



**Bond Financing
Financial Advisory Team**

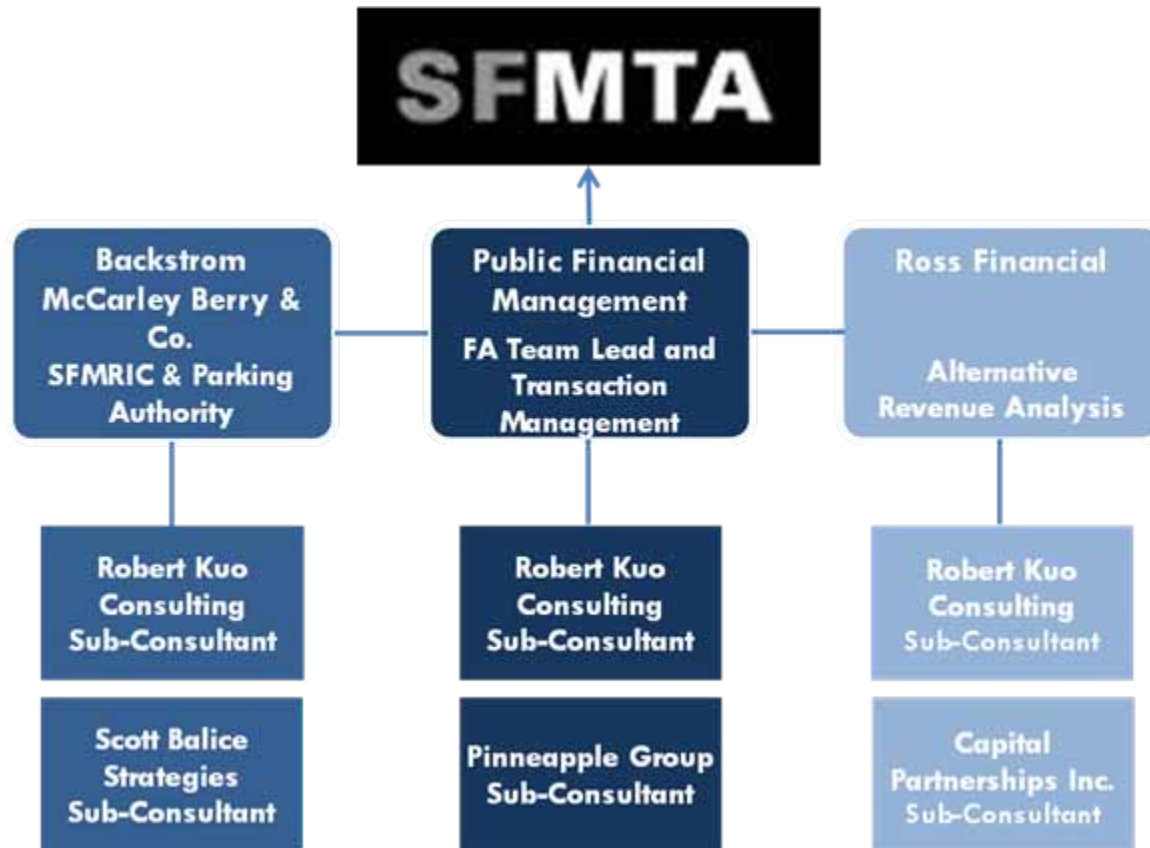
Today's Presentation Topics

- Financial Advisory Team Introduction
- SFMTA Financing Objectives
- Introduction to Bond Finance
- Establish SFMTA as a Creditworthy Issuer
- The Bond Sale Process
- SFMRIC Financing
- Next Steps and Timeline – Meeting the SFMTA's Objectives

Financial Advisory Team Introduction

SFMTA's Financial Advisory Team

- The Agency's financial advisory team was selected through a competitive request for proposal process



Team Leaders & Experience



Backstrom, McCarley, Berry & Co.

Backstrom McCarley Berry & Co.

- Formed in 2002 to provide FA expertise combined with direct market insight
- California firm attuned to how financial markets impact issuers

Engagement Manager:

- Vincent McCarley

Firm's Role:

- SFMRIC, City Garages, Central Subway

Relevant Experience

- City and County of San Francisco
- SFO
- Port of San Francisco
- SFCTA
- SFPUC
- BART
- Port of Oakland
- Riverside County Transportation Commission



The PFM Group

Public Financial Management Inc.

