CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Ben Rosenfield, City Controller BR
Nadia Sesay, Public Finance Director NS

SUBJECT: Legislation Approving the Proposed Interim Financing in Connection with the Transbay Transit Center Project and the Appropriation of such Proceeds

DATE: Thursday, April 7, 2016

Recommended Action:

The Controller's Office respectfully recommends approval of the attached Resolution, Supplemental Appropriation Ordinance and supporting documents by the Budget and Finance Committee in connection with the proposed plan of interim financing for the Transbay Project. The proposal includes the execution and delivery of tax-exempt and/or taxable direct placement revolving certificates of participation in a combined aggregate principal of amount not exceeding $260 million.

Executive Summary:

- The Phase 1 of the Transbay Project has increased by $360 million, to $2.259 billion from $1.899 billion, following a cost review performed by the MTC.
- The City, in partnership with the MTC, is proposing to provide short-term interim financing in an amount not to exceed $260 million to cover the funding gap of approximately $250 million for Phase 1 of the Transbay Project.
- As part of the interim financing, the City and MTC will establish a Cost Review Committee. In addition, in November 2015, pursuant to an amendment to the bylaws of the TJPA, the Department of Public Works will provide construction, management and oversight services to the TJPA board. Such intergovernmental agreement is pending approval at the TJPA Board's next regularly scheduled meeting.

The Transbay Project:

The Transbay Joint Powers Authority ("TJPA") is a joint powers agency responsible for financing, design, development, construction, and the operation of the Transbay Transit Center Program

("Transbay Project"). The Transbay Project includes (1) the design and construction of a temporary terminal and then the permanent Transbay Transit Center, including open space on the roof of the Transit Center, a bus ramp, bus storage facility and the Train Box component of the rail extension ("Phase 1"); (2) the extension of Caltrain rail tracks from their current San Francisco terminus at Fourth and Townsend Streets to a new underground terminus beneath the Transbay Transit Center to accommodate Caltrain and California High Speed Rail ("Phase 2"); and (3) in coordination with the Office of Community Investment and Infrastructure ("OCII"), certain activities related to implementation of the Redevelopment Plan for the Transbay Redevelopment Project Area.

Phase 1 will create a new six-story Transit Center with above-grade bus level, rooftop park, above grade bus level, concourse retail and circulation level, ground-floor, two below-grade rail levels serving Caltrain and future California High Speed Rail (the exterior shell of the two below-grade levels collectively referred to as the "Train Box") a new off-site bus storage facility and a new bus ramp that will connect the Transit Center the bus storage facility and the San Francisco-Oakland Bay Bridge. Completion of Phase 1 is anticipated in fall 2017.

Proposed Interim Financing:
In 2015, the Metropolitan Transportation Commission ("MTC") conducted a cost and risk review of Phase 1 of the Transbay Project. The cost review included an assessment of current costs, risk management practices, and the adequacy of contingencies to deliver Phase 1 on time. Following this review, MTC recommended a budget increase to replenish TJPA's Phase 1 project reserves and contingencies.

Implementing the MTC recommendation would result in an approximately $250 million funding shortfall for Phase 1 of the Transbay Project and would prevent the TJPA from satisfying a financing condition required to access the TIFIA Loan. Accordingly, the City, in partnership with MTC, is proposing to provide short-term financing to cover the funding gap for Phase 1. In order to achieve the most cost efficient borrowing, it is proposed that the City issue short-term variable rate notes at the times and in the amounts necessary to meet the Phase 1 project construction draws. A portion of the notes could either be sold publicly, similar to the City's existing lease-backed Commercial Paper ("CP") program, or could be privately placed with institutional investors. Under the proposed package, a portion of the notes (up to $100 million) will be held by the MTC. Funding will begin in fiscal year 2017 and the maximum amount of the required financing is estimated not to exceed $260 million (including financing fees and expenses and potentially capitalized interest). The short-term notes are expected to be repaid in part from CFD special taxes and tax increment. Long-term debt will be issued to retire the notes, and such long-term debt is also expected to be repaid from such sources.

Phase 1 Background:
Phase 1 construction is facing a significant funding shortfall during construction. In 2013, the TJPA board approved a revised budget of $1.899 billion ("2013 Budget"). In 2015, MTC recommended that TJPA revise its estimate of Phase 1 construction costs upward by $360 million, to $2.259 billion from $1.899 billion, as shown below. Based on MTC's

recommendation, the TJPA board approved an interim revised baseline budget for Phase 1 of the project of $2.064 billion, an increase of $165 million from the 2013 Budget to correspond with the then-projected sales price for Parcel F. TJPA intends to seek a final budget increase when financing becomes available to support this increase.

