



**June 10, 2013**

**The Honorable Board of Supervisors  
City and County of San Francisco  
1 Carlton B. Goodlett Place, Room 244  
San Francisco, California 94102**

**RE: San Francisco Municipal Transportation Agency Commercial Paper  
Program**

**Dear Members of the Board of Supervisors:**

The San Francisco Municipal Transportation Agency (SFMTA or Agency) is seeking to establish a not-to-exceed \$100 million Commercial Paper program (CP Program) to finance on an interim basis the costs of transportation capital projects. The Charter and Administrative Code authorize the SFMTA to establish a CP Program, with the concurrence of the Board of Supervisors, without voter's approval and in accordance with State law. The SFMTA Board of Directors approved a resolution recommending that the Board of Supervisors authorize the CP Program on June 4, 2013. A resolution for Board of Supervisors approval of the CP Program will be provided separately as part of this package.

*Background*

The SFMTA has determined to develop a flexible financing tool to provide low cost interim financing for its capital projects. Currently the SFMTA's debt program consists of long-term fixed rate revenue bonds. Commercial paper is a form of short-term (or interim) financing for capital projects that permits the SFMTA to fund early project costs on an interim basis. Commercial paper notes are issued and funding provided only when needed to pay project costs as they are incurred. Commercial paper has a fixed maturity date from one to 270 days, compared with a final maturity of 30 years for the SFMTA's existing long-term obligation. On the maturity date, the commercial paper note may be "rolled" (or refinanced) with the subsequent issuance of commercial paper notes or retired through the issuance of long-term revenue bonds (or other available repayment sources e.g. grants).

SFMTA is requesting the establishment of a not-to-exceed \$100 million CP Program. Under the proposed CP Program, commercial paper notes (CP Notes) will be issued from time to time on a revolving basis to pay for Board-approved project costs in the SFMTA Capital Improvement Program and approved budgets. Interest accruing from outstanding CP Notes will be paid from legally available monies and budgeted in the SFMTA's operating budget and/or the proceeds of "rolls" of CP Notes.

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*Director*

Edward D. Reiskin  
*Director of  
Transportation*

One South Van Ness Ave.  
Seventh Floor  
San Francisco, CA 94103

Tele: 415.701.4500

[www.sfmta.com](http://www.sfmta.com)



The CP Program allows the SFMTA to diversify its sources of financing by accessing a part of the short-term market; improve the efficiency of the SFMTA's debt program by reducing the number of times the SFMTA accesses the long-term debt market; minimize or eliminate the need to capitalize interest during construction; reduce borrowing costs by accessing debt markets only as funds are required and at short-term borrowing rates which are usually lower than long-term fixed-rates; and potentially simplify federal tax compliance.

The City has recently established a general fund lease-backed commercial paper program. The San Francisco International Airport and the San Francisco Public Utilities Commission also have ongoing commercial paper programs.

Section 8A.102(b)13 of the City Charter provides "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, 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."

A commercial paper program requires credit support through a letter of credit or other credit facility from a bank to ensure that moneys will be available to pay debt service on maturing commercial paper. In addition, a broker/dealer markets and places commercial paper notes from time to time on behalf of the client. On March 13, 2013, the Office of Public Finance (OPF) and the SFMTA jointly issued a request for proposals (RFP) for letters of credit or alternative credit facilities for both the SFMTA and the City to support the CP Program. The SFMTA received seven responses providing both letters of credit and alternative credit facilities and the review panel, consisting of the SFMTA, OPF, the City Attorney's Office, external counsel and financial advisors, evaluated the proposals based on qualifications, strength of bank, debt coverage requirements, credit rating requirements, term, default provisions and proposed fees. Based on this competitive selection process, State Street Bank was selected as the Letter of Credit Bank (Bank).

The broker/dealer was selected through a mini-RFP issued on April 10, 2013 and limited to underwriters in the City's pool. The SFMTA received nine bids and, based on the responses, Loop Capital and Morgan Stanley were selected as broker-dealers (CP Dealers) by the review panel.

## FINANCING DOCUMENTS

### *Issuing and Paying Agent Agreement*

An issuing and paying agent agreement (IPA Agreement) is the agreement between the SFMTA

and a paying agent that sets forth the terms for the issuance from time to time on a revolving basis of commercial paper notes. The Board of Supervisors is asked to approve a form of an IPA Agreement and to authorize the Director of Transportation to do everything necessary to provide for the issuance of the CP notes. The IPA Agreement creates a security interest on the SFMTA's transportation revenue for the benefit of the CP Notes on a subordinate basis to the SFMTA's revenue bonds. The IPA Agreement provides that draws on the letter of credit will be used to support the CP Notes.

*Letter of Credit and Reimbursement Agreement*

The Letter of Credit and Reimbursement Agreement is the legal document between the SFMTA and the Bank which sets out the terms of reimbursement for letter of credit draws and related covenants for the benefit of the letter of credit bank supporting the CP Notes.