- The nation's largest financial advisory firm founded in 1975
- Top ranked financial advisor for the past 7 years
- National transportation practice

Engagement Manager

- Peter Shellenberger

Firm's Role:

- Team leader, financial planning, debt management

Relevant Experience

- City and County of San Francisco
- SFO
- SFCTA
- SFRDA
- SFPUC
- BATA
- Peninsula Corridor JPB
- San Joaquin Regional Rail Commission
- AC Transit

ROSS FINANCIAL

Ross Financial

- San Francisco-based firm founded in 1997
- More than 32 years of municipal finance experience

Engagement Manager

- Peter Ross

Firm's Role:

- Alternative revenue analysis
- Fleet management plan
- Leveraged lease transactions

Relevant Experience

- City and County of San Francisco
- SFMOH
- Santa Clara Valley Transportation Authority
- SamTrans
- Peninsula Corridor JPB
- Sacramento Regional Transit District

SFMTA Financial Objectives

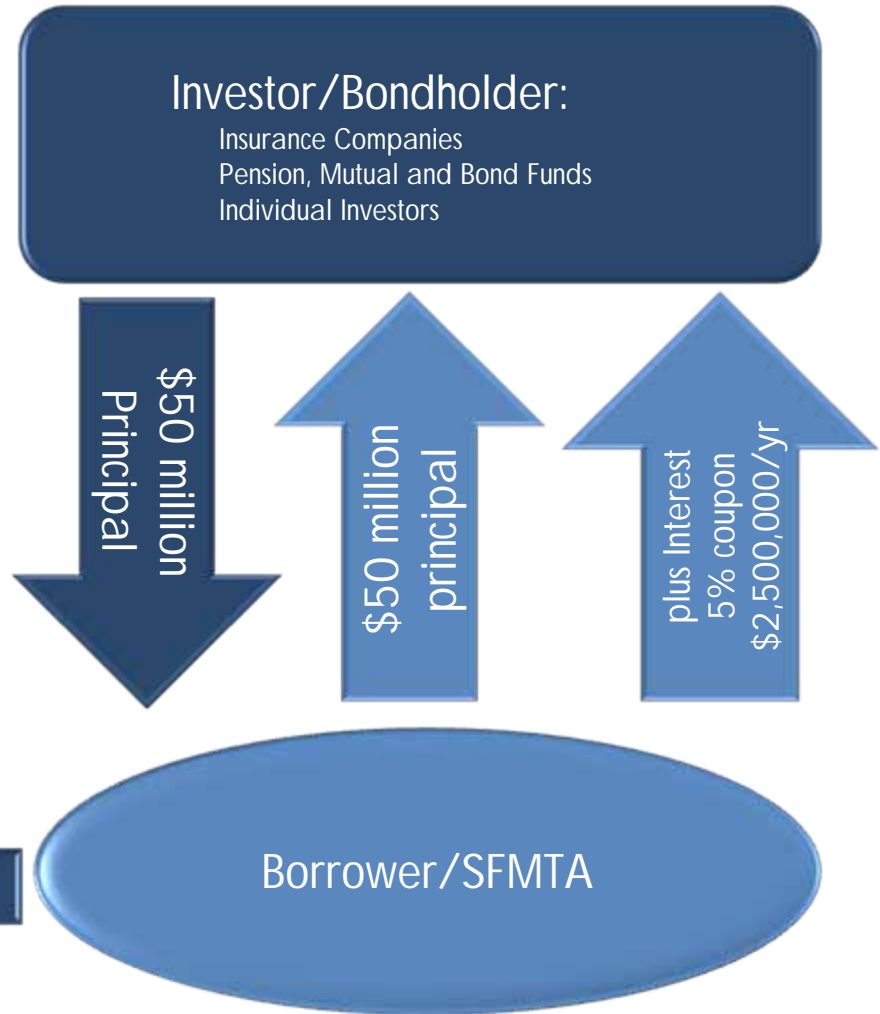
SFMTA Financial Objectives

- Establish the SFMTA as a new, credit-worthy municipal bond issuer
 - Establish a debt policy with Board direction
 - Develop a comprehensive credit strategy for Board review
- Create a long-term Agency-wide plan of finance
 - Review and build off of AECOM Central Subway Financial Plan
 - Identify capital bonding capacity
 - Identify additional ongoing revenue streams
- Issue SFMTA and SFMRIC bonds in 2011
 - Develop legal documents that reflect debt policy goals
 - Accelerate the Agency's capital plan

Introduction to Bond Finance

What is a Bond?

