vehicles.
Elimination of the Tax Collector's authority to suspend a Business Registration Certificate.	860	Currently the Tax Collector can revoke or suspend Business Registration Certificates for businesses that fail to comply with any provision of Article 12. According to Mr. Kato, the Tax Collector currently only uses its authority to revoke Business Registration Certificates but does not use its authority to suspend Business Tax Registration Certificates. The proposed amendment would eliminate the Tax Collector's authority to <u>suspend</u> Business Registration Certificates, leaving the Tax Collector only the authority to <u>revoke</u> Business Registration Certificates, consistent with current practice.

Table 3: Amendments to Article 12-A of the Business and Tax Regulations Code: Payroll Expense Tax Ordinance

Amendment	Section(s)	Background and Purpose
Amendment of the Small Business Tax Exemption for the Payroll Expense Tax to exclude unpaid fees and interest from the calculation of interest on penalties for failure to file a tax return.	905.A	Currently, businesses whose annual taxable payroll does not exceed \$250,000 are exempt from payment of the annual Payroll Expense Tax. However, such qualifying small businesses are still required to file annual tax returns. Currently, unpaid penalties, interest and fees accrue interest at 1% per month. The proposed amendment would exclude unpaid fees and interest from the calculation of penalties in order to make the penalty structure for the Small Business Tax Exemption consistent with the penalty structure for businesses that are not subject to the Small Business Tax Exemption.
Amendment to change the date from January 31 to December 31 for an affidavit to be filed with the Office of Economic and Workforce Development by a business claiming the Central Market Street or Tenderloin Area Payroll Expense Tax Exclusions affirming compliance with the eligibility criteria for receiving such Payroll Expense Tax Exclusions.	906.3	The original affidavit due date of January 31 was established to be one month prior to the City's business tax filing due dates. However, Mr. Kato advises that experience has shown that one month is not sufficient time. Businesses currently have to declare their intention to file for these exemptions by November 1 each year to meet an internal administrative deadline of the Office of Economic and Workforce Development, such that moving the filing of the affidavit date up one month should not impact businesses.

Table 4: Amendment to Article 22 of the Business and Tax Regulations Code: Parking Stations; Revenue Control Equipment

Amendment	Section(s)	Background and Purpose
Amendment establishing the date that the Revenue Control Equipment (RCE) Compliance Fee is due to the Tax Collector annually as December 31.	2219.6	Parking Operators are required to pay a RCE Compliance Fee to cover the City's cost of enforcing compliance with the RCE requirements. Currently, Parking Operators pay the \$500 RCE Compliance Fee as part of their last quarterly parking return each year. Given the elimination of quarterly filing of returns by Parking Operators, the proposed ordinance establishes December 31 as the specific date on which the RCE Compliance Fee is due. Effectively, Parking Operators would pay the RCE Compliance Fee at the same time of year under the proposed amendment.

FISCAL IMPACTS

The following amendments included in the proposed ordinance potentially have fiscal impact, although the Tax Collector's Office estimates that the overall fiscal impact will be negligible.

1. Article 6 Section 6.6-1: Elimination of the requirement for annual Parking Tax bond renewal. Mr. Kato advises that elimination of the annual Parking Tax bond would not impact the City's level of risk nor have any fiscal impact on the City because the proposed new provisions specifying that at least one full year of taxes be bonded, are consistent with the level of coverage needed by the City.
2. Article 6 Section 6.11-1: Exclusion of penalties from the calculation of interest on tax determinations when taxpayers fail to pay or underpay a tax. According to Mr. Kato, the number of taxpayers penalized and the amounts of such penalties are so low that excluding penalty amounts from the calculation of interest on tax determinations are estimated to be negligible.
3. Article 6, Section 6.17-2: Amendment of the penalty for "substantial underreporting of tax" to include both (a) the existing provision, when the amount of taxes owed exceeds the amount of taxes reported by 25% or more, and (b) the new provision, for taxpayers who do not file a tax return when their tax liability is \$5,000 or more. According to Mr. Kato, the proposed threshold of \$5,000 or more is based on the Tax Collector's Bureau of Delinquent Revenue practices. Mr. Kato advises that this amendment would result in an unknown increase in revenue to the City, based on the number of taxpayers who do not file a tax return and are determined to have tax liabilities exceeding \$5,000.
4. Article 6, Section 6.17-3: Replacement of the existing method of calculating the penalty for failure to comply with Business Registration requirements with a new method of calculating the penalty. Mr. Kato advises that the proposed amendment is intended to make the penalty for failure to comply with Business Registration requirements consistent with the penalties for other taxes. Mr. Kato further advises that because these post-Proposition E penalty provisions were not yet implemented, the fiscal impact of the proposed change is unknown.
5. Article 12, Section 859: Replace the requirement that roofing contractors display a separate Business Tax Registration Tag on company vehicles with requirement that such businesses instead display their business's Business Registration Certificate on company vehicles. The Tax Collector currently charges an annual fee of \$30 for each Business Tax Registration Tag issued to cover the cost of issuing each Tag. According to Mr. Kato, the number of tags issued annually does not exceed 10. Therefore, eliminating Business Tax Registration Tags would result in a loss of up to \$300 annually to the City, while also reducing the Tax Collector's cost to issue such separate Business Tax Registration Tags.
6. Article 12-A, Section 905.A: Amendment of the Small Business Tax Exemption to exclude unpaid fees and interest from the calculation of penalties for failure to file a tax return. According to Mr. Kato, the proposed amendment is projected to result in a negligible loss of revenue to the City.

