THIS PRINT COVERS CALENDAR ITEM NO.: 14

SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY

DIVISION: Finance and Information Technology

BRIEF DESCRIPTION:

Authorizing a resolution recommending that the Board of Supervisors approve the Peninsula Corridor Joint Powers Board's 2021 Financing Plan, payable from Measure RR sales tax revenues, consisting of (a) two short-term revolving lines of credit with Wells Fargo in the aggregate amount of $200,000,000 to replace the two lines of credit currently provided by J.P. Morgan, (b) issuance of up to $140,000,000 of Measure RR sales tax revenue bonds to fund certain additional capital costs associated with the Peninsula Corridor Electrification Project and (c) refunding the PCJPB's 2019 farebox revenue bonds with Measure RR sales tax revenue refunding bonds when economic, in an aggregate principal amount not to exceed $75,000,000.

SUMMARY:

- The City and County of San Francisco (City) is a member agency of the Peninsula Corridor Joint Powers Board (JPB) and is required by the JPB's Joint Powers Agreement to contribute to the operating costs of Caltrain and to the costs of the JPB's capital projects.
- In November 2020, voters in San Francisco, San Mateo and Santa Clara Counties approved Measure RR, providing a 1/8th cent sales tax to the JPB.
- The JPB desires to implement a three-part funding strategy that relies on Measure RR sales tax revenues rather than farebox revenues and member agency contributions (2021 Financing Plan) comprised of: (1) the replacement of its two existing revolving lines of credit with J.P. Morgan that were authorized in the aggregate principal amount of $200,000,000 with two new lines of credit also in the same aggregate principal amount; (2) the issuance of up to $140,000,000 of Measure RR sales tax revenue bonds to finance certain Peninsula Corridor Electrification Project (PCEP) capital costs; and (3) the issuance of Measure RR sales tax revenue bonds to advance refund the PCJPB's 2019 farebox revenue bonds when economic.

ENCLOSURES:

1. SFMTAB Resolution

APPROVALS:	**DATE**
DIRECTOR ______	June 9, 2021
SECRETARY ______	June 9, 2021

ASSIGNED SFMTAB CALENDAR DATE: June 15, 2021

PURPOSE

Authorizing a resolution recommending that the Board of Supervisors approve the Peninsula Corridor Joint Powers Board's 2021 Financing Plan, payable from Measure RR sales tax revenues, consisting of (a) two short-term revolving lines of credit with Wells Fargo in the aggregate amount of $200,000,000 to replace the two lines of credit currently provided by J.P. Morgan, (b) issuance of up to $140,000,000 of Measure RR sales tax revenue bonds to fund certain additional capital costs associated with the Peninsula Corridor Electrification Project and (c) refunding the PCJPB's 2019 farebox revenue bonds with Measure RR sales tax revenue refunding bonds when economic, in an aggregate principal amount not to exceed $75,000,000.

STRATEGIC PLAN GOALS AND TRANSIT FIRST POLICY PRINCIPLES

This item will meet the following goals and objectives of the SFMTA Strategic Plan:

Goal 1: Create a safer transportation experience for everyone
    Objective 1.2: Improve the safety of the transportation system

Goal 2: Make transit and other sustainable modes of transportation the most attractive and preferred means of travel.
    Object 2.1: Improve transit performance

This item will support the following Transit First Policy Principles:

1. To ensure quality of life and economic health in San Francisco, the primary objective of the transportation system must be the safe and efficient movement of people and goods.
2. Public transit, including taxis and vanpools, is an economically and environmentally sound alternative to transportation by individual automobiles.
9. The ability of the City and County to reduce traffic congestion depends on the adequacy of regional public transportation. The City and County shall promote the use of regional mass transit and the continued development of an integrated, reliable, regional public transportation system.

DESCRIPTION

Background

The JPB is a public entity duly established and organized under the laws of the State of California, and was created under the Joint Powers Agreement entered into by the Santa Clara Valley Transportation Authority, formerly known as the Santa Clara County Transit District, the City and County of San Francisco (City) and the San Mateo County Transit District. The JPB operates the Caltrain commuter rail service (Caltrain) within San Francisco, San Mateo and Santa Clara Counties.