- A promise to pay, a loan
 - Similar to a mortgage
- Key components of a bond
 - Par or Principal
 - Interest Rate
 - Maturity Date



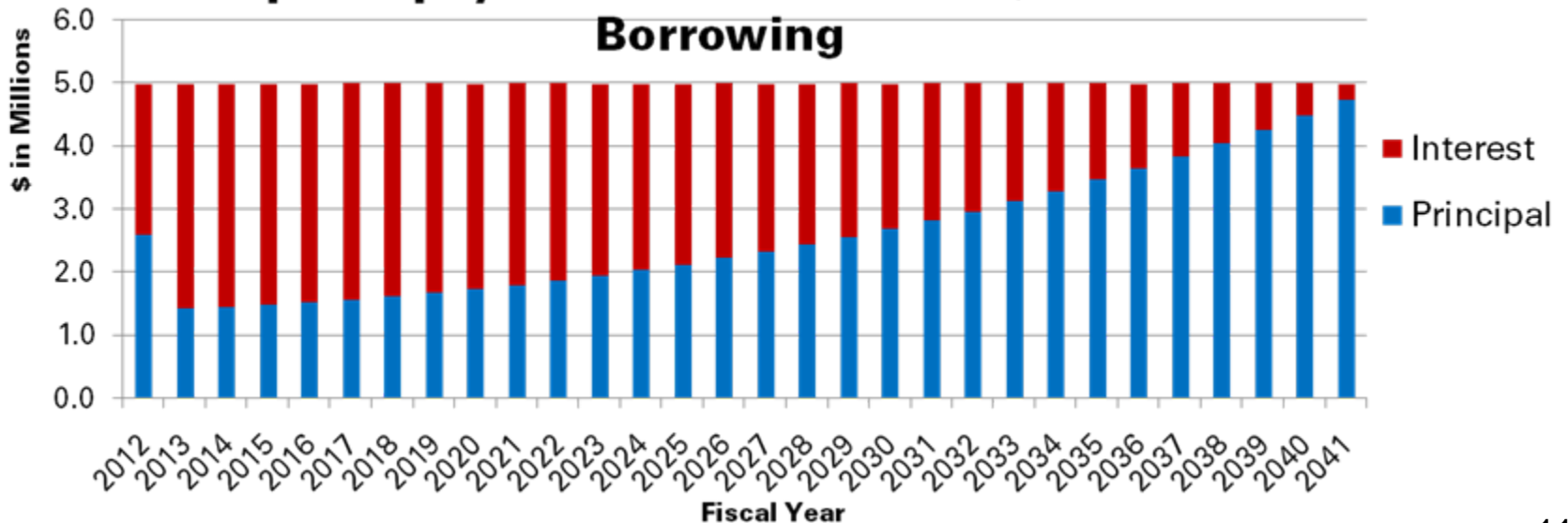
Why Bond Finance vs. Fund with Cash?

- Borrowing allows the Agency to accelerate critically needed capital projects
- Long-lived capital projects benefit several generations, but pay-go financing only imposes costs on a single generation
- Allows cash to be used for other purposes
- As a municipality, SFMTA would be a tax-exempt bond issuer
 - Tax-exempt rates are lower than comparable taxable corporate bond rates because the federal government subsidizes municipal borrowing

Current Interest Rate Environment

- Based on today’s current market conditions the Agency could issue 30-year debt at an estimated all-in borrowing rate of 5.07%
- Assumes the Agency’s debt is structured similar to a conventional home mortgage:
 - Fixed borrowing rate
 - Equal annual payments of principal and interest