The Board of Supervisors is asked to concur with a form of a Letter of Credit and Reimbursement Agreement and to authorize the Director of Transportation to do everything necessary to provide for the issuance of the CP notes. The resolution approves the form of Reimbursement Agreement that provides for an Irrevocable Letter of Credit (the Letter of Credit) in the maximum stated amount that will cover the principal and interest on the up to \$100 million CP Notes that may be drawn upon by the SFMTA. The SFMTA is required to repay the Bank should there be amounts drawn under the Letter of Credit in accordance with the terms and conditions set forth in the Reimbursement Agreement, which also includes a note to the Bank. The term of the letter of credit is five years. The interest rate on any bank bond shall not exceed 12 percent per annum, and the amortization of such bank bond shall be up to five years.

It is expected that the Bank will be repaid from the remarketing of commercial paper or the proceeds of long term take-out revenue bonds (or other available repayment sources).

The SFMTA will enter a Letter of Credit and Reimbursement Agreement with the Bank with the terms set forth above, which would result in annual fees of approximately 0.535 percent or \$585,000.

The Reimbursement Agreement may be terminated at the option of the SFMTA for any reason, subject to a termination fee equal to the Commitment Fee during the first year equal to bank fee which would have accrued from the date of termination or reduction through the first anniversary of the closing date. During the first year, the Reimbursement Agreement may also be terminated without a termination fee should two of the Bank's short term credit ratings fall below "P-1," "A-1" or "F-1" by Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Fitch Ratings, respectively (collectively, the Rating Agencies), or in the event the SFMTA should decide to retire the CP Program.

The current fee structure assumes that the SFMTA's senior lien revenue bonds credit rating remains at its current rating level from S&P of "A" and that the Moody's rating does not decline below "A2" (it is currently "Aa3"). The commitment fee may be increased in increments of 0.10% for every notch rating downgrade below the ratings of "A3" or "A-". Should the SFMTA's senior

lien revenue bonds credit rating fall below "Baa1" and "BBB+" this would trigger a default. If an Event of Default occurs and is continuing, the commitment fee will automatically increase by 1.00 percent annually, commencing on the date of default and continuing until the SFMTA's ratings are raised or the default is waived by the Bank or until the letter of credit is terminated. Other customary remedies are also available to the Bank in the event of a default, including declaring all principal and interest to be immediately payable, as well as other remedies specified in Section 7.02 of the Reimbursement Agreement.

#### *Dealer Agreement*

The Resolution also approves the form of CP Dealer Agreement with Loop Capital and Morgan Stanley. The CP Dealer Agreement sets forth the duties of the CP Dealer, including soliciting and arranging the sales of the CPs on behalf of the SFMTA at such rates and maturities as then prevailing in the market. The CP Notes will be purchased and/or sold in accordance with the terms and conditions and in the manner provided in the CP Dealer Agreement. The Dealer Agreement includes a term not less than one year with a cost not to exceed 0.05 percent per annum of the weighted average of the principal amount of commercial paper outstanding each quarter, paid by the SFMTA quarterly in arrears.

#### *Commercial Paper Memorandum*

The commercial paper memorandum (the CP Memo) describes the terms and security for the CP Notes, including a description of the Bank and the Letter of Credit. The CP Memo will be utilized by the Dealer as the disclosure document in the sale of the CP Notes. The CP Memo contains no financial information about the SFMTA. CP Note holders will rely on the credit of the Bank and its credit for repayment rather than the SFMTA.

#### *Commercial Paper Administration*

The CP Program will be jointly administered by OPF and the SFMTA. OPF will be responsible for initiating the issuance of commercial paper with the CP Dealers and reporting on the CP Program. The SFMTA will be responsible for requesting drawdowns based on cash flow needs and encumbrance and expenditure schedules. Annual administration fees of the CP Program are not expected to exceed \$700,000, which is inclusive of the letter of credit, dealer fees, ratings surveillance and staff costs.

#### *Documentation and Next Steps*

The Board of Supervisors is being asked to consider several legal documents in connection with the authorization of the issuance of commercial paper by the SFMTA. These documents include the following:

- Form of an IPA Agreement with US Bank
- Form of a Letter of Credit and Reimbursement Agreement with State Street Bank, together with the proposed Fee Letter

- Form of Dealer Agreement for Loop Capital and Morgan Stanley
- CP Memo

The Director of Transportation will be authorized to make any necessary modifications, changes or amendments to the documents described above and to do everything necessary to provide for the issuance of the CP notes.

If there are any questions or concerns, please do not hesitate to contact SFMTA Finance Manager Gail Stein at (415) 701-4327 or [gail.stein@sfmta.com](mailto:gail.stein@sfmta.com).

Sincerely,



**Edward D. Reiskin**  
**Director of Transportation**