RECOMMENDATION

Approve the proposed ordinance.

Items 2 and 3
Files 13-0861 and 13-0866

Department:
 San Francisco Municipal
 Transportation Agency (SFMTA)

EXECUTIVE SUMMARY

Legislative Objective

The proposed resolution (File 13-0866) would authorize the San Francisco Municipal Transportation Agency (SFMTA) to issue not-to-exceed \$165,000,000 in revenue bonds; and the proposed ordinance (File 13-0861) would appropriate \$165,000,000 in bond proceeds to transit, bicycle, pedestrian and parking garage capital improvement projects, and debt service reserve and financing costs.

Key Points

- Proposition A, approved by San Francisco voters in 2007, authorized SFMTA to issue revenue bonds to finance transit, parking and other capital improvement projects without further voter approval, subject to Board of Supervisors' approval. SFMTA did not request Board of Supervisors approval to issue debt until 2012, instead funding capital projects on a cash basis. The Board of Supervisors approved SFMTA's first issuance of revenue bonds in an amount not-to-exceed \$80,000,000 in 2012. SFMTA issued \$63,795,000 in Series 2012 Revenue Bonds to (a) refund outstanding lease revenue and parking revenue bonds previously issued by the San Francisco Parking Authority and three non-profit parking corporations, and (b) finance transit and parking projects. According to Ms. Nadia Sesay, Director of Public Finance, because the difference of \$16,205,000 between the authorized Series 2012 Revenue Bonds of \$80,000,000 and the actual issuance of \$63,795,000 was due to changes in financing costs, SFMTA will not be able to use this authorization for future issuances.
- The proposed Series 2013 Revenue Bonds of \$165,000,000 would fund \$150,000,000 in capital projects and \$15,000,000 in debt service reserve and financing costs. Capital projects included (1) pedestrian safety and transit signal improvements; (2) street capital improvements and bicycle projects; (3) transit system improvements; (4) parking garage and Muni facility improvements; and (5) light rail vehicle procurement.

Fiscal Impact

- The proposed resolution establishes a maximum interest rate on the proposed Series 2013 Revenue Bonds not to exceed 12 percent. According to SFMTA, the actual interest rate based on current market conditions is expected to range from 4.5 percent to 6.5 percent.
- Estimated total debt service on the proposed Series 2013 Revenue Bonds is \$363.4 million, of which \$198.4 million is interest and \$165 million is principal, Estimated annual debt service on the proposed Series 2013 Revenue Bonds is \$12.3 million. Estimated combined annual debt service on the Series 2012 Revenue Bonds and Series 2013 Revenue Bonds is \$18.4 million in FY 2014-15, the first full year of debt service payments on the Series 2012 and 2013 bonds.

- SFMTA will repay the bonds from annual pledged operating revenues of \$540.8 million, which includes revenues from passenger fares, traffic and taxis fees and permits, parking meters and parking garages, and other SFMTA operating revenues. SFMTA does not include the General Fund Baseline Transfer or the General Fund Transfer in Lieu of Parking Tax in the revenues pledged to repay these bonds. According to the official statement for the revenue bonds, SFMTA is not obligated to pay principal or interest on the bonds from any source of funds other than the pledged revenues, and the City's General Fund is therefore not liable for the payment of the principal or interest on the subject bonds.
- According to SFMTA's debt policy, aggregate annual debt service on long-term debt should not exceed 5 percent of SFMTA's annual operating expenses. Based on financial projections provided by SFMTA, combined annual debt service on the Series 2012 and Series 2013 Revenue Bonds does not exceed 2.22 percent of annual operating expenses over the 30-year term of the bonds.

Recommendation

- Approve the proposed resolution (File 13-0866) and the proposed ordinance (File 13-0861).

