

Joseph P. Bort MetroCenter
101 Fifth Street
Oakland, CA 94607-4700
TEL 510.817.5700
TDD/TTY 510.817.5769
FAX 510.817.7848
E-MAIL info@mtc.ca.gov
WEB www.mtc.ca.gov

Memorandum

TO: BATA Oversight Committee

DATE: April 6, 2016

FR: Executive Director

W. I. 1254

RE: Direct Investment in \$100 million San Francisco Certificates of Participation

Staff is requesting authority to purchase as an investment up to \$100 million in Certificates of Participation (COP) to be issued by the City and County of San Francisco. The COPs, which will have a maturity of five years with an option to renew for five more, will be issued to provide interim financing to the Transbay Joint Powers Authority (TJPA) Phase 1 Transbay Terminal Project (Transbay Project). Total size of the financing is \$260 million with Wells Fargo Bank underwriting the remaining \$160 million. The COP issuance as well as annual payments are the responsibility of the City and County of San Francisco and a pledge of the City's General Fund, not the TJPA.

Background

The Transbay Terminal was once the western train terminus of the San Francisco-Oakland Bay Bridge and as such considered part of the Bay Bridge. Replacement of the original terminal is considered an important regional project and as such MTC and BATA have made significant contributions to the new Transbay Terminal project. To date MTC and BATA have committed just over \$350 million to the project, including:

	<u>Budget (\$m)</u>	<u>Balance (\$m)</u>
RM1	\$ 54	\$ 0
AB 1171	150	13
RM2	150	0
	<u>\$ 354</u>	<u>\$ 13</u>

In addition, BATA contributes over \$3.6 million per year for maintenance of the facility. These funds are currently spent to maintain the Temporary Transbay Terminal located a block away from our new Beale Street headquarters. MTC and BATA have made a significant investment in the project and we have a substantial interest in its successful completion.

The Transbay Project has suffered repeated project delays and cost increases. The authorized Phase 1 program budget has increased over 43% since the 2010 estimate:

2010	\$1.6 billion
2013	\$1.9 billion
2015	\$2.3 billion

At the current budget estimate of \$2.3 billion, the project has both a funding and cash-flow problem. In addition the project has very little remaining of the uncommitted project contingency (\$16 million). An evaluation conducted by MTC indicated the need for the revised 2015 budget estimate including an increase of \$100 million to the project contingency. With the new estimate the Transbay Project has a Phase 1 funding shortfall of approximately \$360 million.

Financial Analysis

Financial analyses conducted by the TJPA and the City and County of San Francisco concluded that the Transbay Project will eventually have adequate revenue sources to complete the \$2.3 billion Phase 1 construction, but not nearly in time to accommodate the current construction forecast of completion in 2018.

The final funding of the Transbay Project will depend on long term financing secured by a combination of Community Facilities District (CFD) and Property Tax Increment (TI) revenue. The speed that the revenue stream grows is dependent on the pace of commercial development. Thus, an economic downturn would delay the generation of these development-based revenue streams.

The City and County of San Francisco has devised a mechanism to provide the “bridge” financing necessary to cover the project budget and cash-flow shortage. The financing plan has three parts:

1. \$100 million financing secured by current CFD revenue
2. Interim financing consisting of \$260 million COP
 - a. \$160 million privately placed to Wells Fargo Bank
 - b. \$100 million directly purchased by BATA
3. Long term financing will replace the interim COPs when revenue is adequate

San Francisco will need a combined annual revenue stream of approximately \$20 million to complete the long-term financing plan. We have reviewed the engineering and consulting reports prepared for TJPA which indicate the revenue stream could be adequate in approximately FY 2019. Slowing the development growth assumption by 25% pushes the point of revenue adequacy to FY 2021. Both are within the first five year term of the interim financing.