Sample Repayment Structure for a \$75 Million Borrowing



Establish SFMTA as a Creditworthy Issuer

Debt Policy Development

- A Debt Policy will help SFMTA identify when debt financing is appropriate
 - When should SFMTA borrow?
 - What are the goals and objectives in a debt financing?
 - What projects should be debt financed?
 - When should SFMTA issue debt as opposed to SFMRIC or the Parking Authority?
 - What are the financial criteria and thresholds that are acceptable such as reserve levels, coverage, etc.?
- A management best practice well received by investors and rating agencies
 - Promotes financial discipline
 - Most issuing entities including the City and County San Francisco, SFO, SFPUC, SFCTA, BART and AC Transit have debt policies

Obtaining Credit Ratings

- Before the Agency can access the capital markets it must obtain long-term credit ratings for its debt
 - Investors rely on rating agency analysis when making investment decisions
 - Ratings measure the risk to the investor that an issuer will default
 - Ratings affect the Agency’s borrowing costs – the higher the rating, the lower the interest rate

Long-Term Ratings (Investment Grade)

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-

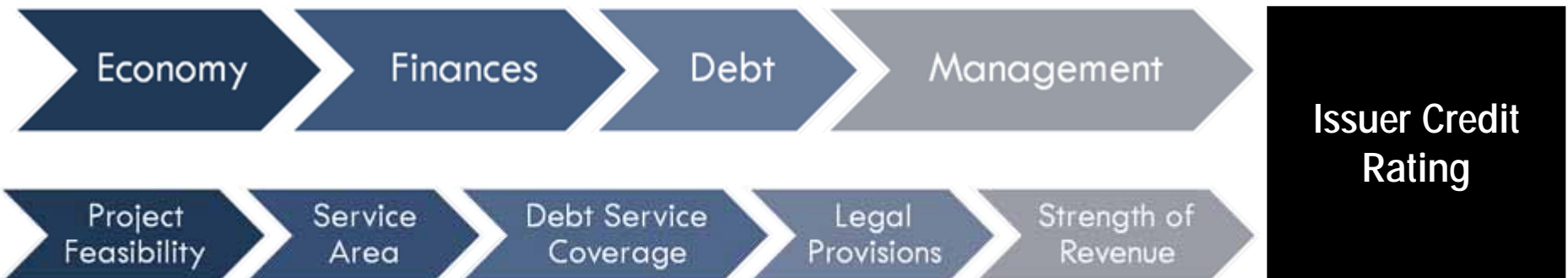
Low to High
↑
↑
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Current Ratings for Bay Area Issuers:

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
SF (GO)	Aa1	AA	AA
SFCTA	Aa3	AA	AA
SFPUC	Aa2	A	-
SFO	A1	A	A+
BART	Aa2	AA+	AA+
AC Transit	A1	A+	-
Port of SF	A1	A-	A

Credit Strategy

- As a new issuer, the Agency will be best served by approaching the rating agencies with a comprehensive Agency-wide credit strategy
 - Strong historical operating performance and ability to deliver capital projects
 - Demonstrate the Agency's ability to maintain operations while delivering proposed projects and paying debt service
 - Identify strong Agency revenue sources as "Pledged Revenues" for bondholders
 - Strong management and internal controls
 - Essentiality of SFMTA's service
 - Strong public and political support for Muni: SF is a "transit first" City