Project Budget History ($ in millions)*

Year	Budget Amount	Change from Prior Budget	% Change
2008	1,189.0	-	
2010	1,589.0	400.0	34%
2013	1,899.4	310.4	20%
2016	2,259.4	360.0	19%

* The 2010 increase was the result of receiving $400 million in ARRA grant for the Train Box. In 2015, TJPA board approved an interim revised budget of $2,064.4 million.

As part of the 2013 Budget, $194.1 million in CFD special tax proceeds were projected to become available through 2017. Current projections of CFD special tax proceeds through 2017 are estimated to be $146.6 million, $47.5 million less than prior projections. As shown in the table below, the estimated size of the funding shortfall during construction including the projected $47.5 million reduction in CFD special taxes and including the revised expected sales price for Parcel F is approximately $250 million.

Short-Term Funding Required ($ in millions)

TJPA Approved Budget (2013)	1,899.4
MTC Recommendation (2015)	2,259.4
Total Shortfall	(360.0)
Approved Parcel F Transaction Consideration	160.0
Net Shortfall	(200.0)
Plus CFD Special Tax Proceeds Shortfall	(47.5)
Total Short-Term Certificates Required	(247.5)

Phase 1 Plan of Finance:

The funding plan for Phase 1 of the Transbay Project relies on a combination of federal, state, and local sources; in part on a pay-as-you-go basis and in part through borrowing. The largest sources of revenue through fiscal year 2015 have been Federal American Recovery and Reinvestment Act of 2009 monies ("ARRA"), Bay Area bridge tolls, proceeds of the sale of State-owned land parcels, and local sales tax revenues. The City formed Communities Facilities District No. 2014 ("CFD") to raise funds to pay for certain public infrastructure costs (as described below). Special taxes from the CFD are expected to provide a significant source of project funding once CFD special tax bonds are issued. In addition, future tax increment revenues to be received by the TJPA from the State-owned parcels within the Transbay Redevelopment Project Area have been leveraged to provide project funding. These tax increment revenues provide the primary security for a TIFIA Loan (as described below) and a Bridge Loan (as described below) provided by Goldman Sachs Bank USA and Wells Fargo Bank, N.A.

A. Land Sale Proceeds from State-owned Parcels: Proceeds of the sale of State-owned parcels are expected to provide a significant source of funding for Phase 1. The State-owned parcels consist of Block 2, Block 3, Block 4, Block 5, Block 6/7, Block 8, Block 9, Parcel T and Parcel F. To date, the TJPA has sold five (5) parcels generating approximately $510 million. (One (1) of the parcels is being developed for 100% affordable housing and another parcel is planned for 100% affordable housing in the future. One (1) of the parcels scheduled to be developed as open space/park.) The developer F4 Transbay Partners LLC submitted an offer for Parcel F of cash sufficient to retire the Bridge Loan (when combined with funds remaining in Bridge Loan debt service accounts), not contingent on entitlements, a $15 million assemblage bonus, and the commitment to set aside the number of residential units for affordable housing on both Parcel F and Block 4 as mandated by the City and OCII Commission. On March 10, 2016, the TJPA approved the cash offer pre-entitlements for Parcel F in an amount currently equivalent to $160 million, pending the approval of an option agreement in connection with Block 4 by the OCII Commission and the Board of Supervisors. The approval of such option agreement and closing is anticipated in May/June 2016. Upon the closing of the Parcel F transaction, the TJPA would then have generated approximately $670 million in land sale proceeds not including Block 4. Block 4, which currently occupies a portion of the TJPA's Temporary Terminal, will be available for development in 2018 following the opening of the new Transit Center and the closure of the Temporary Terminal. The sales proceeds from Block 4 will also be applied to the Transbay Project.

B. CFD Special Tax Proceeds: In 2014, the Board approved the formation of the CFD for the purpose of providing funding to pay for the costs of certain public infrastructure to be built as a result of the Transbay Project. In 2015, the Board approved the levy and collection of special taxes and the issuance of CFD special tax bonds. Pursuant to the Joint Community Facilities Agreement, the City is required to make available approximately 82.6% of the CFD special tax proceeds to partially finance the Rooftop Park and the Caltrain Downtown Extension, including the Train Box, elements of the Transbay Project. The cap on the use of CFD special tax proceeds for Phase 1 is assumed to be $380 million ($328 million in remaining funding over the amount funded by ARRA, for the Train Box, and an estimated $52 million for the Rooftop Park). The source of this funding is expected to begin in 2017.

