



BOARD OF DIRECTORS 2018

JEANNIE BRUINS, CHAIR
GILLIAN GILLET, VICE CHAIR
CHERYL BRINKMAN
CINDY CHAVEZ
DEVORA "DEV" DAVIS
JEFF GEE
DAVE PINE
CHARLES STONE
MONIQUE ZMUDA

JIM HARTNETT
EXECUTIVE DIRECTOR

TO: Honorable Members, Board of Supervisors

FROM: Derek Hansel, Chief Financial Officer, Peninsula Corridor Joint Powers Board

SUBJECT: Legislation Approving Proposed Financing by the Peninsula Corridor Joint Powers Board to Satisfy Section 6586 and Section 6586.5 of Government Code

DATE: September 26, 2018

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 financing for the purposes described below. Approval is required to satisfy Section 6586.5 of the Government Code. The proposal includes authorization of (i) the issuance by the Peninsula Corridor Joint Powers Board of not to exceed \$62 million of farebox revenue bonds, (ii) an increase in the maximum amount outstanding at any one time under an existing interim financing from \$150 million to \$170 million, and (iii) an additional interim financing in an amount not to exceed \$30 million outstanding at any one time.

Executive Summary:

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

Peninsula Corridor Joint Powers Board:

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

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 Financing Plan:

The JPB is proposing a three-part financing plan that is intended to: (i) reduce interest cost by refunding \$33.9 million of farebox revenue bonds to achieve interest savings; (ii) fund the acquisition of two facilities that are currently leased, resulting in anticipated savings; and (iii) increase short-term borrowing capacity to ensure sufficient funding to provide local match monies necessary to receive and utilize a \$164.5 million Transit and Intercity Rail Capital Program grant (TIRCP grant), to support completion of a signal and train control system referred to as the Positive Train Control project (PTC project) and possibly other capital projects, and to provide working capital.

The proposed financing plan supports the work for the Caltrain Modernization (CalMod) Program which is currently underway. That work includes the Peninsula Corridor Electrification Project (PCEP), which is the electrification of the existing corridor between San Francisco and San Jose and the partial conversion of trains from diesel trains to use of Electrical Multiple Unit (EMU) vehicles. The proposed financing plan also supports completion of the PTC project by authorizing an additional revolving credit facility in an amount not to exceed \$30 million outstanding at any one time to facilitate cash flow borrowings and funding for PTC project expenses and possibly other capital projects, expected to be reimbursed by grants or local contributions, and to provide working capital.

The JPB expects that undertaking the proposed financing will enable the JPB 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; (v) provide electrical infrastructure compatible with contemplated future high-speed rail service; and (vi) enhance safety throughout the Caltrain system.

Components of Financing Plan:

There are three components to the proposed financing plan.

1. Issuance of long-term farebox revenue bonds (i) to refund \$33.9 million of outstanding farebox revenue bonds and (ii) providing \$23 million to fund the acquisition of two operating facilities that are currently being leased.

- a. The refunding to reduce interest cost is expected to generate present value savings estimated at \$3.9 million, net of issuance costs, based on current market conditions.
- b. Depending on the final acquisition cost, it is anticipated that the cost of the borrowing and ownership related to the leased properties will be lower than the escalating costs for rent. Additionally, acquisition of the two important operating facilities will ensure continued access to the facilities.

In the event that the JPB is unable to acquire one or both of the leased properties, the JPB will apply a portion of the proceeds of the farebox revenue bonds to finance certain capacity and system improvement projects for Caltrain, including acquisition of EMUs in addition to the EMUs included in the PCEP work currently underway, modification of platforms to provide for an increase in the size of train sets operating on the electrified Caltrain rail corridor running between San Francisco and San Jose from 6 cars to 8 cars, installation of a broadband communication system and planning funds to support development of plans and agreements to meet goals and service levels in the 2018 State Rail Plan.

2. Existing Interim Financing Increase. The increase in the amount which may be outstanding at any one time under the existing revolving credit facility, secured by the JPB in 2016 to provide cash flow funding for the PCEP work, from \$150 million to \$170 million, will enable the JPB to provide local match funds for the TIRCP grant awarded in April 2018 and to fund grant reimbursable portions of the TIRCP grant.
3. Additional Interim Financing. An additional revolving credit facility in an amount of \$30 million outstanding at any one time is being entered into to provide advances of local and grant reimbursable portions of project costs related to the PTC project and possibly other capital projects and to provide working capital for Caltrain system needs. A separate revolving credit facility was required to be established to support the PTC project because of grant eligibility differences for the PTC project and PCEP.

Terms of Financing Structure:

Certain basic terms and features of the farebox revenue bond financing and the interim financings are identified below.

Farebox Revenue Bonds:

- Issue Size: Not to exceed \$62 million
- Expected Maturity: 30 years
- Purpose: Refund all outstanding farebox revenue bonds and acquire two leased properties
- Security: Senior lien pledge of farebox revenues
- Targeted closing timeframe: November 2018

- Covenants: Set forth in Trust Agreement, dated as of October 1, 2007, as supplemented and amended

Increase in Existing Interim Financing:

- Existing Revolving Credit Facility Size: Not to exceed \$170 million outstanding at any one time, increased from not to exceed \$150 million outstanding at any one time
- Maturity Date: December 31, 2022
- Purpose: To fund costs in anticipation of receipt of grant reimbursements for PCEP and TIRCP grant and fund local match for TIRCP grant
- Security: Subordinate pledge of farebox revenues and receipts of reimbursements
- Targeted closing timeframe: November 2018
- Covenants: Substantially the same as set forth in the Credit Agreement entered into in 2016 (Existing Credit Agreement), receipts of TIRCP grant to be added as additional security

Additional Interim Financing:

- Additional Revolving Credit Facility Size: Not to exceed \$30 million outstanding at any one time
- Maturity Date: December 31, 2022
- Purpose: Support for PTC project, possibly other capital projects and working capital
- Security: Subordinate pledge of farebox revenues
- Targeted closing timeframe: November 2018
- Covenants: Substantially the same as set forth in the Existing Credit Agreement

Your consideration of this matter is greatly appreciated.

Please contact Derek Hansel at 650-508-6466 if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Harvey Rose, Budget and Legislative Analyst
Kanishka Karunaratne Cheng, Mayor's Office
Kelly Kirkpatrick, Mayor's Budget Director
Robin Reitzes, Deputy City Attorney
Ben Rosenfield, City Controller
Anna Van Degna, Public Finance Director
Ed Reiskin, Director of Transportation, SFMTA
Sonali Bose, Director of Finance, SFMTA