

Proposed SFMTA Financing SFMTA Board of Directors



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Overview

- In 2007, Voters approved Proposition A which allows the SFMTA to issue bonds
- SFMTA has significant state of good repair needs for capital assets
- Bond proceeds to finance various needs:
 - Rail vehicle repair and restoration
 - Track rehabilitation and replacement
 - Signal and communications upgrades
 - Overhead wires repair and restoration
 - Parking garage capital improvements
 - Safety systems
 - Elevators
 - Parking control equipment
 - ADA compliance
- An independent consulting firm is conducting a review of the capital needs of the garage

Process

- The SFMTA Board of Directors and the Board of Supervisors must authorize the issuance by approving the related bond documents
- The Controller must certify that SFMTA has the ability to incur the debt and pay the annual debt service
- Before SFMTA can issue debt at least two rating agencies (e.g. S&P and Moody's) will evaluate the creditworthiness of SFMTA by assigning a rating to the debt
- The SFMTA Board of Directors to approve an overall Debt Policy to support overall debt management best practices
- The SFMTA Board of Directors to approve a Reimbursement Resolution allowing the use of bond proceeds to pay for eligible project costs incurred prior to the issuance of bonds

Financing Structure

- SFMTA's diverse revenue sources provides the Agency with a strong revenue base to issue debt
- Current market for municipal bonds is characterized by low volume and above average credit spreads offering:
 - Opportunity for SFMTA to enter the market as a new issuer with strong, creditworthy financing structures
 - Important for SFMTA to establish an underlying credit
 - Low interest rate environment
- Establish a financing structure which allows SFMTA to borrow funds from investors, in return
 - For pledging certain revenues to bondholders
 - Pledged revenues include farebox, citation and parking garage revenues

Credit Factors

- Important factors the rating agencies will focus on when reviewing SFMTA's overall credit:
 - Strength and stability of revenue sources available to pay debt service
 - Operating performance and fund balance history
 - Ability to maintain balanced budget annually
 - Regional economy and demographics of San Francisco
 - Rider support and essentiality for public transit
 - Debt covenants such as annual debt service coverage and Additional Bonds Test (if applicable)
 - Management
 - Charter authority

Recent California Transit Debt Issuances

Issuer	Security Type	Sale Date	Par Amount	Ratings	Final Maturity
BART	Sales Tax Revenue Bonds	5/5/2010	\$129.595 million	-/AA+/AA+	2028
Los Angeles County MTA	Public Enterprise Revenue Bonds	7/15/2010	\$79.62 million	A1/A/-	2021
Los Angeles County MTA	Sales Tax Revenue Bonds	11/4/2010	\$732.41 million	Aa2/AAA /-	2039
Santa Clara VTA	Sales Tax Revenue Bonds	11/10/2010	\$645.89 million	Aa2/AA+/-	2032
Riverside CTC	Sales Tax Revenue Bonds	11/17/2010	\$150 million	Aa1/AA+/A A	2039
San Joaquin Regional Rail Commission	Certificates of Participation	11/23/2010	\$35.525 million	A2/- /-	2040

Recent National Transit Debt Issuances

Issuer	Security Type	Sale Date	Par Amount	Ratings	Final Maturity
New York MTA	Dedicated Tax Fund Bonds	3/23/2011	\$127.45 million	-/AA/AA-	2021
New Jersey Transportation Trust Fund Authority	Transportation System Bonds	5/3/2011	\$600 million	A1/A+/AA-	2041
Oregon Tri-County MTD	Capital Grant Receipt Revenue Bonds	6/20/2011	\$142.38 million	A1/A/-	2027
Illinois Regional Transportation Authority	General Obligation Bonds	6/28/2011	\$95.55 million	Aa3/AA/AA-	2019
New York MTA	Transportation Revenue Bonds	7/12/2011	\$400.44 million	A2/A/A+	2046
Southeastern PA Transportation Authority	Capital Grant Receipt Bonds (FTA Section 5309)	8/4/2011	\$201.615 million	A1/A+/-	2029
Harris County TX MTA	Sales Tax Revenue Bonds	9/9/2011	\$512.385 million	Aa2/AA/-	2041

