



SFMTA

# Revenue Bond Refunding

Board of Supervisors Budget & Finance  
Committee

January 13, 2020

Financial Analysis Office  
Budget, Financial Planning and Analysis  
Finance & IT

# The Rationale

- With its good credit rating, the SFMTA can take advantage of historically low interest rates to save the agency in debt service and increase budget resilience
- Advance refunding of previously issued bonds could provide:
  - Up-to \$43M in near-term cash flow in FY21 through FY23
  - Up-to \$21M in NPV savings through FY2044
- Near-term savings will be used to close the SFMTA's projected FY22 \$62.8 million deficit
- The SFMTA may decide not to move ahead with refunding depending on financial position or market conditions

Assumes rates as of 11/13/2020, subject to change based on market conditions

# SFMTA Outstanding Debt

Series	Original Par	Outstanding Par	Avg Yield	Dated Date	Final Maturity	1st Call Date	DSRF Purpose
Series 2012-A	38 M	12 M	2.28	Jul-12	Mar-32	Mar-22	1.7 M Refunding prior parking bonds
Series 2012-B	26 M	26 M	3.42	Jul-12	Mar-42	Mar-22	1.8 M New \$: Parking Garages
Series 2013	75 M	56 M	2.68	Dec-13	Mar-33	Mar-23	6.0 M New \$: Traffic safety, vehicles
Series 2014	71 M	62 M	2.09	Dec-14	Mar-44	Mar-24	4.5 M New \$: Traffic safety, vehicles
Series 2017	178 M	167 M	NA	Jun-17	Mar-47	Mar-27	NA New \$: Van Ness BRT, Mission Bay/Chase, vehicles
<b>Total</b>	<b>388 M</b>	<b>323 M</b>					<b>14.0 M</b>

The SFMTA proposes to refund series 2012 through 2014

Refunding Series 2017 would not result in cost savings

# Refunding Summary

The SFMTA is seeking to refund \$156 million in outstanding par on debt that has already been issued, and the proceeds of which have effectively been expended on capital projects

	Goal and Financial Impact
Approach	Reduce interest rate existing bonds from approx. 5.0% to an estimated 2.29%  Begin amortization in FY 24, and release obligated debt reserves and scheduled principal and interest payments for operating uses
Objective	Greatly enhance near-term cash flow and maximize NPV savings (today's dollars) to support the operating budget
Gross Aggregate Savings (Nominal)	\$20.5 M
<b>NPV Savings through FY44 (Today's Dollars)</b>	<b>\$20.4 M</b>
<b>FY21-23 Net Cash Flow (Near-term)</b>	<b>\$43.0 M</b>

Assumes rates as of 11/13/2020, subject to change based on market conditions

# Refunding Detail

## Comparison of Near-Term Financial Impact

	Refunding Proposal
<b>Funds Available for SFMTA in FY 2021<sup>1</sup> (Dollars in thousands)</b>	
Aggregate DSRF Releases	14,071
Aggregate Interest Fund Releases	3,193
Aggregate Principal Fund Releases	5,317
New Money Proceeds	0
<b>Sub-Total: Available Funds</b>	<b>22,581</b>
<b>Near-Term Net Cash Flow Benefit<sup>3</sup></b>	
FY 2021 Net Change in Cash Flow	9,631
FY 2022 Net Change in Cash Flow	9,625
FY 2023 Net Change in Cash Flow	1,187
<b>Sub-Total: FY21-23 Net Cash Flow Benefit<sup>3</sup></b>	<b>20,443</b>
<b>Total Near-Term Financial Impact<sup>4</sup></b>	<b>43,024</b>

## Net PV Savings Calculation

Aggregate Gross Savings	20,528
PV Savings From Cash Flows	20,377
Plus: Refunding Funds on Hand	5
<b>Net PV Savings to Refunded Par</b>	<b>13.1%</b>

1) Indicates funds not used as a source of funds for the refunding bonds that are made available at financial close for SFMTA's use

2) Gross annual savings generated by refunding bonds only, does not account for impact of new money debt service, if any

3) Net Cash Flow Benefit is equal to the savings generated by the refunding bonds, less any debt service due on new money bonds

4) Total Near Term Financial Impact is equal to the sum of the Sub-Total: Available Funds and the Sub-Total: FY21-23 Net Cash Flow Benefit

