



METROPOLITAN  
TRANSPORTATION  
COMMISSION

Agenda Item 4

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## *Memorandum*

TO: Bay Area Partnership Board

DATE: May 27, 2016

FR: Anne Richman, Director, Programming and Allocations

RE: FTA Finance Concept

MTC staff, working with financial and legal advisors, and transit operator staff through the Partnership's Transit Finance Working Group, has been developing plans to finance one or more transit capital projects by borrowing against future Federal Transit Administration (FTA) formula funds. The projects would be funded with proceeds of the financing, rather than annual FTA apportionments programmed through the Transit Capital Priorities (TCP) program. A portion of the region's apportionments would be used to make debt service payments. The objective of financing is to accelerate the funding and delivery of critical capital projects by advancing FTA funds from future years when annual apportionments are projected to exceed high-priority needs, to the next four-year TCP programming cycle, when needs are projected to exceed annual apportionments.

The need for financing was anticipated when MTC adopted the Core Capacity Challenge Grant Program (Resolution 4123) in 2013, which established a \$7.5 billion, 16-year funding framework for a set of key projects designed to increase capacity and improve the state of good repair of transit service in the urban core of the region, including fleet replacement and expansion for BART, SFMTA and AC Transit, and related infrastructure projects. The Core Capacity funding plan includes \$3.5 billion in FTA and other federal funds, of which a portion would be advanced through financing to accelerate completion of the projects.

While many of the details of financing remain to be worked out, following are some key concepts:

**Size of issue:** Staff is working toward a debt issue in the range of \$700-800 million, which is roughly the amount by which high-scoring needs for the TCP program between FY2016-17 and FY2020-21 are projected to exceed FTA apportionments over the same period. After FY21, FTA revenues are expected to exceed high-scoring needs. See Attachment A for a "mountain chart" illustrating the mismatch in timing between needs and revenues.

**Term: The debt would be repaid over a period of 10 to 15 years.**

**Debt service:** Annual debt service payments are projected to average between \$65 million and \$100 million per year, depending on the size and term of the issue. Structures designed to defer debt service payments to the later years of the term are being explored. Funding for debt service would be programmed to the issuer of the debt, and would have first claim on FTA apportionments.

**Issuer:** The planning work has focused on MTC as the issuer of the debt, using the Bay Area Infrastructure Financing authority as a conduit, but staff is also considering as an alternative having one of the transit operators issue the debt to finance its projects.

**Projects to be financed:** The planning work has focused on the BART Car Replacement project as a prime candidate for financing because it is the largest single project in the TCP program, and because a contract for the cars has been awarded, so the cash flow needs are well defined. However, other projects could also be good candidates for financing, such as SFMTA light rail vehicles (LRVs) and Caltrain electric railcars.

**Urbanized areas:** A key concept is that debt service would be paid only from apportionments to urbanized areas where the operator whose project is being financed is eligible for TCP funds. For example, if the SFMTA LRVs were financed, debt service would be paid only from San Francisco-Oakland urbanized area apportionments.

**Agreements:** Projects would be financed only by agreement with the affected transit operator. Completing the financing would require agreements between the operator and MTC, MTC and FTA, and MTC and the bondholders.

**Timing:** Because of the significant shortfall expected in the FY17 TCP program, we are anticipating the need for financing to start as soon as next year. Therefore the details of a financing would need to be worked out in the coming months. We expect to work closely with the Transit Finance Working Group, Partnership Board, particular transit operators, and FTA as the structure is developed.

Attachment A – Mountain Chart FY15-FY30 TCP Projections

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