MANDATE STATEMENT

Charter Section 8A.102(b)(13) authorizes the San Francisco Municipal Transportation Agency (SFMTA) to incur debt and issue bonds, notes, certificates of indebtedness, commercial paper, financing leases, certificates of participation and other debt instruments without further voter approval, subject to Board of Supervisors approval. Charter Section 8A.102(b)(13) requires that (1) the Controller must first certify that SFMTA has sufficient unencumbered fund balances available in the appropriate fund to meet all payments on debt obligations as they become due; and (2) any debt obligation, if secured, is secured by revenues or assets under the jurisdiction of the SFMTA.

Charter Section 9.105 requires Board of Supervisors' approval of amendments to the Annual Appropriation Ordinance after the Controller certifies availability of funds.

BACKGROUND

SFMTA's Prior Issuance of Debt

In 2007 San Francisco voters approved Proposition A, amending the Charter to add Section 8A.102, authorizing SFMTA to issue revenue bonds and other forms of indebtedness without further voter approval, subject to Board of Supervisors' approval. SFMTA did not request Board of Supervisors approval to issue debt until 2012, instead funding capital projects on a cash basis with available federal, state and local grants, San Francisco County Transportation Authority (SFCTA) sales tax revenues (Proposition K, which authorized a ½ cent sales tax to pay for transportation projects), and SFMTA operating funds.

SFMTA Debt Policy and Board of Directors' Oversight

SFMTA implemented a debt policy in 2011 that established SFMTA's process, guidelines, restrictions, and financial criteria for issuing debt to fund capital projects. The debt policy requires that SFMTA projects financed by debt must be consistent with the five-year capital investment plan and capital budget; and that SFMTA maintain rainy day and debt reserves.

The Board of Directors received training in November 2011 regarding its due diligence and disclosure obligations under federal securities laws.

The Board of Directors approved an updated debt policy in April 2013 that established SFMTA's objectives to:

- Assure the timely delivery and finance of capital projects in accordance with the priorities identified within the City's Charter;
- Achieve the lowest cost of borrowing while identifying mitigation factors for any additional risk to the SFMTA;
- Preserve future financial flexibility; and
- Maintain strong credit ratings and good investor relations.

Revenue Bond Oversight Committee

The SFMTA Board of Directors approved a SFMTA Bond Oversight Committee in 2011, comprised of seven members, including three members recommended by the Chair and approved by the Board of Directors, two members appointed by the SFMTA Citizens' Advisory Council, one member appointed by the Director of Transportation, and one member appointed by the Controller.

According to Ms. Sonali Bose, SFMTA Chief Financial Officer, the Bond Oversight Committee Rules state that the Committee will issue their first audit of the bond program in approximately January 2014.

2012 Revenue Bonds

In April 2012 the Board of Supervisors approved an ordinance amending the City's Administrative Code, authorizing SFMTA to issue revenue bonds (File 11-1354). At the same time, the Board of Supervisors approved (1) issuance of \$80,000,000 in revenue bonds by SFMTA (File 11-1341), and (2) appropriation of \$75,235,000 in revenue bond proceeds (Files 12-0242 and 12-0243), as shown in Table 1 below.

Table 1: Prior Revenue Bond Appropriation

Series	Amount	Purpose
2012 Series A Parking Garage Refunding Revenue Bonds (File 12-0242)	\$46,935,000	Refunds lease revenue and parking revenue bonds previously issued by the San Francisco Parking Authority, and by three non-profit parking corporations (Ellis-O'Farrell, Downtown, and Uptown) to fund improvements to the parking garages.
2012 Series B Revenue Bonds (File 12-0243)	28,300,000	Funds for system wide transit access and reliability program projects, Muni Metro projects, light rail facility rehabilitation, radio replacement, and parking projects.
Total	\$75,235,000	

According to Ms. Bose, SFMTA has issued \$63,795,000 of the authorized revenue bonds of \$80,000,000 (a difference of \$16,205,000) as follows:

- \$37,960,000 of 2012 Series A Parking Garage Refunding Revenue Bonds were used to refund outstanding revenue bonds previously issued by the San Francisco Parking Authority and Ellis-O'Farrell, Downtown, and Uptown Parking Corporations. According to Ms. Bose, SFMTA issued \$37,960,000 in refunding bonds rather than the authorized amount of \$46,935,000 because SFMTA received additional proceeds from the issuance of premium bonds¹, received transfers of funds on hand from the parking corporations, and deposited less bond proceeds than anticipated into the reserve fund.

¹ A premium bond trades above its par value, in which investors paid a higher price for the bonds than the principal amount. According to Ms. Nadia Sesay, Director of the Office of Public Finance, the purchase price of the bonds was par amount of \$63.8 million plus a premium of \$7.3 million, resulting in proceeds of \$71.3 million.