## Gross Annual Savings<sup>2</sup>

Fiscal Year	Refunding Proposal
2021	9,631,422
2022	9,625,289
2023	1,186,743
2024	5,323
2025	8,506
2026	5,343
2027	5,847
2028	8,047
2029	8,132
2030	8,734
2031	4,832
2032	3,065
2033	290
2034	3,646
2035	465
2036	535
2037	2,020
2038	1,680
2039	4,170
2040	3,895
2041	510
2042	3,575
2043	2,150
2044	4,185
<b>Total</b>	<b>\$20,528,403</b>

Assumes rates as of 11/13/2020, subject to change based on market conditions

# Today's Request and Next Steps

- The SFMTA is requesting that the Board of Supervisors authorize the Director of Transportation to approve and to execute Refunding Bonds up-to \$185M
- Expected transaction closing and pricing to occur in February

# Thank You.



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**SFMTA**

# Glossary of Terms

- Aggregate Gross Savings: Nominal savings, prior to calculating NPV.
- Advance Refunding: Advance refunding refers to the practice of taking the funds received from a new bond issuance to pay off a prior issue's debt. The issue of the new bond is, usually, at a lower interest rate than the older, unpaid obligation.
- Amortization: Amortization is paying off a debt over time in installments.
- Basis Points (bps): One hundredth of one percent, used chiefly in expressing differences of interest rates.
- Debt Service Reserve Fund (DSRF): Debt service reserves are cash assets that are designated by a borrower to ensure full and timely payments to bond holders.
- Capitalized Interest: The addition of interest cost incurred while capital projects are under construction, and such cost is added to the principal amount of the bonds.
- Escrow Efficiency: Escrow efficiency is the opportunity cost or holding money in escrow for a period of time (usually in cash or short-term treasury investments) until the money is able to be put to use to fund a project, or to repay investors.
- Maturity: A bond's term to maturity is the period during which its owner will receive interest payments on the investment. When the bond reaches maturity, the owner is repaid its par, or face, value.
- Negative Arbitrage: Negative arbitrage is the opportunity lost when bond issuers assume proceeds from debt offerings and then hold that money in escrow for a period of time (usually in cash or short-term treasury investments) until the money is able to be put to use to fund a project, or to repay investors.
- Net Present Value (NPV): NPV is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. NPV is used to analyze the economic value of an investment, translating returns into today's dollars.
- Par Value: The par value is the amount of money that bond issuers promise to repay bondholders at the maturity date of the bond.
- Underwriter: An underwriter is any party that evaluates and assumes another party's risk for a fee. The fee paid to an underwriter often takes the form of a commission, premium, spread, or interest.
- Yield: Bond yield is the return an investor realizes on a bond. Setting the bond yield equal to its coupon rate is



# New Money Overview

- The SFMTA Board requested that the Agency consider all options to mitigate negative financial impacts while preserving transit and transportation services to the greatest extent possible, and has authorized New Money Bond issuance
- The SFMTA wishes to retain the option to issue up-to \$300M in tax-exempt new money bonds capital projects, however the Agency plans to issue and appropriate \$287M
- This option bolsters the SFMTA's financial position and looming capital shortfalls while issuing debt at historically low cost

# SFMTA Capital Program Status

SFMTA needs to invest \$632M annually to bring the transit system in a state of good repair. On average there is only \$467M annually available in the CIP.



**\$632M** Full Scheduled Asset Replacement & Eliminate the Backlog

**\$552M** Full Scheduled Asset Replacement & Reduce the Backlog by 50%

**\$472M** Full Scheduled Asset Replacement & No Growth in Backlog

**\$304M** Transit Service Critical Scheduled Asset Replacement

**\$250M** Annual State of Good Repair Investment Target

5-year Amount  
**\$2.33B**

Average Annual CIP Revenue  
**\$467M**

Annual State of Good Repair Need  
**\$632M**

Average SGR Annual Investment  
**\$269M**

# New Money Summary

## Issuance Amount

- \$255M for capital program uses
- \$31.7M for costs of issuance, debt service reserve, and a reserve for market uncertainty during issuance

## True Interest Cost (TIC)

- Estimated TIC of 2.38%-- compared to avg on existing bonds of approximately 5%
- Estimated total cost of \$443.5M, or debt service of \$14.8M/year on avg