Current Outstanding Bonds

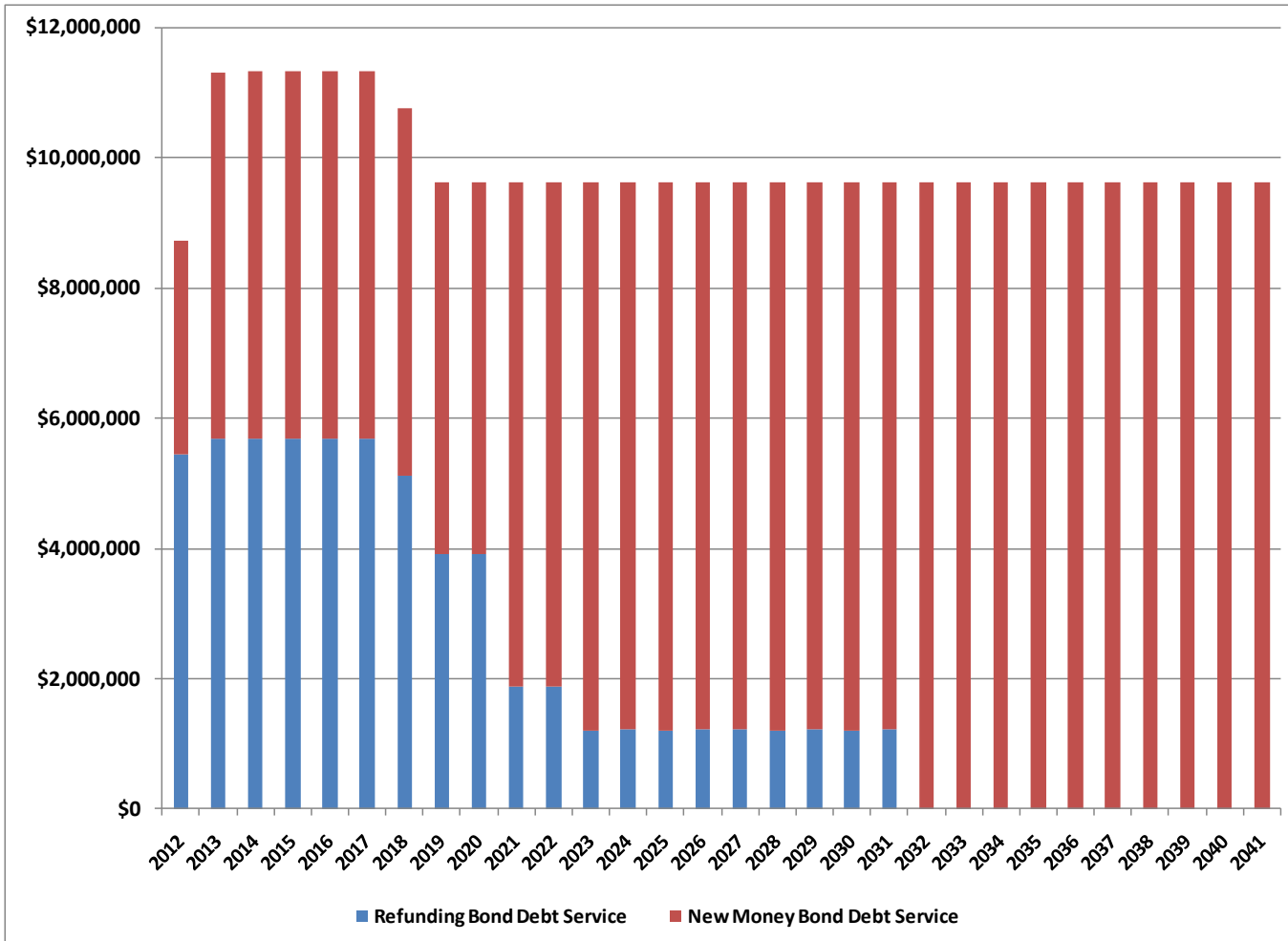
- 1 series of parking garage bonds outstanding
 - \$5.4 million in lease revenue bonds for North Beach Garage
- 3 non-profit parking corporations also have revenue bonds outstanding
 - \$15.9 million for Uptown Parking Corporation (Union Square / Sutter Stockton)
 - Uptown Parking Corporation has issues associated with a downgraded surety policy in the debt service reserve fund that can be addressed through the refinancing.
 - \$6.9 million Downtown Parking Corporation (5th and Mission)
 - \$2.8 million Ellis-O'Farrell Parking Corporation
- 1 series of parking meter bonds outstanding
 - \$14.8 million parking meter bonds used to finance improvements to St. Mary's Square and General Hospital Garages

Proposed Bond

- Approximately \$108 million in revenue bonds are proposed to be issued to generate \$100 million in net proceeds for the new projects. Annual debt service is projected at \$6 million through 2020 and up to \$10 million through 2041.
- Approximately \$50 million in refunding bonds will be issued to refinance outstanding debt for debt service savings and to streamline outstanding indentures.
- Debt size is based on balancing:
 - Operating budget impact
 - State of Good Repair need and priorities
 - Cost of issuance
 - Investor acceptance
 - Establishing underlying credit as a first time issuer