- \$25,835,000 were 2012 Series B Revenue Bonds to fund system-wide transit access and reliability program projects, Muni Metro projects, light rail facility rehabilitation, radio replacement, and parking projects. According to Ms. Bose, SFMTA issued \$25,835,000 in revenue bonds rather than the authorized amount of \$28,300,000 because SFMTA received additional proceeds from the issuance of premium bonds and deposited less bond proceeds than anticipated into the reserve fund.

According to Ms. Nadia Sesay, Director of Public Finance, because the difference of \$16,205,000 between the authorized Series 2012 Revenue Bonds of \$80,000,000 and the actual bond issuance of \$63,795,000 was due to changes in financing rather than project costs, SFMTA will not be able to use this authorization for future issuances. According to Ms. Bose, SFMTA has confirmed that SFMTA has no plans to use this authorization for future issuances.

Revised Project Allocations

In December 2012, the Budget and Finance Committee approved release of \$1,600,000 of the Series 2012B Revenue Bonds to partially pay for SFMTA's Radio System Replacement Project, which the Committee had previously reserved when the Board of Supervisors approved the appropriation of the bond proceeds (File 12-1116). Funding sources for the project totaled \$114.9 million, which included federal and state grants, operating revenues, SFCTA sales tax, SFMTA operating revenues, and other funds.

In August 2013, the SFMTA Board of Directors approved re-allocation of (a) \$1,600,000 from the Radio System Replacement Project to the Systemwide Transit Access and Reliability Program, and (b) \$324,500 from the Muni Green Light Rail Facility to the Muni Metro System Public Announcement and Public Display System, as shown in Table 2 below.²

Table 2: Revised Project Allocation

	Original Allocation	Revised Allocation	Change
Systemwide Transit Access and Reliability Program	\$1,500,000	\$3,100,000	\$1,600,000
Muni Metro Sunset Tunnel Rail Rehabilitation	900,000	900,000	0
Muni Metro Turnback Rehabilitation	3,000,000	3,000,000	0
Muni Metro System Public Announcement and Public Display System	6,500,000	6,175,500	(324,500)
Muni System Radio Replacement Project	1,600,000	0	(1,600,000)
Muni Green Light Rail Facility Rehabilitation	7,200,000	7,524,500	324,500
Parking Garage Projects	5,000,000	5,000,000	0
TOTAL	\$25,700,000	\$25,700,000	\$0

According to Ms. Bose, SFMTA re-allocated:

- \$1.6 million from the Radio Replacement Project because this project has other funding sources and does not immediately require revenue bond funds. SFMTA has included

² Board of Supervisors' approval for the re-allocation of funds was not required, because the appropriation ordinance appropriated funds to the transit project capital improvement program rather than to specific projects.

\$1.6 million for the Radio Replacement Project in the proposed \$165,000,000 in 2013 Revenue Bonds.

- \$324,500 to the Muni Green Light Rail Facility to pay for increased roof replacement costs.

2013 Commercial Paper

The Board of Supervisors approved SFMTA's issuance of \$100,000,000 in commercial paper³ in July 2013 to provide interim financing for SFTMA's capital program. The SFMTA Board of Directors approved a five-year, \$3.06 billion capital improvement plan for FY 2013-17, including a \$477.8 million capital budget for FY 2013-14. SFMTA intended to use commercial paper to finance the Central Subway, pedestrian safety, traffic signal and other projects.

According to Ms. Bose, SFMTA expects to obtain the letter of credit for the \$100,000,000 in commercial paper from State Street Bank and Trust Company during the week of September 16, 2013. No commercial paper has been issued at this time.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution (File 13-0866):

- (1) Authorizes the sale, issuance and execution of not-to-exceed \$165,000,000 aggregate principal amount of revenue bonds (Series 2013 Revenue Bonds) by the San Francisco Municipal Transportation Agency (SFMTA) to finance certain transportation related projects;
- (2) Approves the form of certain financing documents, including the official statement, the bond purchase contract, the second supplement to indenture of trust, and continuing disclosure certificate;
- (3) Authorizes the taking of appropriate actions in connection with the approval of the financing documents;
- (4) Approves the maximum interest on the bonds; and
- (5) Finds that the authorization and issuance of the revenue bonds by SFMTA is not a project under the California Environmental Quality Act (CEQA), CEQA Guidelines and San Francisco Administrative Code Chapter 31.

The proposed ordinance appropriates \$165,000,000 in Series 2013 Revenue Bonds to fund transit, bicycle, pedestrian and parking garage projects and equipment in FY 2013-14.

The proposed ordinance (File 13-0861) would appropriate the \$165,000,000 of 2013 Series Revenue Bond proceeds to the SFMTA for transit, bicycle, pedestrian and parking garage projects and equipment in FY 2013-14.