Our receipt of COP payments is not and will not be dependent on San Francisco receiving any income from Transbay-related revenue sources. While the City and County of San Francisco will likely utilize any available CFD or TI revenue to cover the interim variable rate COP payments, San Francisco has an obligation to budget and pay the COP payments from any available General Fund resource.

Terms

BATA has been asked to participate in the interim financing by making a direct purchase of part of the COPs issued. Wells Fargo Bank will purchase \$160 million while BATA will purchase the remaining \$100 million. Terms are as follows:

- Principal - \$100 million
- Floating Rate - .61% (61 bps) + 1 month LIBOR (1.03%)
- CAP - None
- Term - 5 years / pre-payable at any time
- Options
 - Purchase at end of term
 - Renew for up to 5 years subject to new rates/terms
 - Term-out – Amortize over 5 years rate escalates up to 7%
- Security
 - Covenant by San Francisco to budget COP payment
 - Land held by trustee
- Priority
 - Subordinate to Wells Fargo payments

The terms differ from the Wells Fargo component in two areas: BATA has agreed to a 5-year initial term while Wells Fargo has three, and BATA has agreed to accept a subordinate payment position and let Wells Fargo be paid as the first priority. BATA will receive a 5 bps (.05%) premium for these accommodations.

BATA will purchase the COPs directly from San Francisco as an investment. This transaction is similar to the \$194 million direct investment transaction with the State of California authorized by the board in 2009. In that transaction the State utilized the funds to fill a funding gap on local Proposition 1B highway projects created when Caltrans lost access to the internal state funding pool. As was the case with the State, our purchase of the San Francisco COP will be for investment purposes only and will be fully compliant with State Investment Code and our MTC investment policy.

Risks

All investments have some level of inherent risk and the COP will not be different. In addition to credit risk there is also the issue of project costs and completion.

- Credit risk – The City and County of San Francisco is a natural AA credit and there has never been a default on a AA bond.
- Payment risk – San Francisco will covenant to include the COP payments in the annual budget.
- Security risk – COP payments are a General Fund pledge by the City and County of San Francisco regardless of the level of project-based revenue. San Francisco takes all the risk for the amount and timing of CFD and TI revenue.
- Renewal Risk – The COP has a five year term although San Francisco can retire the obligation at any time. At the five year point San Francisco has the option to negotiate a new five year term or the COP converts to “term out” status and amortizes over five years at interest rates that can increase up to 7%.
- Construction Costs – Future cost increases beyond the current \$2.3 billion Phase 1 estimate are certainly possible. To mitigate that risk, a condition of this transaction is


that a cost control committee will be established, to be comprised of the San Francisco Controller, BATA/MTC and the TJPA. Its oversight duties would be similar to those performed by the Toll Bridge Program Oversight Committee for the seismic retrofit program.

- Phase 2 – This transaction captures future development revenue to finish Phase 1 of the Transbay Project that was originally reserved for construction of the Phase 2 DTX rail extension. While this clearly steepens the challenges to fully fund the \$4 billion cost of Phase 2, it is nonetheless necessary to finish Phase 1 before we proceed to the second phase of work.

As an investment, BATA has the available liquidity to hold this investment to maturity without operational or project impact.

Recommendation

Staff requests authorization to proceed with the purchase of up to \$100 million of the San Francisco COP consistent with the terms and conditions described in this memorandum. We expect the COP to be sold and the transaction to be closed by June 2016.