C. The TIFIA Loan: In 2010, TJPA entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Agreement with the US Department of Transportation, pursuant to which TJPA pledged as a source of repayment (i) net tax increment generated by certain State-owned parcels in the Transbay Redevelopment Area and (ii) future contributions from Alameda-Contra Costa Transit District ("AC Transit") related to use of the new Transit Center; and (iii) interest income on (i) and (ii) (together the "Pledged Revenues"). The maximum amount of the TIFIA Loan is $171 million, and the Loan Agreement contains a variety of disbursement conditions which include, among other things, the requirement that TJPA receive gross land sales proceeds of $429 million from the State-owned parcels (or allocation of alternative funding acceptable to TIFIA); and evidence that Phase 1 of the Transbay Project is fully funded.

Once drawn, the TIFIA Loan will bear interest at a rate of 4.57% and must be repaid in full by Feb. 1, 2052 (no more than 35 years after substantial completion of Phase 1). The current schedule calls for loan repayment to begin by February 2020, two years after substantial completion of Phase 1. The TIFIA Loan may be prepaid in part or in whole at any time without penalty. To date, the TJPA has not been able to satisfy the fully funded condition to draw on the TIFIA Loan.

D. The Bridge Loan: Without the ability to draw on the TIFIA Loan to fund ongoing construction, in January 2015, the TJPA entered into a $171 million Bridge Loan with Goldman Sachs and Wells Fargo (collectively, the "Banks"). The loan has a term of four years and can be prepaid without penalty in part or in full any time after January 22, 2016. The Bridge Loan is on parity with the TIFIA Loan and is similarly secured by Pledged Revenues, as well as by a first priority lien on and security interest in real estate collateral comprising Parcel F, two parcels adjacent to Parcel F, and Block 4. Prior to repayment of the Bridge Loan, proceeds from the sale of any of these parcels are required to be held by the Banks as collateral for the Bridge Loan.

The interest rate on the Bridge Loan is variable. For the first year of the financing (through January 21, 2016), the rate is based upon 3-month LIBOR plus a spread of 2.25%. This spread increases by 0.50% each year that the loan is outstanding, reaching 3.75% in year four. Estimated interest and expenses on the loan for the full four-year term (approximately $32 million) was capitalized from the loan proceeds at the time of closing. Under the Bridge Loan terms, upon repayment of the Bridge Loan, any unused amount of capitalized interest or expense reserve would be returned to the TJPA. Upon closing the sale of Parcel F, the proceeds from the sale and the balance of the unused amount set aside for capitalized interest, and expense reserve will pay down the Bridge Loan in full.

Proposed Interim Financing:

In order to obtain the lowest cost funding, the City is proposing the use of short-term notes to meet the Phase 1 cash flow needs. Currently, the TJPA's only credit rating is for the TIFIA Loan and while it is an investment grade credit rating, the City's credit rating permits borrowing at more cost effective rates. Sufficient funding to complete Phase 1 is expected to be available once CFD special taxes and tax increment revenue streams mature and provide additional borrowing capacity, but this is projected to occur after substantial completion of Phase 1.

The City, in partnership with MTC, would provide short-term financing to TJPA in order to complete Phase 1. The short-term notes will be repaid from Pledged Revenues and CFD special taxes, likely in the coming ten (10) years. The City would issue short-term variable rate certificates at times and in amounts necessary to meet the project construction draws, a portion of which would be purchased by MTC and a portion of which would be privately placed with Wells Fargo Bank, N.A. ("Wells Fargo"). The program would ramp up beginning fiscal year 2017 and the maximum amount required financing is estimated to be $260 million, depending in part on the timing of the construction draw and the amount of special tax bond issuance during the construction period, as shown below and whether interest is capitalized at any point during the financing.

Project Budget Funding Required ($ millions)

Fiscal Year	Budget Shortfall
2017	149.0
2018	98.5
	247.5

The borrowing has been structured such that special tax bond proceeds will pay down a portion of the short-term certificates and projected tax increment revenues would be sufficient to pay debt service on the outstanding balance. However if those revenue sources are insufficient, the City's general fund resources would be expected to pay the debt service on the short-term certificates. Leveraging the City's strong credit in this manner would afford Phase 1 access to flexible low cost borrowing to complete construction.

Plan of Finance: Following a competitive solicitation, the Controller's Office of Public Finance selected and is negotiating currently with Wells Fargo on the terms and conditions of a revolving credit facility in an amount not to exceed $160 million. The City expects to enter a Certificate Purchase Agreement ("Agreement") with the Wells Fargo and the annualized floating rate of 70% of 1-month LIBOR plus 0.375%, currently at 0.6795%, if tax-exempt, and LIBOR plus 0.56%, currently at 0.995%, if taxable, of the drawn principal amount of the revolving credit facility, payable annually in arrears over three (3) years. The annualized floating rate on the undrawn revolving credit facility is 0.20%.