³ Commercial paper is an alternative form of short-term interim financing for capital projects that permits the City to pay project costs on an ongoing basis. Commercial paper has a fixed maturity date from one to 270 days and provides for refinancing of the commercial paper with subsequent issuance of commercial paper or other forms of debt, such as bonds. The use of commercial paper can reduce overall borrowing costs associated with the issuance of long term debt because commercial paper interest rates are typically lower than long-term interest rates.

SFMTA is requesting Board of Supervisors' approval to issue up to \$165,000,000 in 2013 Series Revenue Bonds to pay for capital projects and bond issuance costs, as follows:

Table 3: Sources and Uses

Sources	Amount
Par Amount	\$165,000,000
Total Sources	\$165,000,000
Uses	
Capital Projects	\$150,000,000
Debt Service Reserve Fund (7.5% of Par Amount)	12,300,000
Costs of Issuance (1.2% of Par Amount)	2,000,000
Audit Set Aside (2% of Capital Projects)	300,000
Reserve Pending Sale - Market Uncertainty	400,000
Total Uses	\$165,000,000

The debt service reserve will be used to pay debt service if SFMTA's revenues pledged to pay debt service are insufficient, and shall be replenished at such time. SFMTA proposes to fund the debt service reserve at the lesser of (a) maximum annual debt service, (b) 125 percent of average annual debt service, or (c) 10 percent of the outstanding principal amount of the bonds.

Issuance costs include the fees for the co-financial advisors, co-bond counsel, disclosure counsel, underwriters and their counsel, rating agency fees, and other expenses related to the issuance of the requested bonds.

SFMTA proposes to allocate \$150,000,000 in bond proceeds to the following projects:

Table 4: Project Allocation

Project	Allocation
Pedestrian Safety/ Transit Signal Improvements	\$16,000,000
Street Capital Improvements (Bicycle Projects)	14,000,000
Transit Fixed Guideway Improvements	30,500,000
Muni Transit System Safety and Spot Improvements	18,500,000
Facility Improvements	46,000,000
Muni Light Rail Vehicle Procurement	25,000,000
Total	\$150,000,000

These projects are included in the SFMTA's five-year FY 2013-17 capital improvement plan. The bond funds will pay for project development and capital costs for:

- Pedestrian safety/transit signal improvements, including installation of red light photo enforcement equipment; construction of pedestrian islands in the medians of major thoroughfares, sidewalk bulb-outs, and wider sidewalks; installation of traffic and pedestrian signs that include countdowns and accessible signals; and construction of targeted traffic calming projects.
- Street capital improvements, including new bicycle facilities (bicycle lanes, and boulevards, bicycle parking and boxes), traffic signal coordination, curb extensions, storm water management features, and other improvements.

- Transit fixed guideway improvements, including replacement of overhead wires, poles and traction power systems, improvements to SFMTA's transportation central control facilities and systems, Americans with Disabilities Act (ADA) ramps for light rail vehicle boarding, and replacement of light rail vehicle and cable care tracks and related systems.
- Muni transit system safety and spot improvements, including replacement of SFMTA's communication and dispatching system, new vehicle on-board and fixed route information system components for computer-aided dispatch and automatic vehicle location, vehicle health monitoring, on-board ADA compliant information for riders, automated fare collection, and other improvements.
- Facility improvements, including seismic upgrades to SFMTA parking garages, and Muni operations and maintenance facilities.
- Muni light rail vehicle procurement to replace existing vehicles and add new vehicles to accommodate growth in service.

Total costs for these projects are \$478,639,012, which includes \$150,000,000 in proposed revenue bonds and \$327,739,012 in other funds as shown in Attachment I, provided by SFMTA.

Capital Planning Committee Approval

The Capital Planning Committee approved the proposed projects, issuance of the associated revenue bonds and appropriation of the bond proceeds to fund these projects in their meeting on September 9, 2013.

California Environmental Quality Act (CEQA)

The proposed resolution finds that issuing the proposed Series 2013 Revenue Bonds is not subject to CEQA. According to Ms. Bose, individual projects funded by the bonds may be subject to environmental review under CEQA but issuance of the bonds is not.

FISCAL IMPACT

The proposed resolution (File 13-0866) would authorize SFMTA to issue not-to-exceed \$165,000,000 in Series 2013 Revenue Bonds. The proposed ordinance (File 13-0861) would appropriate \$165,000,000 in revenue bond proceeds, including \$150,000,000 for project costs and \$15,000,000 for debt reserve and debt issuance costs.

Interest Rates and Costs

The proposed resolution establishes a maximum interest rate on the proposed Series 2013 Revenue Bonds not to exceed 12 percent. According to Ms. Bose, the actual interest rate based on current market conditions is expected to range from 4.5 percent to 6.5 percent.