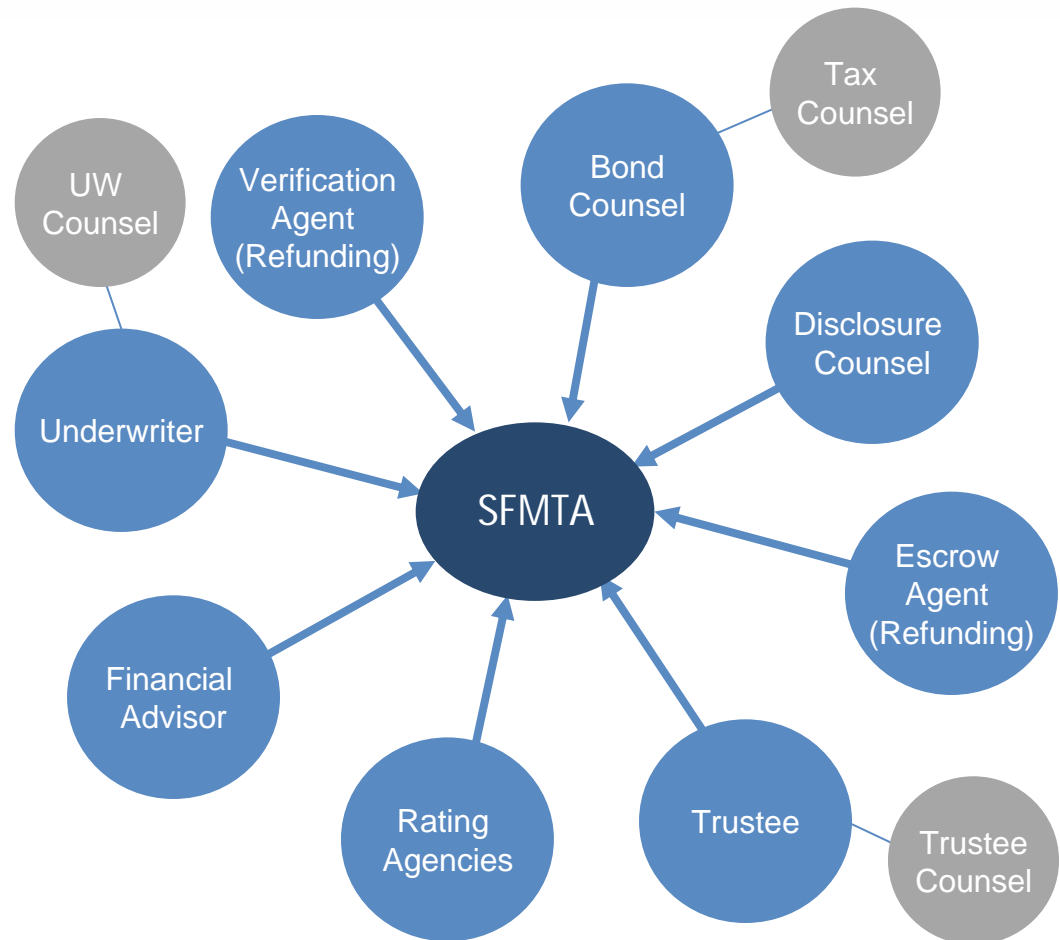
Bond Capacity Analysis

- Step 1: Identify available net operating revenues
 - Review SFMTA's long-range financial plan to identify annual net operating revenues available for debt service
- Step 2: Define the Agency's borrowing structure
 - Determine parameters such as: fixed rate, level annual payments, 30-year final maturity, etc.
- Step 3: Estimate borrowing capacity for projects
 - Based on current market rates and a 30-year borrowing term, every \$1 million of available net operating revenue identified results in \$14 million for projects today

The Bond Sale Process

Participants in a Bond Transaction

- In order to implement a debt transaction the Agency must select a finance team to help it achieve its goals and objectives
 - In any transaction the issuer is the most important participant and decision maker



Bond Sale Process Overview

Plan of Finance

- Select the Team
- Determine project cost & timing
- Identify source of repayment
- Size & structure the bonds
- Determine method of sale

Legal Framework

- Public notice & hearing, if required
- Tax analysis & due diligence
- Prepare disclosure document (official statement)

Marketing

- Obtain ratings
- Obtain credit enhancement, if needed
- Underwriter & investor out reach
- Sell & price the bonds

Administration

- Closing/money transfer
- Invest bond proceeds
- Begin project & track progress
- Make principal & interest payments
- Monitor for refinancing opportunities
- Comply with Arbitrage Rebate Regulations (IRS/Tax Code)
- On-going disclosure by complying with SEC Rule 15(c)2-12

Documents

- Standard documents establish the bond program's framework and define roles, responsibilities, rights and remedies
 - Drafted by the City Attorney, Agency's bond counsel and finance team
- Indenture/Trust Agreement
- Authorizing Resolution(s)
- Official Statement
- Bond Purchase Agreement/Notice of Sale
- Continuing Disclosure Agreement