Assumes rates as of 01/06/2020, subject to change based on market conditions

# SFMTA Refunding and New Money Debt Service Detail

	A	B	C	D	E
Fiscal Year	Current Debt Service (Excluding Refunding)	Debt Service with Refunding	Proposed New Money Debt Service	Total Adjusted Debt Service Assuming Refunding (B+C=D)	Adjusted Debt Service Compared to Current Debt Service (D-A=E)
2021	23,517,131	13,885,709		13,885,709	(9,631,422)
2022	23,521,031	13,717,747	7,703,700	21,421,447	(2,099,584)
2023	23,337,781	20,579,706	7,703,700	28,283,406	4,945,625
2024	23,335,531	23,330,556	7,703,700	31,034,256	7,698,725
2025	23,338,781	23,334,832	7,993,700	31,328,532	7,989,751
2026	23,333,831	23,329,618	8,000,000	31,329,618	7,995,787
2027	23,337,081	23,333,652	7,995,850	31,329,502	7,992,421
2028	23,336,844	23,332,900	7,996,550	31,329,450	7,992,606
2029	23,336,831	23,334,106	7,991,950	31,326,056	7,989,225
2030	23,334,194	23,327,705	8,002,200	31,329,905	7,995,711
2031	23,336,344	23,335,491	7,991,850	31,327,341	7,990,997
2032	23,334,013	23,332,055	7,996,500	31,328,555	7,994,543
2033	23,335,738	23,334,941	7,990,700	31,325,641	7,989,904
2034	17,361,988	17,361,566	13,964,750	31,326,316	13,964,329
2035	17,356,988	17,352,758	13,974,250	31,327,008	13,970,021
2036	17,361,188	17,360,162	13,967,750	31,327,912	13,966,725
2037	17,358,438	17,358,240	13,970,550	31,328,790	13,970,353
2038	17,358,525	17,353,503	13,972,200	31,325,703	13,967,178
2039	17,358,713	17,356,830	13,972,550	31,329,380	13,970,668
2040	17,354,463	17,354,000	13,971,450	31,325,450	13,970,988
2041	17,350,575	17,350,313	13,978,750	31,329,063	13,978,488
2042	17,361,575	17,360,898	13,964,000	31,324,898	13,963,323
2043	14,559,175	14,558,030	16,767,650	31,325,680	16,766,505
2044	14,557,725	14,556,510	16,769,950	31,326,460	16,768,735
2045	10,052,825	10,052,825	21,272,200	31,325,025	21,272,200
2046	10,053,625	10,053,625	21,274,100	31,327,725	21,274,100
2047	10,055,025	10,055,025	21,271,300	31,326,325	21,271,300
2048			31,328,500	31,328,500	31,328,500
2049			31,328,450	31,328,450	31,328,450
2050			31,328,350	31,328,350	31,328,350
2051			31,327,450	31,327,450	31,327,450
Total	519,235,956	496,993,303	443,474,600	940,467,903	421,231,947

Assumes rates  
as of  
01/06/2020,  
subject to  
change based on  
market  
conditions

# New Money Uses—Fleet

These projects include procurement of transit vehicles such as light rail vehicles and motor coaches and the rehabilitation of transit vehicles such as cable cars and historic streetcars to extend their useful lives.



# New Money Uses—Facilities

## 1200 15th Street Renovation

- Rebuild existing structure at 1200 15th Street as a mixed use development, consolidating Traffic Enforcement Operations on the first two floors and adding a mix of affordable and market rate housing on the upper floors.
- Enforcement space will include work areas, office space, locker rooms and storage areas with vehicle storage provided next door at the upper floors.



# New Money Uses—Meter Replacement

Replacement of the 29,000+ technologically obsolete parking meters with updated equipment containing current wireless technology.



# New Money Supplemental Appropriation Detail

Funded Item	Description	Amount (in millions)
<b>Transportation Equipment Projects</b>	Replacement and expansion for both revenue and non-revenue vehicles, such as light rail vehicles, motor coaches, trolley coaches, electrical buses, cable cars, historic streetcars, paratransit vehicles, sedans and special vehicles.	\$137
<b>Transportation Infrastructure Projects</b>	Modernize maintenance facilities that are vital to accommodate fleet growth and renovate outdated operational facilities so that employees experience a safe and optimal working environment at SFMTA properties. Maintain SFMTA's fixed guideway assets in a state of good repair, such as subway infrastructure, stations, tracks, overhead wires, the train control system, and cable car infrastructure at various locations. Replace parking meters citywide with updated equipment and rehabilitate parking structures that are accessible and meet the requirements of the Americans with Disabilities Act (ADA). To support the City's Transit First policy, SFMTA will create a Rapid Network with several major corridor projects by implementing pedestrian bulbs, transit only lanes, traffic signal priority, and other street design changes.	\$118
<b>Debt Service Reserve Fund</b>	Cash assets designated by the SFMTA to ensure full and timely payments to bond holders.	\$22.5
<b>Reserve for Market Uncertainty</b>	A reserve to provide room in the total appropriation amount for fluctuations in the market—standard practice in bonds issuances.	\$7.7
<b>Cost of Issuance</b>	The estimated cost of issuance is includes underwriting fees, legal counsel, rating agency fees, consultants, and bank trustee.	\$1.3
<b>City Services Auditor--Audit Fund</b>	City Services Auditor 0.2% allocation for Controller's Audit	\$0.5
<b>TOTAL</b>	<b>Revenue Bond Issuance</b>	<b>\$287</b>