As a member of the JPB, the City is required to contribute to the operating cost of Caltrain and the cost of JPB capital projects as set forth in the JPB Joint Powers Agreement. The City's share of the operating costs are paid through the SFMTA budget.

The JPB has reported two recent developments affecting operations and capital requirements.

Operations. With a 97% decline in ridership due to COVID-19, the JPB's operating cash flow has been severely challenged. Subsidies from Federal stimulus measures have largely filled the void of farebox revenues over the past year. However, the prognosis for additional Federal stimulus is uncertain and it is unclear when Caltrain ridership will return to pre-COVID levels. While the voter-approved Measure RR sales tax provides a much-needed dedicated revenue source to Caltrain, collections begin on July 1, 2021, with the first remittance expected in September 2021. For each of Fiscal Years 2021-22 and 2022-23, the JPB projects a mismatch in the timing of operating expenses and sales tax receipts together with other funds expected to be available for operations.

Capital. Caltrain's major capital project is the Peninsula Corridor Electrification Project (PCEP) which currently has been budgeted at $1.98 billion with a 2022 completion date. The PCEP project, which has been under construction since 2017, will electrify the Caltrain rail corridor running between San Francisco and the Tamien Station in San Jose and will convert a portion of the Caltrain diesel fleet to electric multiple unit vehicles. The PCEP project will be subject to additional costs generally due to two factors: COVID-related delays and the need to address gate crossing signaling associated with the conversion to an electrified system. While the JPB project team is continuing to work with contractors to refine both the schedule and the magnitude of the additional costs, the JPB currently expects that: (a) PCEP will require a minimum of an additional $75 million in funding beyond the original $1.98 billion budget and (b) the completion date will be delayed from 2022 to 2024.

The PCEP project will help the JPB (i) meet anticipated future transportation demand, (ii) offset roadway congestion; (iii) address regional air quality issues; (iv) reduce greenhouse gas emissions; (v) provide electrical infrastructure compatible with contemplated future high-speed rail service; and (vi) enhance safety throughout the Caltrain system.

<u>Past Financing</u>

In 2016, the JPB entered into a revolving line of credit with J.P. Morgan in the amount not to exceed $150,000,000 outstanding at any one time to pay, on an interim basis, costs of the then current phase of PCEP (PCEP Line of Credit). The PCEP Line of Credit was secured by and payable from a subordinate pledge of farebox revenues and certain State and Federal grants.

In 2019, the JPB increased the PCEP Line of Credit to $170,000,000. It also entered into a separate line of credit with J.P. Morgan in an amount not to exceed $30,000,000 outstanding at one time for working capital needs (Working Capital Line of Credit). The Working Capital Line of Credit also was secured by and payable from a subordinate pledge of farebox revenues.

The PCEP and Working Capital Lines of Credit expire on December 31, 2022.

<u>2021 Financing Plan</u>

The 2021 Financing Plan consists of three main elements:

1. **Replacement of the PCEP Line of Credit and Working Capital Line of Credit**

The JPB intends to implement two new lines of credit with Wells Fargo Bank (2021 Lines of Credit) to replace the PCEP Line of Credit and Working Capital Line of Credit with the following differences:

- The 2021 Lines of Credit will be secured by a subordinate pledge of Measure RR sales tax revenues instead of Caltrain farebox revenues;
- Each of the 2021 Lines of Credit will be in the amount of not to exceed $100,000,000 outstanding at any time rather than $170,000,000 for the PCEP Line of Credit and $30,000,000 for the Working Capital Line of Credit;
- The new Working Capital Line of Credit will also be available to fund PCEP costs, if necessary;
- The maturities of the 2021 Lines of Credit will extend to June 30, 2024;
- The 2021 Lines of Credit will carry more favorable pricing terms due to the strength of the Measure RR sales tax pledge.