Steve Heminger

SH:BM

J:\COMMITTEE\BATA Oversight\2016\04_Apr'2016_BATA O\5b_TJPA_Memo.docx

City and County of San Francisco

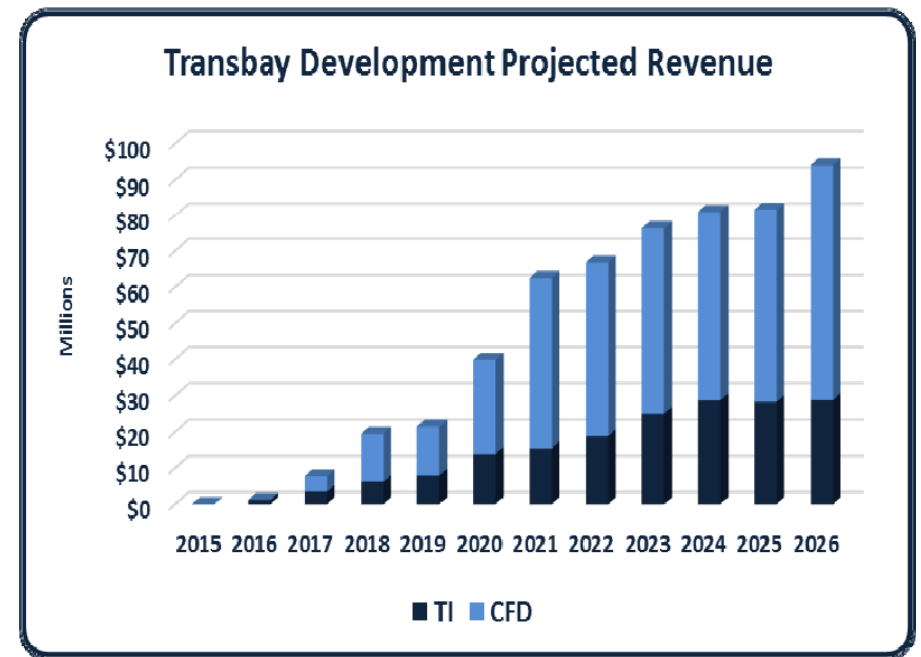
\$100 million Direct Investment COP Purchase

Background

- **BATA/MTC have committed over \$350 million to the Transbay Terminal replacement project**
 - RM1 \$54 million
 - AB 1171 \$150 million
 - RM2 \$150 million
- **Unfortunately the project has suffered a series of cost increases and delays with a resulting budget increase of 43% since 2010**
 - 2010 budget \$1.6 billion
 - 2013 budget \$1.9 billion
 - 2016 cost \$2.3 billion
- **The increase has created a serious budget and cash flow shortfall of \$360 million**
- **Funding gap net of final property sale is approximately \$250 million**

Financial Analysis

- The TJPA plan has been to utilize a Community Facilities District (CFD) “special tax” and tax increment revenue from the Transbay District
- Annual revenue levels need to reach \$20+ million
- Insufficient CFD special tax revenue for TJPA to close funding gap
- The City of San Francisco has developed a mechanism to “bridge” the gap



Bridge Financing

- **City of San Francisco interim financing plan**
 1. \$260 million interim short term financing
 - \$160 million privately sold to Wells Fargo Bank
 - \$100 million directly purchased by BATA
 2. Long term financing take out of interim financing
- **Transaction is similar to the \$194 million direct investment with the State of California**

Terms of BATA Transaction

- **Proposed terms**

- Principal \$100 million
- Floating Rate Index .61% + 1 month LIBOR (1.05%)
- Rate Cap NONE
- Term 5 years initial
- Options Prepay at any time
5 year renewal option
“Term out” – over five years rate up to 6%
- Security Covenant by City of San Francisco to budget payments in General Fund
Leased land held by trustee
- Priority BATA payments subordinate to Wells Fargo payments

- **BATA receives a .05% premium over Wells Fargo Bank for agreeing to five year term and subordinating payments**

Risks

- **Bata will purchase the COP as a direct investment but all investments have risk, including**

- Credit – San Francisco is a natural “AA” credit
- Payment - San Francisco covenants to budget payments annually
- Security - Payments are a General Fund pledge
San Francisco takes all risk of project based revenue delay
- Renewal San Francisco may pay off any time
Renew for five
Amortize payment over five years
up to 6% rate
- Costs Not a project financing
Committee established to oversee construction costs and changes