The SFMTA anticipates issuing fixed rate, tax exempt revenue bonds with a true interest cost of 6.43 percent.⁴ As shown in Attachment II, estimated total debt service over 30 years is \$363.4

⁴ The true interest cost includes all ancillary fees and costs, such as finance charges, discount points, and prepaid interest. SFMTA estimates true interest cost of 6.43 percent based on the annual debt service payments shown in Attachment II; however, given current market conditions, SFMTA now anticipates a true interest cost of 5.23 percent.

million, of which \$198.4 million is interest and \$165 million is principal. The annual debt service on the proposed revenue bonds will be \$12.3 million. Estimated combined annual debt service on the Series 2012A Refunding Bonds, Series 2012B Revenue Bonds, and Series 2013 Revenue Bonds is \$18.4 million in FY 2014-15, the first full year of debt service payments on the Series 2012 and 2013 Bonds.

Pledged Revenues

SFMTA will repay the bonds from annual pledged revenues of approximately \$540,831,000 (FY 2012-13) as shown in Table 5 below:

Table 5: SFMTA's Pledged Revenues

Revenue Sources	FY 2012-13 Revenues	SFMTA Estimate of Annual Growth Rate
Passenger fares	\$212,227,000	5% every 2 years
Traffic fines, fees, permits and taxis	123,557,000	2.45% (Bay Area CPI)
Parking meters	49,944,000	2.45% (Bay Area CPI)
Parking garages	51,745,000	2.45% (Bay Area CPI)
Other operating revenues	26,437,000	2.45% (Bay Area CPI)
State sales tax	34,812,000	2.45% (Bay Area CPI)
Other sales tax	42,108,000	2.45% (Bay Area CPI)
Total	\$540,831,000	

SFMTA does not include the General Fund Baseline Transfer or the General Fund Transfer in Lieu of Parking Tax in the revenues pledged to repay these bonds. According to the official statement for the revenue bonds, SFMTA is not obligated to pay principal or interest on the bonds from any source of funds other than the pledged revenues, and the City's General Fund is therefore not liable for payment of the principal or interest on the subject bonds.

Debt Service as a Percent of Operating Expenses

According to SFMTA's debt policy, aggregate annual debt service on long-term debt should not exceed 5 percent of SFMTA's annual operating expenses. Based on financial projections provided by SFMTA, combined annual debt service on the Series 2012A, Series 2012B, and Series 2013 Bonds does not exceed 2.22 percent of annual operating expenses over the 30-year term of the bonds.

SFMTA's capital program anticipates additional revenue bond issuances to pay for additional capital projects: an estimated \$163 million in new revenue bonds in 2016 and an estimated \$165 million in new revenue bonds in 2019, totaling \$328 million. If SFMTA issues these revenue bonds in 2016 and 2019, estimated combined annual debt service for all new and outstanding revenue bonds over the term of the bonds will not exceed 4.99 percent of annual operating expenses over the term of the bonds, in accordance with the SFMTA's debt policy.

Debt Service Ratio

The debt service ratio is a measure of SFMTA's ability to generate sufficient revenues to pay operating expenses and debt service.⁵ The debt service ratio should exceed 1.0. Most commercial banks require that the debt service ratio exceed 1.15 to 1.35.

SFMTA's annual payments on the Series 2012A, 2012B, and 2013 Bonds will result in a net revenue debt service ratio of 3.33 in 2015, increasing to 4.03 in 2021 as annual debt service on the Series 2012A and 2012B bonds decreases.

Negotiated Sale of Bonds

The Series 2013 Revenue Bonds will be sold by negotiated sale. According to Ms. Bose, because two credit rating agencies have previously rated SFMTA bonds with different scores⁶, a negotiated sale provides the opportunity for SFMTA to present its key credit components directly to investors and focus marketing efforts to specific potential buyers.

Appropriation Ordinance

The proposed ordinance appropriates (a) \$90,000,000 to the transit capital improvement program transit projects; and (b) \$60,000,000 to the pedestrian, bicycle and parking capital improvement program. While Board of Supervisors' approval is required to reallocate funds between the transit capital improvement program and the pedestrian, bicycle and parking capital improvement program, the SFMTA Board of Directors can authorize the reallocation of funds within the transit capital improvement program and within the pedestrian, bicycle and parking capital improvement program without further Board of Supervisors' approval. The Revenue Bond Oversight Committee was established by the SFMTA Board of Directors to oversee the spending of bond proceeds and inform the Board of Directors and the public on the status of the projects funded by debt.

RECOMMENDATION

Approve the proposed resolution (File 13-0866) and the proposed ordinance (File 13-0861).

⁵ The debt service ratio equals annual net income (including depreciation, interest expense and other expenses) divided by principal and interest payments.