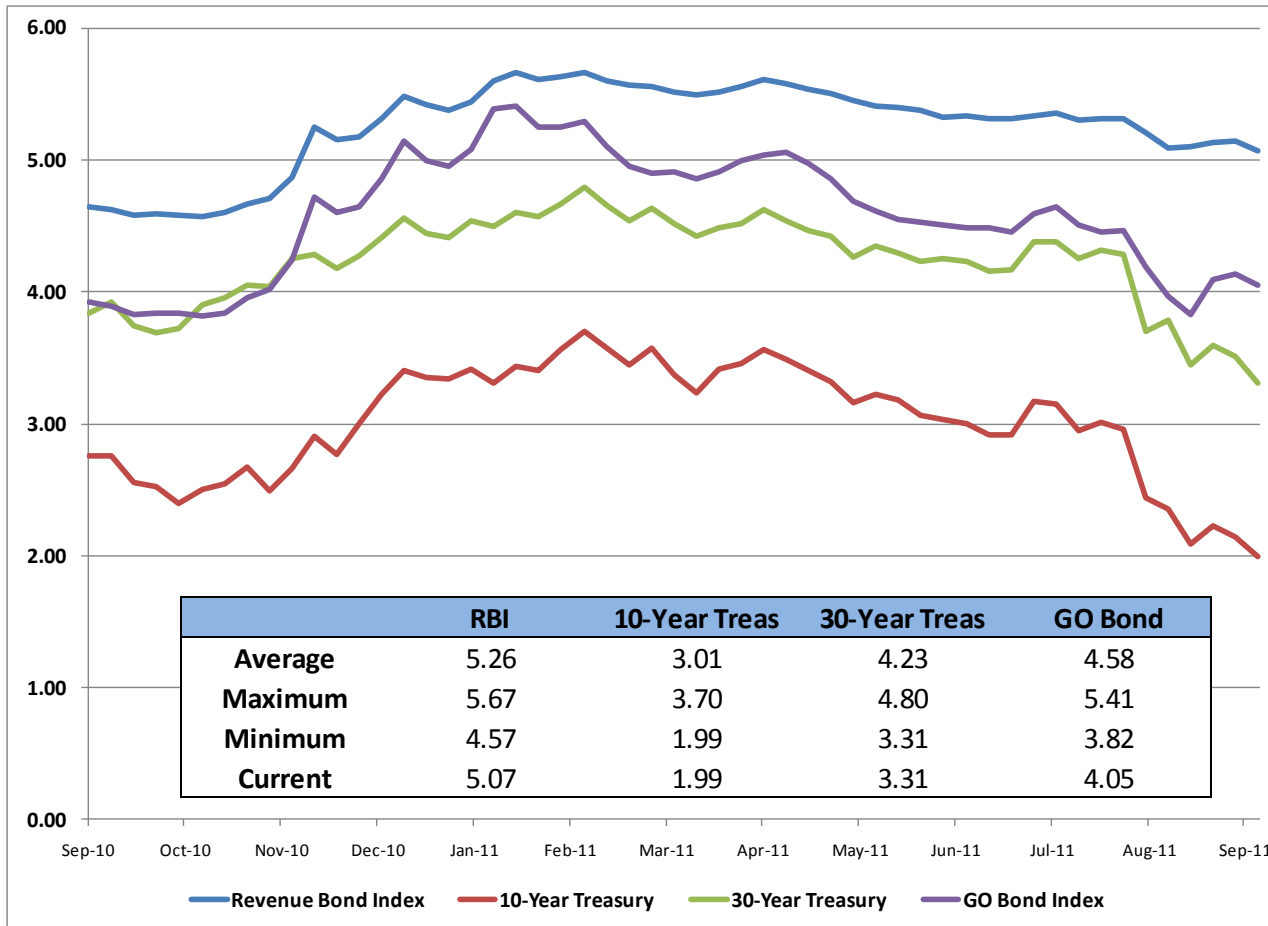
Aggregate Debt Service

New debt service has been structured around the refinancing of the existing bonds. In total, new debt service will add \$6 million in annual debt payments through 2020.



Recent Interest Rates

- Rates have trended downward significantly for all fixed rate securities, with US Treasuries leading the way down. The S&P downgrade of the United States Government has led a flight to quality.



Debt Policy

- Spells out guidelines for debt issuance such as:
 - When should SFMTA borrow?
 - What projects should be debt financed?
 - What are the goals and objectives in a debt financing?
 - What are the financial criteria and thresholds that are acceptable such as reserve levels, coverage, etc.?
- **Adoption of a debt policy is considered a “management best practice” and 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

Reimbursement Resolution

- The resolution specifies intent to use bonds to reimburse costs associated with the project
- Cost must be within a window:
 - 60 days of payment and within 18 months of the project being placed in service
- **Eligible “Soft Costs”** (i.e. architectural, engineering, transaction costs...) can be reimbursed regardless of timing or resolution

Next Steps

- CAC and SFMTA Board approval of list of projects to be financed
- SFMTA Board and Recreation and Park Commission Approval of Financing Documents
- Creation of a Bond Oversight Committee by SFMTA Board
- Rating Agency Presentations
- Board of Supervisors Approval of Financing Documents