2. **Issuance of New Money Sales Tax Bonds**

The JPB intends to issue up to $140,000,000 in new money bonds (2021 Bonds) secured by and payable from Measure RR sales tax revenues. The proceeds of the 2021 Bonds will be used to fund the projected additional costs associated with the PCEP project, capitalized interest to the expected commencement of revenue service and transaction costs.

The JPB currently estimates the cost of PCEP to increase by a minimum of $75 million with the commencement of revenue service anticipated to occur in 2024 rather than 2022. The additional costs, which are continually being refined, will not be covered by existing Federal or State grants and must be locally funded. The 2021 Bonds will be sized on the basis of the most-refined cost estimates at the time of issuance.

The 2021 Bonds will be issued as fixed rate tax-exempt sales tax revenue bonds secured by a senior lien pledge of Measure RR revenues. The JPB expects ratings in at least the high “AA” category.

While Measure RR sales tax revenues will be the pledged repayment source, the JPB will look to repay debt service on the 2021 Bonds, after the capitalized interest period, from Low Carbon Fuel Standards (LCFS) credits that it expects to receive following the commencement of post-electrification revenue service. The annual amount of the LCFS credits is estimated at a minimum of $15 million, based on conservative estimates of both service levels and credit prices, and will more than cover projected debt service on the 2021 Bonds. The JPB will structure into the 2021 Bonds provisions for early bond redemption.

As a result, the JPB expects that the 2021 Bonds, while secured by Measure RR sales tax revenues to ensure maximum creditworthiness and the lowest borrowing cost, will, in actuality, have minimal reliance on Measure RR sales tax revenues to pay debt service, thereby preserving such revenues for Caltrain operations. There will be no reliance on farebox revenues.

3. Issuance of Refunding Sales Tax Bonds

The JPB would like to position itself to refinance the 2019 Farebox Bonds with Measure RR sales tax revenue bonds, when economically feasible. The 2019 Farebox Bonds that mature before October 1, 2039 are callable on October 1, 2029; the 2019 Farebox Bonds that mature in 2044 and 2049 are callable on October 1, 2026. Under current tax laws, any refunding of the 2019 Farebox Bonds before those call dates would need to be implemented on a taxable basis and would not generate economic savings in the current market. However, President Biden's infrastructure proposal, if adopted, may restore tax-exempt advance refundings – which, could increase the potential for an economic refunding of the 2019 Farebox Bonds. To position itself to access the market as expeditiously as possible if an opportunity to achieve savings arises, the JPB wishes to obtain each member agency's prior approval to proceed with a refunding of the 2019 Farebox Bonds.

STAKEHOLDER ENGAGEMENT

JPB staff has reached out to the City Controller's Office and the SFMTA to discuss and make recommendations regarding this matter, as well as to the Santa Clara Valley Transportation Authority (VTA) and San Mateo County Transit District (SamTrans). This item will be heard by the VTA and SamTrans Boards and by the JPB Board of Directors for approval.

ALTERNATIVES CONSIDERED

The alternative to approving this JPB request is to require the JPB to undertake financing for the purposes described above in a different way. In effect, this will require the JPB to maintain its two existing lines of credit at a higher cost, fund additional PCEP capital needs with revenues and not refund the 2019 Farebox Bonds, when economic, with Measure RR sales tax revenue refunding bonds. The financial impact of this alternative is to increase the operating and capital costs of PCJPB which, in turn, could require increased member agency contributions.

FUNDING IMPACT

The proposed 2021 Financing Plan will not negatively impact the SFMTA's finances. As it relies on Measure RR sales tax revenues rather than farebox revenues, JPB expects that the 2021 Financing Plan will reduce the amount of annual contributions for operations and capital projects to be provided by the City and each of the other member agencies.

The replacement of the PCEP Line of Credit and the Working Capital Line of Credit with the 2021 Lines of Credit is anticipated to save approximately $2.5 million in annual costs depending on the utilization of the 2021 Lines of Credit in addition to shifting the repayment source from farebox revenues to Measure RR sales tax revenues.

The 2021 Bonds will be secured by Measure RR sales tax revenues with the reasonable expectation that LCFS credits, in essence, will be the ultimate source of repayment after Caltrain commences electrification service.