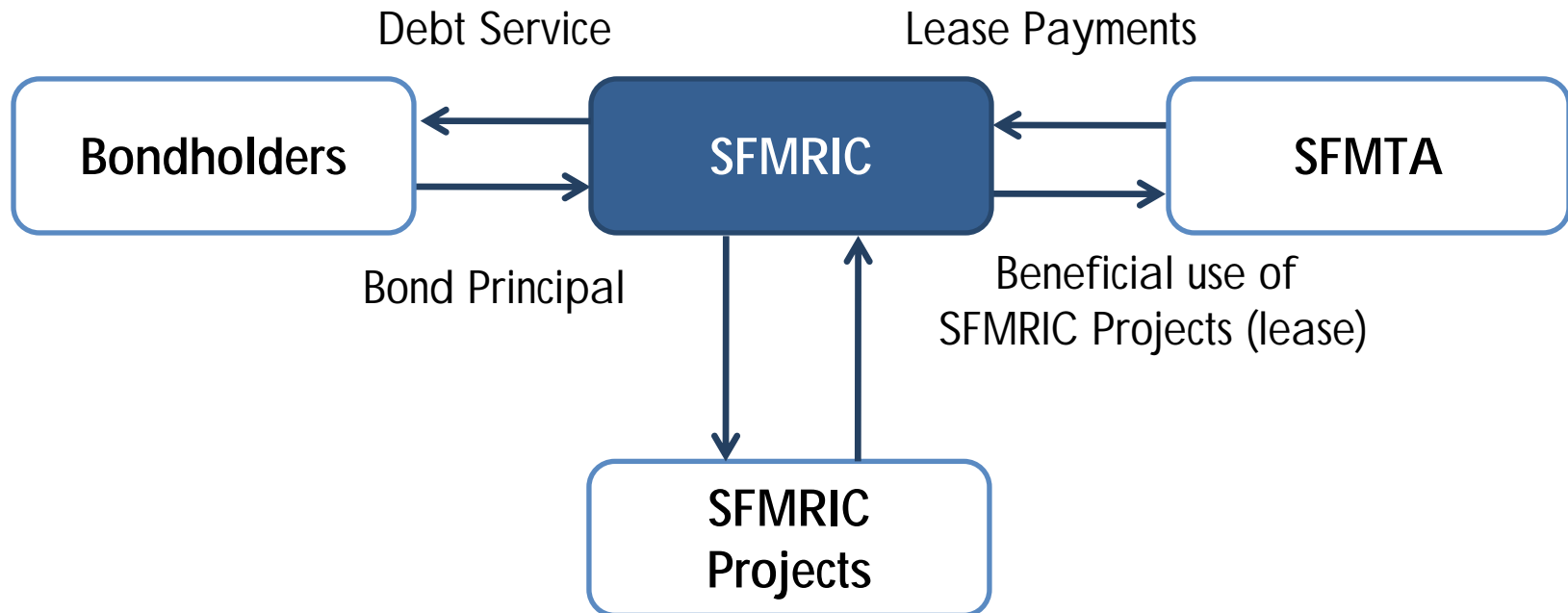
Hypothetical Bond Financing Schedule

<i>Date</i>	<i>Action</i>
Prior to Week 1	• Determine Projects and Available Revenues
Week 1	• Kickoff meeting with Financing Team and Agency Staff
Week 2	• Develop Preliminary Plan of Finance
Week 3	• First draft of bond documents distributed
Week 4	• Credit Packages distributed to Rating Agencies • First draft of POS distributed
Week 5	• Rating presentations
Week 6	• Receive ratings • Determine final bond structure based on ratings and market environment • Second draft of bond documents and POS distributed
Week 7	• All Documents to SFMTA for Board Agenda package
Week 9	• Financing approved by SFMTA Board • Finalize, print and mail POS
Week 10	• Pre-pricing call between Agency, Financial Advisor and Underwriter • Bond pricing and Bond Purchase Agreement signed
Week 12	• Bond Closing and Proceeds delivered
Post-Pricing	• Investment of Bond Proceeds