# Credit Rating Considerations

- Rating downgrade by S&P to 'AA-' from 'AA' (negative outlook) may increase rates an estimated 25bps (0.25%)– SFMTA’s debt is still high-quality investment grade
- SFMTA retains “a very strong enterprise risk profile, a strong financial risk profile, and significant support by various tax revenue,” with “strong debt and liabilities capacity”
- An additional rating from S&P and Moody’s is required

## Farebox Recovery

- While historically, farebox recovery below 30% was a negative, in the post-pandemic period it is less of a factor.

## Critical Service Provider

- San Francisco is amongst the wealthiest cities in the country with a strong economic base. SFMTA plays a key role in the City’s transport network.

## Broad Revenue Pledge

- SFMTA has a diverse enterprise revenue base (farebox, parking, fine and fee revenues) that is expected to be resilient under a wide range of scenarios.

## General Fund/Public Support

- Generally supportive political establishment and voter base, translated into steady financial resources (e.g., General Fund support)

## Competent Management

- With low overall leverage and high liquidity, SFMTA is well positioned both to manage the immediate and long-term challenges related to COVID-19.

# Underwriter Selection

Ten proposals were received and scored by the MTA and independent advisors

## Selected Team

- Sr. Manager: Royal Bank of Canada Capital Markets (RBCCM)
- Co-Managers:
  - Goldman Sachs Group
  - Siebert Williams Shank & Co. (SWS)
- The team will provide broad market coverage and deep, diverse expertise in the transportation sector
- SWS is a MWBE with a substantial local desk— added benefit of being in the syndicate for past MTA deals

# Comps

## RECENTLY PRICED DEALS BY TRANSPORTATION AGENCIES

Pricing Date	8/18/2020		8/19/2020		8/18/2020		8/13/2020		8/11/2020		8/5/2020	
Issuer	SF BART		Los Angeles International Airport		NYS Metropolitan Transportation Authority		Miami-Dade County		Los Angeles County MTA		San Francisco International Airport	
Security Type	GO		GARB		BANS - MLF		Sales Surtax Revenue		Measure R Jr Sub Lien		GARB	
Ratings	Aaa/AAA		Aa2/AA-/AA		SP-2		nr / AA/AA		nr/AA/AA		A1/AA+	
Tax Status	Tax-Exempt		Tax-Exempt (Non-AMT)		Tax-Exempt		Taxable		Tax-Exempt		Tax-Exempt (AMT) / Taxable	
Par Amount	625,005,000		558,500,000		465,000,000		513,405,000		1,356,095,000		291,275,000	
	Yield	T/E Spread	Yield	T/E Spread	Yield	T/E Spread	Yield	Tax Spread	Yield	T/E Spread	Yield	T/E Spread
2021							0.410	+ 25				
2022							0.460	+ 30				
2023					1.920	+ 179.5	0.540	+ 35	0.090	+ 2		
2024	0.100 (5s)	-5	0.370	+ 20			0.750	+ 45	0.140	+ 3		
2025	0.150 (5s)	-6	0.470	+ 25			0.900	+ 60	0.200	+ 4		
2026	0.230 (5s)	-8	0.570	+ 26			1.100	+ 60	0.340	+ 9		
2027	0.330 (5s)	-6	0.690	+ 29			1.250	+ 75	0.480	+ 16		
2028	0.430 (5s)	-3	0.850	+ 37			1.500	+ 82	0.600	+ 21		
2029	0.550 (5s)	+ 1	0.950	+ 39			1.550	+ 87	0.690	+ 23		
2030	0.660 (4s)	+ 6	1.040	+ 41			1.650	+ 92	0.770	+ 24		
2031	0.800 (4s)	+ 11	1.150	+ 44			1.750	+ 107	0.860	+ 28		
2032	0.940 (4s)	+ 19	1.230	+ 45					0.930	+ 32		
2033	1.020 (4s)	+ 20	1.330	+ 48					1.010	+ 26		
2034	1.130 (4s)	+ 24	1.450	+ 53					1.060	+ 24		
2035	1.190 (4s)	+ 25	1.500	+ 53					1.080	+ 21		
2036	1.490 (3s)	+ 50	1.740	+ 72					1.100	+ 18		
2037	1.550 (3s)	+ 52	1.780	+ 71					1.140	+ 18	1.750 (5s)	+ 72
2038	1.590 (3s)	+ 53	1.820	+ 72							1.780 (5s)	+ 72
2039	2.030 (2s)	+ 94	1.860	+ 73							1.960 (4s)	+ 87
2040	2.070 (2s)	+ 95	1.900	+ 74							2.010 (4s)	+ 89
2041	2.100 (2s)	+ 94										
2042	2.130 (2s)	+ 94					2.600	+ 130				
2043												
2044			1.820 (5s)	+ 52								
2045	1.640 (4s)	+ 36										
2046	2.220 (2s)	+ 93										
2047												
2048			2.070 (4s)	+ 70								
2049												
2050	2.060 (3s)	+ 72										
2051											2.958	+ 175

