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December 18, 2020

The Honorable Members of the Board of Supervisors
City and County of San Francisco
1 Dr. Carlton Goodlett Place, Room 244
San Francisco, CA 94102

Subject: Resolution authorizing the sale, issuance and execution of not to exceed \$185,000,000 aggregate principal amount on a tax-exempt or taxable basis of refunding revenue bonds by the Municipal Transportation Agency to refinance all or a portion of outstanding bonds.

Honorable Members of the Board of Supervisors:

The San Francisco Municipal Transportation Agency (SFMTA) requests authorizing the issuance of taxable or tax-exempt Refunding Revenue Bonds in an amount not to exceed \$185 million (Refunding Bonds) to refinance all or a portion of the Series 2012A, 2012B, 2013; and 2014 Revenue Bonds (collectively, Prior Bonds) to lower agency debt service costs and increase cash flow to provide near-term budget relief.

Background

This report relates to the SFMTA's proposed refinancing of Prior Bonds, the proceeds of which are now fully expended, excepting a de minimis balance for Series 2013, and a \$4.4 million balance for Series 2014. While the proceeds are effectively expended, SFMTA must now pay the remaining debt service on the Prior Bonds. Refunding the bonds will allow the Agency to refinance its debt and receive a lower interest rate, saving the Agency in ongoing debt service costs while retaining the same payback schedule.

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.”

Revenue Bonds are issued against “Pledged Revenues,” defined under the Indenture to mean all revenue of the SFMTA from or with respect to its management, supervision, operation and control of the Transportation System of the City, as determined in accordance with generally accepted accounting principles. Pledged Revenues include but are not limited to: (a) grants or transfers funded pursuant to the Transportation Development Act (codified at Sections 99200 et seq. of the California Public Utilities Code) (the TDA) and Assembly Bill 1107 (codified at Sections 29140 et seq. of the Public Utilities Code) (AB 1107), and (b) SFMTA parking meter revenues (but only to the extent Bonds or other Parity Obligations have financed traffic regulation and control functions), (c) transit fares, (d) the Traffic Congestion Mitigation Tax or “Transportation Network Company (TNC) Tax.”

Pledged Revenues do not include: (a) Special Facility Revenue and any interest income or profit realized from the investment thereof, unless such receipts or a portion thereof are designated as Pledged Revenues by the SFMTA, (b) grants or contributions, which by their terms would be restricted to uses inconsistent with the payment of the Bonds, (c) any State or federal grant (except for grants or transfers funded pursuant to the TDA or AB 1107) unless such grant by its terms may be used to pay debt service and is designated as Pledged Revenues in a Supplemental

In 2011, the Board established the SFMTA Bond Oversight Committee (BOC) to oversee the expenditure of bond proceeds funded by SFMTA revenue bonds and other forms of indebtedness. The purpose of the BOC is to ensure that bond proceeds are spent on permitted purposes and that prudent internal controls are established. The BOC consists of seven members: three members recommended by the Chair of the Board and approved by the Board, two members of the SFMTA’s Citizens’ Advisory Council, one member appointed by the SFMTA’s Director of Transportation (DOT) and one member appointed by the City Controller (the Controller). The BOC provides annual reports about its activities. If the DOT decides to issue new money as a part of this proposed transaction, the BOC will provide oversight of the expenditure of proceeds. The BOC’s annual reports and past quarterly project progress reports can be found at <https://www.sfmta.com/committees/sfmta-bond-oversight-committee-boc>.

The Agency issued Prior Bonds for the following purposes:

1. The Series 2012A Bonds were issued to (i) refund prior bonds issued by the Parking Authority, the City of San Francisco Ellis-O’Farrell Parking Corporation, the City of San Francisco Downtown Parking Corporation and the City of San Francisco Uptown Parking Corporation.
2. The Series 2012B Bonds were issued to finance (i) Systemwide Transit Access and Reliability (Transit Signal Priority) Program, (ii) Muni Metro Sunset Tunnel Rail Rehabilitation, (iii) Muni



- Metro Turnback Rehabilitation, (iv) Muni Metro System Public Announcement and Public Display System Replacement, (v) Muni System Radio Replacement Project, (vi) Muni Green Light Rail Facility Rehabilitation, and (vii) major rehabilitation, preservation, and improvement of existing parking facilities.
3. The Series 2013 Bonds were issued to finance (i) Pedestrian Safety and Traffic Signal Improvements, (ii) Transit System Safety and Other Transit Improvements, (iii) Street Capital Improvements, (iv) Facility Improvements, (v) Transit Fixed Guideway Improvements, and (vi) Light Rail Vehicle Procurement.
 4. The Series 2014 Bonds were issued to finance (i) Pedestrian Safety and Traffic Signal Improvements, (ii) Transit System Safety and Spot Improvements, (iii) Complete Street Capital Improvements, (iv) Facility Improvements, and (vii) Muni Light Rail Vehicle Procurement.
 5. The Series 2017 Bonds were issued to finance (i) Muni Light Rail Vehicle (LRV) Procurement, (ii) Van Ness Bus Rapid Transit Project / Improvement Project, (iii) Mission Bay Transportation Capital Improvements for the Chase Center, (iv) Pedestrian Safety and Traffic Signal Improvements, (iv) Transit System Safety and Spot Improvements, (v) Complete Street Capital Improvements, and (vi) Facility Improvements.