Additionally, the City expects to enter into a similar agreement with MTC on the terms and conditions of a revolving credit facility in an amount not to exceed $100 million and the annualized floating rate to be paid is 1-month LIBOR plus 0.61%, currently at 1.045% of the drawn principal amount of the revolving credit facility, payable annually in arrears over five (5) years. The MTC partnership allows for renewal in five (5) years for up to an additional five (5) years with spreads reflective of the market at the time of the renewal. Also, MTC's participation allows the City to minimize the financial impact to the City's General Fund, guarding against future credit facility capacity limitations which could have potential impacts to the City's existing CP program.

The current fee structure presumes that the City's general fund secured obligations credit rating remains at its current rating levels of Aa3/AA-/AA- by Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P"), and Fitch Ratings, respectively (collectively, the "Rating Agencies"). The floating rate may be increased in increments of 0.075% - 0.30% for every notch rating downgrade, depending on the rating, by two rating agencies below Aa3/AA-/AA-. Should the City's general fund secured obligations credit rating fall below Baa1/BBB+/BBB+, the Agreement would terminate and amounts owing to the Bank would be immediately due and payable, subject to the limits concerning maximum rent set forth in the Sublease in accordance with State law, which would allow for several years to repay the financing.

The Agreement may be terminated at the option of the City for any reason, subject to a termination fee of up to one (1) year of the floating rate due to the Bank, or for any optional termination by the City within the first year of the Agreement, the remaining unpaid balance of the first year's floating rate. After the first anniversary of closing, there would be no termination fee.

In connection with this transaction, the Board of Supervisors ("Board") will approve forms of Trust Agreements, Site Lease, Train-Box Site Lease, Subleases, and a Leaseback Lease and related Agreements (as described below).

Trust Agreements: Pursuant to the Trust Agreement between the City and U.S. Bank, N.A. ("Trustee"), acting on behalf and for the benefit of Certificates holders, the trustee administers and disburses Certificate payments and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the Certificates, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The Trustee holds proceeds derived from the sale of the Certificates and disburses payments for the costs incurred for the Project, as directed by authorized City representatives. There would be a separate Trust Agreement for the short-term obligations purchased by MTC and the short-term obligations purchased by Wells Fargo. Additionally, the Trust Agreements allow for the issuance of letter of credit backed commercial paper certificates if, in the future, it is necessary or advisable to convert the direct purchase Certificates to a commercial paper mode.

Site Lease-City Property and Sublease - Wells Fargo: Pursuant to the Site Lease-City Property, the City leases a City-owned property to Trustee. Pursuant to the Sublease, the City leases back the leased property from Trustee. The City makes annual base rental payments to Trustee in amounts required to pay debt service on the Certificates. When the Certificates are repaid in full, the Site Lease-City Property and Sublease terminate. The City's general fund secures the repayment of the Certificates. This is the structure that will be utilized for the Wells Fargo purchased short-term certificates.

Site Lease-TJPA Property, Sublease and Leaseback Lease - MTC: Pursuant to the Site Lease-TJPA Property, the TJPA leases real property within the City to Trustee. Pursuant to a Sublease, the City leases back the Train Box from the Trustee. Pursuant to the Leaseback Lease, the City leases the Train Box to the TJPA. Additionally, the TJPA grants to the City a security interest and continuing lien on the TJPA's right, title, and interest, which include, among other things, Pledged Revenues (as defined above). When the Certificates are repaid in full, the Site Lease-

TJPA Property, Sublease and Leaseback lease terminate. This is the structure that will be utilized for the MTC purchased short-term certificates.

The Leased Property: It is anticipated that a portion of the campus at the Zuckerberg San Francisco General Hospital or a portion of the campus at the Laguna Honda Hospital and TJPA's Train Box (the "Leased Property") will serve as the Leased Property for the short-term certificates.

Short-Term Certificates: The proceeds of the short-term certificates will partially pay costs of Phase 1, cost of issuance and fees and expenses. See sources and uses as shown in the table below.