⁶ In 2012 Moody's rated SFMTA bonds as Aa3, which is a higher score (high grade) than Standard and Poors rating of A (upper medium grade). SFMTA's credit will be reviewed by the ratings analysts prior to issuing the Series 2013 bonds.

SFMTA-Bond(A)-FY14 Programming Recommendation

Category/Project	Outcome/Impact	Total Bond Funds	Other Funds	Total Budget	Planning	Design	Construction	Start Date	Delivery Timeline	End Date	Env Clearance Status	Project Manager	% Soft Costs*
I. Pedestrian Safety/Traffic Signal Improvements													
Ped/Traffic Signal Improvements	Design and construct 12 Pedestrian Countdown Signals, and 11 Accessible Pedestrian Signals.	\$3,000,000	\$0	\$3,000,000	\$0	\$450,000	\$2,550,000	July 2013	December 2015		Exempt	Manlio Velasco	15%
Pedestrian Safety Capital Improvements	Deliver pedestrian safety improvements specified in the Pedestrian Strategy on SF's high injury corridors. Improvements could include targeted traffic calming projects that have clear pedestrian benefit. Traffic Calming has a current backlog of projects valued at \$6M.	\$13,000,000	\$0	\$13,000,000	\$0	\$1,950,000	\$11,050,000	February 2014	April 2016		TBD	Selena Reynolds	15%
II. Complete Street Capital Improvements													
Masonic Streetscape	Improve pedestrian and bicycle safety conditions to support mode shift as a result of improved facilities.	\$8,000,000	\$10,227,540	\$18,227,540	\$0	\$2,339,662	\$15,887,878	September 2013	October 2016		Complete	Ken Kwong	13%
Bicycle Strategy Capital Projects	Improve bicycle safety conditions and mode shift as a result of improved capital facilities. Final project will be selected by January 2014, but example projects include 7th Street & 8th Street, The Embarcadero, and Folsom St & Howard St.	\$6,000,000	\$0	\$6,000,000	\$300,000	\$600,000	\$5,700,000	Underway	October 2016		TBD	Bridget Smith	15%
III. Muni Transit Fixed Guideway Improvements													
B. Sunset Tunnel Rehabilitation	Required of the CPUC investigation and includes seismic upgrades to improve facility safety.	\$7,500,000	\$23,600,000	\$32,000,000	\$0	\$4,800,000	\$27,200,000	Underway	October 2014		Complete	Tess Kavanagh	15%
N Judah & L Taraval Transit Signal Upgrades	Infrastructure to enable Transit Signal Priority.	\$8,000,000	\$2,000,000	\$10,000,000	\$469,560	\$1,156,680	\$8,373,760	November 2013	July 2016		Exempt	Henry Kim	16%
Twin Peaks Tunnel	Seismic upgrades to improve facility safety.	\$15,000,000	\$31,872,080	\$46,872,080	\$750,000	\$5,991,410	\$40,130,670	Underway	February 2015		Complete	David Greenaway	14%
IV. Muni Transit System Safety and Spot Improvements													
E. Radio Replacement Project	Improve communications system between central control and operators to improve operations.	\$4,000,000	\$112,497,000	\$116,497,000	\$0	\$17,474,550	\$99,022,450	Underway	October 2015		Complete	Henry Kim	15%
Blue Light Phones	Design and install modern blue light phone system to support the safety of SFMTA Muni Metro facilities.	\$9,500,000	\$10,942,392	\$20,442,392	\$0	\$1,744,086	\$18,698,306	December 2013	September 2016		Complete	Frank Lau	9%
Transit Spot Improvements	Spot improvements represent a category of capital treatments (examples include: bus bulbs and signal changes) to improve transit safety, reliability, and travel time throughout the MUNI system. Spot improvements may be constructed at isolated locations or to integrate transit benefits into larger multimodal efforts.	\$5,000,000	\$1,600,000	\$6,600,000	\$0	\$990,000	\$5,610,000	January 2014	December 2016		Exempt or CEQA Required	Britt Tanner	15%
V. Facility Improvements													
Operator Restrooms	Provide a safe and reliable working environment for SFMTA operators by installing operator restrooms in areas without available facilities.	\$6,000,000	\$0	\$6,000,000	\$0	\$1,100,000	\$4,900,000	December 2013	December 2015		Complete	Tess Kavanagh	18%
Parking Facility Rehabilitation and Improvements	Maintain the SOGR of SFMTA parking garages.	\$30,000,000	\$0	\$30,000,000	\$0	\$4,500,000	\$25,500,000	December 2013	October 2016		Exempt	Amit Kholari	15%
Transit Facility Rehabilitation and Improvements	Maintain the SOGR of SFMTA Muni operations facilities (Priority projects include: Islais Creek and MME Equipment).	\$10,000,000	\$0	\$10,000,000	\$0	\$1,500,000	\$8,500,000	Underway	October 2016		Complete	David Greenaway	15%
VI. MUNI Fleet													
LRV Procurement	Purchase LRV vehicles (part of larger LRV procurement).	\$25,000,000	\$135,000,000	\$160,000,000	\$0	\$24,000,000	\$136,000,000	Underway	Varies		Exempt	Trinh Nguyen	15%