The refunding of the 2019 Farebox Bonds also would produce savings in addition to shifting the security and repayment source from farebox revenues to Measure RR sales tax revenues.

ENVIRONMENTAL REVIEW

On January 8, 2015, the JPB Board of Directors approved Resolution No. 2015- 03, certifying the PCEP Final Environmental Impact Report (FEIR), and Resolution No. 2015-04, adopting and approving CEQA Findings, a Statement of Overriding Considerations to address Significant and Unavoidable Impacts identified in the FEIR, and a Mitigation Monitoring and Reporting Program (MMRP); subsequently, the JPB Board approved the PCEP under Resolution No. 2015-04.

The San Francisco Municipal Transportation Agency Board Of Directors also adopted CEQA findings in its Resolution No. 170516-065 on May 16, 2017.

The resolution authorization falls within the scope of the PCEP FEIR. There have been no substantial changes to the PCEP or the circumstances under which the PCEP is being undertaken, nor substantial new information that would require subsequent or supplemental environmental review, beyond the PCEP FEIR. The PCEP FEIR is on file with the SFMTA Board of Directors, may be found in the records of the Planning Department at https://sfplanning.org/ and 49 South Van Ness Avenue, Suite 1400 in San Francisco, and is incorporated herein by reference.

OTHER APPROVALS RECEIVED OR STILL REQUIRED

The City Attorney's Office has reviewed this report.

The Board of Supervisors must approve the 2021 Financing Plan after a public hearing.

RECOMMENDATION

The SFMTA recommends approval of the proposed resolution recommending that the Board of Supervisors approve the Peninsula Corridor Joint Powers Board's 2021 Financing Plan, payable from Measure RR sales tax revenues, consisting of (a) two short-term revolving lines of credit with Wells Fargo in the aggregate amount of $200,000,000 to replace the two lines of credit currently provided by J.P. Morgan, (b) issuance of up to $140,000,000 of Measure RR sales tax revenue bonds to fund certain additional capital costs associated with the Peninsula Corridor Electrification Project and (c) refunding the PCJPB's 2019 farebox revenue bonds with Measure RR sales tax revenue refunding bonds when economic, in an aggregate principal amount not to exceed $75,000,000.

SAN FRANCISCO
MUNICIPAL TRANSPORTATION AGENCY
BOARD OF DIRECTORS

RESOLUTION No. ______________

WHEREAS, The City and County of San Francisco (City) is a member agency of the Peninsula Corridor Joint Powers Board (JPB) and is required to contribute to the operating costs of Caltrain and for the costs of JPB capital projects as set forth in the JPB Joint Powers Agreement; and,

WHEREAS, As the transportation agency for the City, the San Francisco Municipal Transportation Agency (SFMTA) is responsible for paying the City's portion of these costs through its Operating Budget; and,

WHEREAS, In 2019, the JPB undertook a plan of financing that included (i) the issuance of farebox revenue bonds, comprised of $47,635,000 aggregate principal amount of Peninsula Corridor Joint Powers Board Farebox Revenue Bonds, 2019 Series A (2019 Farebox Bonds) in order to achieve debt service savings and certain other benefits; (ii) an increase in the amount of the JPB's existing revolving credit facility with an affiliate of JP Morgan Chase Bank, N.A. for the Peninsula Corridor Electrification Project (PCEP) from $150,000,000 to $170,000,000 (Existing PCEP Credit Facility); and (iii) an additional $30,000,000 revolving credit facility with the same affiliate of JP Morgan Chase Bank, N.A. for working capital (Existing Working Capital Credit Facility and, together with the Existing PCEP Credit Facility, the Existing Credit Facilities); and,

WHEREAS, On November 3, 2020, the voters in the City and County of San Francisco, San Mateo County and Santa Clara County approved Measure RR, which will provide the JPB with a dedicated revenue source consisting of a 1/8th cent sales and use tax on taxable transactions in those counties (Measure RR Sales Tax); and,