Estimated Sources and Uses from Short-Term Certificates ($)

Maximum Not to Exceed Amount	**260,000,000**
Reserve for Market Uncertainty	1,842,451
Sources:	
Certificate Par Amount (Wells Fargo)	158,157,549
Certificate Par Amount (MTC)	100,000,000
Total Sources:	**258,157,549**
Uses:	
Project Fund	247,500,000
Cost of Issuance	800,000
Capitalized Fees and Expenses	9,857,549
Total Uses	**258,157,549**
Reserve for Market Uncertainty	1,842,451
Maximum Not to Exceed Amount	**260,000,000**

(1) Represents capitalized fees and expenses through the term of each Short-term Certificates

The additional $1.8 million allows for fluctuations in market conditions from the date of Board approval through the term of the short-term certificates. Based on the current floating rate, the maximum annual base rental payment is estimated to be $2.5 million.

TJPA will pay interest on outstanding short term certificates. It is anticipated this interest will be paid on an ongoing basis from net tax increment proceeds. It is also expected that CFD special tax bond proceeds will partially pay down principal on the outstanding short-term certificates beginning in fiscal year 2018, lowering the amount that ultimately will be refinanced with long-term debt.

One of the conditions to access the TIFIA Loan is that the TJPA demonstrate evidence that Phase 1 of the Transbay Project is fully funded. The City's proposed interim financing solution will assist the TJPA in satisfying that condition and enable the TJPA to access the TIFIA Loan. The combination of the Board approval of the delivery and execution of the short-term certificates and subsequent OCII and Board approval of the Block 4 option agreement, (which enables the close of the sale of Parcel F) achieves such condition. Upon approval of the Block 4 option agreement by OCII and the Board, the proceeds from the sale of Parcel F and any unused amount of capitalized interest and expense reserve will extinguish the Bridge Loan.

TJPA is in discussions with TIFIA to either give written consent or amend the TIFIA Loan agreement to permit the City's short-term certificates to be on parity with the TIFIA Loan. TIFIA is prepared to work with the TJPA on the proposal and may have comments or propose changes to the proposed interim financing and the TIFIA loan agreement.

Long-term Tax Increment Bonds or Certificates: Once sufficient tax increment revenue is generated, the City's short-term certificates would be taken out with long-term permanent financing. Based on current projections, this is anticipated to occur in fiscal year 2024. Such long-term financing may be issued by the TJPA or the City. The City will seek the necessary approvals required for the issuance of long-term certificates at a later date.

Other Considerations:

The City's short-term certificates will be repaid from Pledged Revenues and special taxes. Any delay in planned development will impact the timing of the availability of Pledged Revenues and special taxes, which will extend and/or increase the City's General Fund exposure. As such, the City has conducted significant due diligence on the status of development on State-owned properties within the redevelopment project area and within the CFD and will continue to monitor the status of such development.

As part of the interim financing proposal, the City and MTC will establish a Cost Review Committee to be staffed by representatives of the City, the TJPA and the MTC. The purpose of the Cost Review Committee will be to oversee the TJPA's budget and certain expenditures, as provided in a separate agreement entitled the Transbay Project Cost Oversight Agreement between the TJPA, the City and MTC. Additionally, following an amendment of the bylaws of the TJPA, an intergovernmental agreement with the TJPA and the Department of Public Works for construction management and oversight services is pending approval at the TJPA Board's next regularly scheduled meeting.

Financing Timeline:

Milestones:	Dates*:
Consideration by Capital Planning Committee	April 11
Board Introduction of Interim Financing	April 12
Consideration by MTC (Bay Area Toll Authority Oversight Committee)	April 13
TJPA Board Approval	April 14
Board Introduction of Block 4 Option Agreement	April 19

Budget & Finance Committee Hearing	April 20
Board Approval of Resolution and 1st Reading of Appropriation Ordinance	April 26
Final Board Approval (2nd Reading)	May 3
Land Use Committee Hearing (Block 4 Option Agreement)	May 16
Board Approval of Block 4 Option Agreement	May 24
Closing of Sale of Parcel F	May/June
Short-Term Certificates Closing	June 30

*Please note that dates are preliminary and may change.

Additional Information:

The related financing documents—including the Trust Agreement, Certificate Purchase Agreements, Site Lease, Sublease, Leaseback Lease, Train Box-Site Lease, Delivery and Paying Agent Agreement, Commercial Paper Dealer Agreement and Callable Commercial Paper Dealer Agreement—will also be submitted.

Your consideration of this matter is greatly appreciated. Please contact Ben Rosenfield or Nadia Sesay at 415-554-7500 if you have any questions.

CC: Angela Calvillo, Clerk of the Board of Supervisors
Harvey Rose, Budget and Legislative Analyst
Nicole Elliott, Director of Legislative & Government Affairs
Melissa Whitehouse, Acting Mayor's Budget Director
Mark Blake, Deputy City Attorney
Steve Heminger, MTC Executive Director
Brain Mayhew, MTC Chief Finance Officer
Greg Harper, TJPA Board Chair
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