

**Metropolitan Transportation Commission
Programming and Allocations Committee**

July 12, 2023

Agenda Item 4a - 22-1666

Overview of Grant Anticipation Financing – BART Replacement Railcar Financing

Subject:

Overview of planned BAIFA financing of replacement railcars for BART with securitization of future Federal Transportation Administration (FTA) formula grant funds.

Background:

Through regular updates to the Programming and Allocations Committee since 2018, staff have identified a financing strategy that addresses multiple operator needs to replace trains, light rail vehicles, buses, and ferries. In early 2019, as part of this regional strategy, MTC requested and received a Letter of No Prejudice from the Federal Transit Administration authorizing the use of financing backed by federal formula funds to purchase 775 BART Rail Cars. Through June 2023, over 500 of the new rail cars have been delivered to BART and are being used by riders in revenue service. The financing will allow for the remaining cars to be purchased while not delaying other important investments in the region's vehicle fleet and fixed guideway assets.

MTC is the designated Metropolitan Planning Organization (MPO) responsible for programming FTA formula funds to regional transit projects. BART's fleet replacement and expansion project requires significant funding over the next four to six years and the FTA formula grant funds expected to be received during this period would be insufficient to meet the cash flow requirements of the anticipated regional projects. Because delays in the projects could lead to notable cost escalation in order to complete all projects on a timely basis, intermediate funding will be required to address their cash flow needs.

Debt financing can be used to provide upfront project funds that can be repaid over time. MTC's role as MPO and direct recipient of federal funds allows it to flexibly program and allocate federal grant receipts for debt service. As designated recipient, MTC allocates FTA formula funds to direct recipients (e.g., regional transit operators), and as a direct recipient, MTC can receive programmed FTA formula funds. This puts MTC in a unique position to manage a regional program that can be used to address the type of cash flow challenges presented by the BART project in the context of other regional needs.

The BART rail car replacement project is the largest Bay Area project in the near term and a top need in the region. BART is eligible for section 5307 and 5337 grants in multiple urbanized areas (UZAs); this provides a large amount of direct funding over an extended period which can in turn be used to secure a financing and provide significant debt service coverage (which allows for cost-effective borrowing).

MTC does not have its own financing authority, BAIFA, however, is a joint powers agency (JPA) established by MTC and BATA under a joint powers agreement, as permitted by state law. As a JPA, BAIFA can issue special obligation debt (as it has done in the past). In the planned financing, BAIFA and MTC would enter a transit funding agreement under which BAIFA would advance funds to BART to reimburse eligible project expenditures. BAIFA debt would be repaid by FTA formula funds programmed annually by MTC, subject to federal appropriation and apportionment.

The financing requires a letter of no prejudice (LONP) from FTA to MTC, which allows the project to be eligible for advance construction. MTC received an LONP for the BART replacement railcar project from the FTA in 2018, which was recently updated and extended.

The contemplated financing structure could also be utilized by MTC to advance other projects on behalf of different transit operators, to the extent that a project presented similar cash flow challenges, subject to the future receipt of LONPs for such projects. The regional structure enables MTC to leverage its expertise and role as MPO, and the structure can be customized to meet operator needs and can cross UZAs for applicable projects. The first financing would be for the BART car replacement rail car program. There are no current plans to issue additional debt in the future. The planned financing structure is a short-term bank revolving line of credit with a future fixed-rate takeout. This structure provides financing flexibility given the uncertainty of the exact timing of funding needs on a cost-effective basis.

Next Steps:

Staff will return in September for authorization of the financing and approval of the financing documents.

Issues:

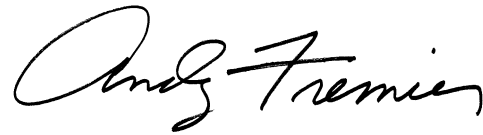
None identified.

Recommendations:

Information. No action required.

Attachment:

- Attachment A: Presentation: Overview of Grant Anticipation Financing - BART Replacement Railcar Financing



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