WHEREAS, Collection of the Measure RR Sales Tax will commence on July 1, 2021 and expire in 30 years on June 30, 2051; and,

WHEREAS, To facilitate operations and completion of capital projects, the JPB intends to proceed with a financing plan (2021 Financing Plan) that utilizes and leverages the Measure RR Sales Tax and consists of (i) restructuring and replacing the Existing Credit Facilities in the aggregate amount of $200,000,000, (ii) the issuance of sales tax revenue bonds for additional PCEP costs in an aggregate principal amount not to exceed $140,000,000 and (iii) the potential refinancing of the 2019 Farebox Bonds with sales tax revenue refunding bonds in an aggregate principal amount not to exceed $75,000,000, as further described below; and,

WHEREAS, Pursuant to the 2021 Financing Plan, JPB intends to (a) replace the Existing PCEP Credit Facility with a new revolving credit facility in an amount not to exceed $100,000,000 at any one time for the same purposes as the Existing PCEP Credit Facility (Replacement PCEP Credit Facility), and replace the Existing Working Capital Credit Facility with a new revolving credit facility in an amount not to exceed $100,000,000 at any one time to finance working capital expenses and to make up for potential revenue shortfalls due to the timing of receipt of Measure RR Sales Tax revenues (Replacement Working Capital Credit Facility and together with the Replacement PCEP Credit Facility, Replacement Credit Facilities), each from Wells Fargo, National Association or an affiliate thereof, (b) issue certain sales tax revenue bonds in an aggregate principal amount not to exceed $140,000,000, to fund a portion of additional capital costs associated with completing PCEP, capitalized interest through the expected commencement of revenue service and transaction costs, and (c) issue sales tax revenue refunding bonds in an aggregate principal amount not to exceed $75,000,000 to refinance the 2019 Farebox Bonds, in whole or in part, at such time that such refunding produces debt service savings; and,

WHEREAS, The JPB expects that the 2021 Financing Plan, by relying on Measure RR sales tax revenues, will reduce the annual contributions for operations and for capital projects required to be provided by the City and each of the other member agencies; and,

WHEREAS, On January 8, 2015, the JPB Board of Directors approved Resolution No. 2015- 03, certifying the PCEP Final Environmental Impact Report (FEIR), and Resolution No. 2015-04, adopting and approving CEQA Findings, a Statement of Overriding Considerations to address Significant and Unavoidable Impacts identified in the FEIR, and a Mitigation Monitoring and Reporting Program (MMRP); subsequently, the JPB Board approved the PCEP under Resolution No. 2015-04; and,

WHEREAS, On May 16, 2017, the SFMTA Board Of Directors also adopted CEQA findings in its Resolution No. 170516-065; and,

WHEREAS, The resolution authorization falls within the scope of the PCEP FEIR; and,

WHEREAS; There have been no substantial changes to the PCEP or the circumstances under which the PCEP is being undertaken, nor substantial new information that would require subsequent or supplemental environmental review, beyond the PCEP FEIR; and,

WHEREAS, The PCEP FEIR is on file with the SFMTA Board of Directors, may be found in the records of the Planning Department at https://sfplanning.org/ and 49 South Van Ness Avenue, Suite 1400 in San Francisco; and,

WHEREAS, The CEQA findings contained in SFMTA Board of Directors Resolution 170516-065, including any mitigation measures within the jurisdiction of the SFMTA and as are applicable to this action, are hereby incorporated herein by reference; and,

WHEREAS, The Board of Supervisors is required to approve the 2021 Financing Plan pursuant to Section 6586.5 of the Government Code of the State of California; now therefore be it

RESOLVED, That the SFMTA Board recommends that the Board of Supervisors approve the 2021 Financing Plan; and be it further

RESOLVED, That the SFMTA Board authorizes the Director of Transportation or his designee to execute any documents which may be necessary to complete this transaction.

I certify that the foregoing resolution was adopted by the San Francisco Municipal Transportation Agency Board of Directors at its meeting of June 15, 2021.

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Secretary to the Board of Directors
San Francisco Municipal Transportation Agency