* Bond Funds will not pay for more than 15% of total soft costs

\$150,000,000 \$327,739,012 \$478,639,012

SFMTA-Bond(A)-FY14 Programming Recommendation

	2013				2014				2015				2016	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
I. Pedestrian Safety/Traffic Signal Improvements														
Ped/Traffic Signal Improvements														
Pedestrian Safety Capital Improvements														
II. Complete Street Capital Improvements														
Bicycle Strategy Capital Projects														
Masonic Streetscape														
III. Muni Transit Fixed Guideway Improvements														
B. Sunset Tunnel Rehabilitation														**
N Judah & L Taraval Transit Signal Upgrades														**
Twin Peaks Tunnel														
IV. Muni Transit System Safety and Spot Improvements														
Blue Light Phones														
E. Radio Replacement Project														
Transit Spot Improvements														**
V. Facility Improvements														
Operator Restrooms														
Parking Facility Rehabilitation and Improvements														
Transit Facility Rehabilitation and Improvements														**
VI. MUNI Fleet														
LRV Procurement														
Procurement														>>

** Overlapping Design and Construction Periods



Annual and Total Debt Service
Series 2012A Refunding Bonds, Series 2012B Revenue Bonds,
Proposed Series 2013 Revenue Bonds

Fiscal Year Ending:	Series 2012A	Series 2012B	2012 Total	Series 2013	Total Debt Service
6/30/2013	\$4,142,104	\$789,080	\$4,931,184		4,931,184
6/30/2014	4,923,750	1,235,081	6,158,831	7,099,858	13,258,689
6/30/2015	4,924,300	1,235,081	6,159,381	12,287,862	18,447,243
6/30/2016	4,927,700	1,235,081	6,162,781	12,286,945	18,449,726
6/30/2017	4,909,950	1,235,081	6,145,031	12,284,611	18,429,642
6/30/2018	4,514,200	1,235,081	5,749,281	12,288,524	18,037,805
6/30/2019	3,639,000	1,235,081	4,874,081	12,285,743	17,159,824
6/30/2020	3,650,500	1,235,081	4,885,581	12,286,716	17,172,297
6/30/2021	1,744,500	1,235,081	2,979,581	12,288,278	15,267,859
6/30/2022	1,741,500	1,235,081	2,976,581	12,284,596	15,261,177
6/30/2023	1,215,750	1,580,081	2,795,831	12,288,271	15,084,102
6/30/2024	1,213,250	1,582,831	2,796,081	12,288,112	15,084,193
6/30/2025	1,209,000	1,589,581	2,798,581	12,287,310	15,085,891
6/30/2026	1,208,000	1,587,881	2,795,881	12,284,000	15,079,881
6/30/2027	1,205,000	1,590,381	2,795,381	12,288,149	15,083,530
6/30/2028	1,205,000	1,591,894	2,796,894	12,285,548	15,082,442
6/30/2029	1,202,750	1,592,381	2,795,131	12,284,305	15,079,436
6/30/2030	1,203,250	1,591,806	2,795,056	12,286,502	15,081,558
6/30/2031	1,196,250	1,600,706	2,796,956	12,286,435	15,083,391
6/30/2032	1,197,000	1,598,125	2,795,125	12,287,850	15,082,975
6/30/2033		2,795,000	2,795,000	12,285,841	15,080,841
6/30/2034		2,799,250	2,799,250	12,284,694	15,083,944
6/30/2035		2,799,000	2,799,000	12,285,320	15,084,320
6/30/2036		2,799,250	2,799,250	12,287,007	15,086,257
6/30/2037		2,799,750	2,799,750	12,287,736	15,087,486
6/30/2038		2,795,250	2,795,250	12,285,488	15,080,738
6/30/2039		2,795,750	2,795,750	12,288,244	15,083,994
6/30/2040		2,795,750	2,795,750	12,286,240	15,081,990
6/30/2041		2,795,000	2,795,000	12,288,376	15,083,376
6/30/2042		2,798,250	2,798,250	12,286,587	15,084,837
6/30/2043				12,283,150	12,283,150
TOTAL	\$51,172,754	\$55,782,730	\$106,955,484	\$363,408,286	\$470,363,770