The full details of each prior issuance, including funded projects can be found in the SFMTA's official statements located on the Electronic Municipal Market Access website at <http://emma.msrb.org/IssuerView/IssuerDetails.aspx?cusip=797686>.

The documents included in the package are in draft format and will be completed at the time of the transaction when the information required to fully execute them is available: (i) Fifth Supplemental Indenture, (ii) Escrow Agreement, (iii) Purchase Contract, and (iv) Continuing Disclosure Certificate. Today's approval provides the SFMTA DOT with authorization to execute the aforementioned enclosures, and make non-substantive changes that are in accordance with the Resolution.

Authorization will also allow the SFMTA DOT to: (i) determine the aggregate principal amount of Refunding Bonds to be issued (subject to the defined not to exceed \$185 million); (ii) determine the various titles and series designations of the bonds; (iii) determine whether to establish a reserve account for one more series of bonds; (iv) determine the redemption provisions of the bonds; and (v) to take any actions or make any decisions necessary to maximize the financial advantages to be realized in connection with the issuance of the bonds



Alternatives Considered

The SFMTA considered the alternative of postponing the refunding for all Series until qualifying for tax exempt status. This would require the agency to complete the refunding transaction within 90 days of the refunding threshold, which are as follows:

- Series 2012: Bonds maturing on or after March 1, 2023 *are subject to optional redemption prior to maturity on or after March 1, 2022*
- Series 2013: Bonds maturing on or after March 1, 2024 *are subject to optional redemption prior to maturity on or after March 1, 2023*
- Series 2014: Bonds maturing on or after March 1, 2025 *are subject to optional redemption prior to maturity on or after March 1, 2024*

The risk of waiting is that interest rates may rise in the future. If there is a successful vaccine, and the COVID-19 pandemic ends, there is the potential that the Federal Reserve may allow rates to rise and any potential refunding savings would be lost.

The SFMTA also considered the alternative of no refunding, meaning the agency would not realize any potential savings or new money bonds.

Considering the tradeoffs, an advance refunding is financially prudent, and today's historically low interest rates present an opportunity to save the agency money in the long-term while also securing much needed budget relief to aid in the near-term response and adaptation to COVID-19.

The benefits of refunding on a taxable advance basis today outweigh any theoretical savings from a tax-exempt refunding one-to-three years from today which may evaporate with rising interest rates.

Funding Impact/Budget

The debt service savings impact of any revenue bond refinancing is dependent on market conditions during final pricing, as well as the final deal structure that is chosen by the DOT.

Under market conditions as of November 13, 2020, the net-present value savings of a taxable advance refunding could total approximately \$20 million dollars through 2044, with a true interest cost of 2.40 percent.



The near-term cash flow benefit in the form of debt service reserve fund, interest fund and principal fund releases, and delayed amortization could range from \$16 million to \$43 million in FY 2020-21 through FY 2022-23.

SFMTA Board Action

On December 15, 2020, the SFMTA Board of Directors approved Resolution No. 201215-110 authorizing the issuance of not to exceed \$185 million of taxable or tax-exempt Refunding Revenue Bonds to refinance all or a portion of the Series 2012A, 2012B, 2013; and 2014 Prior Bonds, and authorizing and directing the DOT to execute the documents necessary for this transaction, including the Fifth Supplement to Indenture of Trust, Escrow Agreement, Purchase Contract and Continuing Disclosure Certificate and to seek Board of Supervisors concurrence with respect to the plan of finance described.

Recommendation

The SFMTA recommends authorizing the issuance of not to exceed \$185 million of taxable or tax-exempt Refunding Revenue Bonds to refinance all or a portion of the Series 2012A, 2012B, 2013; and 2014 Prior Bonds, and authorizing and directing the DOT to execute the documents necessary for this transaction, including the Fifth Supplement to Indenture of Trust, Escrow Agreement, Purchase Contract and Continuing Disclosure Certificate and to seek Board of Supervisors concurrence with respect to the plan of finance described.

Thank you for your consideration of this proposed refunding transaction. Should you have any questions or require more information, please do not hesitate to contact me at any time.

Sincerely,

A handwritten signature in black ink that reads "Jeffrey Tumlin".

Jeffrey Tumlin
Director of Transportation