June 10, 2026

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: Request for Approval – Loan Agreement with MTC for Up to $200 Million for SFMTA Public Transit Operating Purposes Under Assembly Bill 117

Honorable Members of the Board of Supervisors:

The San Francisco Municipal Transportation Agency (SFMTA) requests that the San Francisco Board of Supervisors authorize the Director of Transportation to enter into a loan agreement with the Metropolitan Transportation Commission (MTC) for up to a maximum principal amount of $200 million for SFMTA public transit operating purposes (beginning July 1, 2026), pursuant to Assembly Bill 117 (AB 117). The draft loan agreement is on file with the Clerk of the Board of Supervisors.

Background

AB 117, signed by Governor Newsom on February 19, 2026, requires the California State Transportation Agency (CalSTA) to loan $590 million to MTC from the Transit and Intercity Rail Capital Program (TIRCP). MTC will in turn loan the proceeds to four Bay Area transit operators—BART ($285 million), SFMTA ($200 million), AC Transit ($55 million), and Caltrain ($50 million)—to address near-term operating funding shortfalls. Loan proceeds may be used solely for public transit operating purposes and may not be used for capital expenditures or debt refinancing.

SFMTA has been facing significant budgetary pressures driven by rising operating costs, declining fare revenues, and the expiration of federal COVID-19 emergency relief funding. Prior to the FY2026-27 and FY2027-28 budget cycle, the agency has projected a substantial operating deficit for Fiscal Year 2026-27. The MTC loan provides critical near-term liquidity to address this deficit while spreading repayment over a manageable 10-year period and serves as a bridge to the potential November 2026 regional sales tax measure.

Proposed MTC Loan Terms

The proposed MTC loan terms for SFMTA include:

- **Maximum Principal Amount:** Up to $200 million
- **Loan Term:** 12 years, maturing June 3, 2038

- **Interest Rate:** Variable, based on the quarterly rate for the Surplus Money Investment Fund (SMIF) published by the State Controller (currently approximately 4%)
- **Interest-Only Period:** Effective date through June 30, 2028 (approximately two years)
- **Amortization Period:** July 1, 2028 through June 3, 2038 (approximately 10 years); semiannual principal and interest payments.
- **Amortization Schedule:** To be determined jointly by the parties on or before March 1, 2028 based on outstanding principal and average SMIF rate during the interest only period
- **Security:** Revenue-based portion of State Transit Assistance Program funds allocable to SFMTA, pledged by MTC to CalSTA
- **Repayment Obligation:** Absolute and unconditional; not subject to offset or reduction
- **Prepayment:** Permitted at any time on a scheduled payment date, at no premium or penalty
- **Use of Proceeds:** Solely for SFMTA public transit operating purposes

Funding Impact

The MTC loan would provide up to $200 million in near-term liquidity to help balance SFMTA's FY2026-27 Operating Budget. At the current SMIF rate of approximately 4 percent, staff estimates annual interest cost of approximately $8 million per year on a fully drawn $200 million principal during the interest-only period, subject to rate fluctuation. Beginning in Fiscal Year 2028-29, semiannual principal and interest payments will be due. The amortization schedule will be determined by March 1, 2028, and will be memorialized by the MTC and the SFMTA. Debt service payments will be incorporated into SFMTA's future operating budgets and multi-year financial plan. Staff estimate annual payments of approximately $30 million per year on $200 million, subject to rate fluctuation. In a letter dated May 27, 2026, the City Controller certified sufficient unencumbered balances are expected to be available in the proper fund to meet all MTC loan payments as they become due, and the MTC loan is secured by revenues under the jurisdiction of the SFMTA.

Reporting Requirements

Under the MTC loan agreement, no later than two hundred seventy (270) calendar days after the close of each fiscal year, the SFMTA will be required to provide MTC with annual financial statements and an annual written certificate certifying that all loan proceeds have been used for public transit operating purposes under AB 117.

Stakeholder Engagement

SFMTA staff has engaged with MTC, the California Department of Finance, and CalSTA staff regarding the AB 117 loan program and the MTC loan agreement terms for SFMTA's participation. Staff has reviewed the draft CalSTA-MTC loan agreement and the draft MTC-SFMTA loan agreement, which is consistent with the CalSTA-MTC loan agreement.

Environmental Review
The SFMTA, under authority delegated by the Planning Department, determined that the SFMTA resolution to request the Board of Supervisors to authorize the Director of Transportation to enter into the MTC loan agreement under AB 117, further described below, is not a "project" under the California Environmental Quality Act (CEQA) pursuant to Title 14 of the California Code of Regulations Sections 15060(c) and 15378(b), as it involves only financial and administrative actions with no direct physical impact on the environment. A copy of the CEQA determination is on file with the Clerk of the Board of Supervisors.

SFMTA Board of Director Approval
The SFMTA Board of Directors adopted a SFMTAB Resolution No. 260602-045 at its meeting on June 2, 2026 to recommend and request the Board of Supervisors to authorize the Director of Transportation to execute the MTC loan agreement.

Request for Approval
Board of Supervisors approval is required pursuant to Charter Section 8A.102(b)(13) because the proposed MTC loan agreement would create a debt. The SFMTA respectfully requests that the Board of Supervisors approve the attached resolution authorizing the Director of Transportation to enter into a loan agreement with the Metropolitan Transportation Commission in a maximum principal amount of $200 million for SFMTA public transit operating purposes pursuant to AB 117, to enter into any additions, amendments or other modifications to the MTC loan agreement that the Director of Transportation, in consultation with the City Attorney, determines are in the best interests of the SFMTA and that do not materially increase the obligations or liabilities of the SFMTA or materially decrease the benefits to the SFMTA as provided in the MTC loan agreement, and to take all actions necessary to implement such agreements.

Sincerely,

Julie Kirschbaum
Director of Transportation