5s '24-'35  
4s '35-'40

+ \$239.55mm T-E

20 competitive bids from 10 firms  
all bids rejected; TIC avg 2.79%  
MLF TIC = 1.92%

taxable 2051

### Transportation Deals pricing the week of 8/24 (\$ mils)

537.630	Chicago Transit Authority, Sales Tax Rev Refunding (Taxable)	nr/A+/nr/AA-
345.070	Chicago Transit Authority, Sales Tax Rev Refunding (Exempt)	nr/A+/nr/AA-
1,300.000	NYS Transportation Dev Auth - LaGuardia Airport Terminal-Delta Airlines, Spec Fac	
215.405	Delaware Transportation Authority, Sr Rev Refunding	Aa1/AA+
84.980	Regional Transit Auth (New Orleans) Sales Tax Refunding (Exempt+Taxable)	Aa3/AA
12.690	Metropolitan Airport Auth of Rock Island, IL (AGM) Refunding	nr/AA

# Comps

## RECENTLY PRICED DEALS BY TRANSPORTATION AGENCIES (cont.)

Pricing Date	7/28/2020		7/15/2020		7/30/2020		7/7/2020		6/17/2020	
Issuer	Colorado Department of Transportation		Southeast Pennsylvania Transportation Authority		DFW Airport		Bi-State Development Authority, MO		Transbay Joint Power Authority	
Security Type	COP Lease		GANs		GARB		Sales Tax		Sr Tax Allocation	
Ratings	Aa2/AA-		AA-		A1/A/A+/AA		Aa2/AA-/nr/AA+		nr/nr/A-	
Tax Status	Tax-Exempt		Tax-Exempt		Taxable		Taxable		Tax-Exempt	
Par Amount	19,050,000		97,250,000		1,193,985,000		271,205,000		189,480,000	
	Yield	T/E Spread	Yield	T/E Spread	Yield	Tax Spread	Yield	Tax Spread	Yield	T/E Spread
2021			0.410	+ 24			0.765	+ 60		
2022			0.490	+ 29			0.895	+ 73		
2023			0.530	+ 31	1.041	+ 90	1.016	+ 83		
2024			0.620	+ 34	1.229	+ 100	1.224	+ 93		
2025			0.720	+ 36	1.329	+ 110	1.344	+ 105	1.340	+ 90
2026			0.880	+ 42	1.649	+ 125	1.616	+ 113	1.530	+ 100
2027			1.020	+ 49	1.749	+ 135	1.716	+ 123	1.690	+ 109
2028			1.160	+ 56	1.946	+ 140	1.870	+ 122	1.830	+ 115
2029			1.240	+ 56	2.046	+ 150	1.970	+ 132	1.930	+ 116
2030			1.330	+ 58	2.096	+ 155	2.020	+ 137	2.030	+ 118
2031			1.380	+ 54	2.246	+ 170	2.150	+ 150	2.170	+ 122
2032			1.430	+ 52	2.416	+ 187	2.250	+ 160	2.320	+ 130
2033					2.516	+ 197	2.350	+ 170	2.410	+ 131
2034			(all 5s)		2.696	+ 215			2.440	+ 126
2035					2.796	+ 225			2.490	+ 125
2036					2.896	+ 235			2.530	+ 124
2037	1.720	+ 60							2.570	+ 124
2038	1.770	+ 62							2.610	+ 125
2039	1.810	+ 63							2.650	+ 126
2040	1.860	+ 64			3.089	+ 190	2.929	+ 155	2.690	+ 126
2041	1.900	+ 65								
2042							2.979	+ 160		
2043	(all 4s)									
2044										
2045									2.710	+ 112
2046										
2047										
2048										
2049									2.750	+ 111
2050					2.919	+ 173				
2051									(all 5s)	