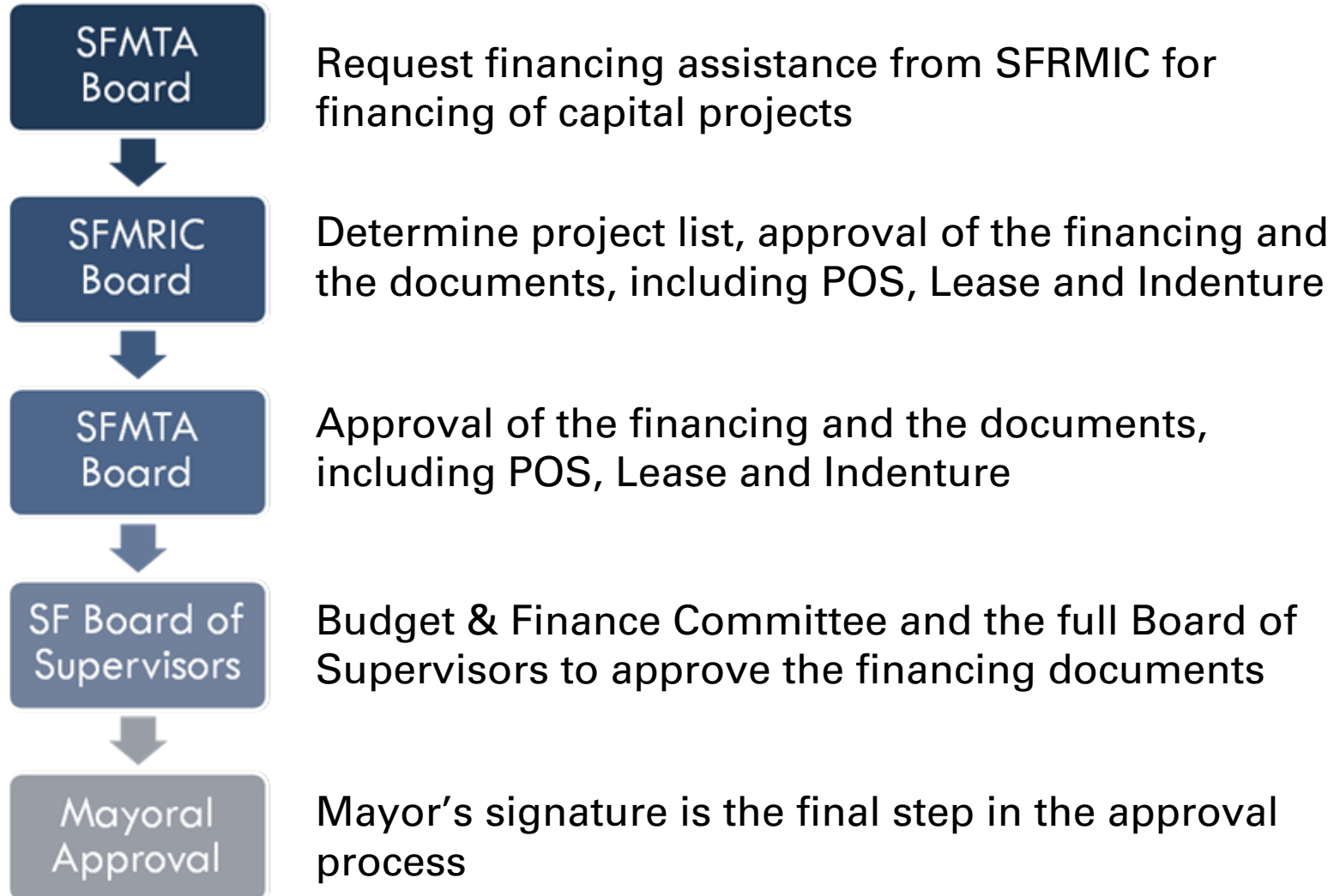
SFMRIC Financing

Proposed Financing Structure

- SFMTA would be the ultimate source of the funds and would pay lease payments to SFMRIC for the beneficial use of the projects
- A lease revenue structure would most likely provide the security for repayment of the bondholders
 - This structure was used in SFMRIC's prior issuances of bonds



Required Approval Process



Next Steps

Timeline and Next Steps

- Review SFMTA’s Long-Range Plan - November 2010
- Identify Near-Term Bonding Capacity - December 2010
- Rationalize Bonding Capacity
With Project Readiness - Late December 2010
- Submit Final Financial Plan to FTA - Early January 2011
- Draft Debt Policy - January 2011
- Debt Policy Outreach and Approval - Jan - Feb 2011
- Prepare Legal Documents - February 2011
- Meet With Credit Rating Agencies - March 2011
- SFMRIC Outreach/Approval - April 2011
- SFMRIC Financing - May 2011
- SFMTA Outreach/Approval - June 2011
- SFMTA Financing - July 2011