SFMTA

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Date: November 23, 2020

To: Bond Oversight Committee

From: Joel Goldberg, Manager, Programming & Grants

Re: Reconciliation and Closing of Series 2013, Series 2014 Bond Issuances

Introduction: In 2013 and 2014, the SFMTA issued two series of revenue bonds each with $75,000,000 for projects. For the most part these bonds have been spent down. However, both have "tailings," i.e. balances, that remain to be reconciled or spent. The tailings have been a long-standing concern both of the Bond Oversight Committee (BOC) Chair and staff. Since September 2020, a team from four Finance & Information Technology units (Funding Strategy & Programs, the Grant Administration Office, the Budget Office, and Capital Projects & Grant Accounting (CPGA)), have been working on the problems of reconciling and closing the two bond series. Along these lines, CPGA has been working closely with San Francisco Public Works to close out long-standing, bond-funded Interdepartmental Service Agreements.

The major lesson we learned from the Series 2012B, 2013 and 2014 bonds was not to fund so many projects. Accordingly, the Series 2017 issuance, which is larger than the prior issuances combined, is only being spent on four projects, as opposed to the *39* projects funded in both the 2013 and 2014 bonds.

Discussion: It is imperative that the SFMTA spend its bond proceeds in a timely manner. Failure to do so undermines the agency's reputation for project delivery and meeting bondholder expectations and leaves an opportunity cost for projects with unspent bond proceeds. The threshold that has been used is to reasonably expect to spend 85% of bond proceeds within three years of issuance. To this end, the 2013 bonds have been 99.54% expended and the 2014 bonds have been 94.11% expended. In other words, for both series, the bond expenditures are adequate. However, based on the bonds being issued six and seven years ago, the SFMTA needs to be more aggressive in closing the bonds out. Moving forward, staff will present corrected Series 2013 Expenditures to the BOC. Previous versions of the report implied that the bond was closed. Indeed, the intent was to close it out. However, the reconciliation of the 2013 bond will include allocations of up to $184,945 as shown in Table 1 below.

Through Quarter 1 of FY 2020-21, the following profiles are provided for Series 2013 and 2014 bonds:

Table 1: SERIES 2013 REVENUE BONDS Bonds Issued November 13, 2013

Projects Funded	39
Projects with Balances	10
Original Bond Amount	$75,000,000
Bonds Paid	$74,653,104
Bond Amount Available + To Be Allocated + Encumbered	$184,945
Percent Bonds Left	0.46%

Table 2: SERIES 2014 REVENUE BONDS Bonds Issued December 10, 2014

Projects Funded	39
Projects with Balances	27
Original Bond Amount	$75,000,000
Bonds Paid	$70,583,659
Bond Amount Available + To Be Allocated + Encumbered	$4,416,341
Percent Bonds Left	5.89%

Tables 1A and 2A, attached, provide more detail.

The FIT Revenue Bond team has been taking steps outlined below. Unfortunately, this is detail-oriented work that, because of the pandemic and staffing constraints, is taking longer than anticipated.

- For projects with bonds directed to other departments for project delivery:
    - SFMTA Accounting (CPGA) has identified how much funding is unspent for each project and where the funds reside (SFMTA / SFPW/ SFPUC/Arts Commission).
    - The SFMTA Budget Office is identifying funds to backfill revenue bonds issued via Interdepartmental Service Agreements. It is reasonable that performing departments will not release bond funds back to SFMTA unless other sources are identified.
- Overruns: The 2013 bonds have no overruns. The 2014 bonds have seven projects in deficit totaling $446,3318. Typically overruns occur when labor costs are posted and not quickly backfilled. Excluding the overruns, the 2014 bonds have a balance of

$4,656,584. We will tap into these funds first to close overruns and may also need to identify other local funds or bond cost savings if the $4,656,584 is insufficient.

- Selected "magnet" projects to spend quickly: for both the 2013 and 2014 bonds, Van Ness Bus Rapid Transit is the current best candidate to tap into residual bond funds once overruns are addressed, cost savings tallied, funds from encumbrances released, and remaining funds to be allocated reprogrammed.

- Allocate any outstanding funds: At present the 2013 bonds have $161,203 and the 2014 bonds have $31,256 remaining to be allocated. Reallocation letters will need to be developed for bond revenues shifting across programs.

- Interest expenditures: to close the bonds out and meet key capital needs, it is time to spend down accrued interest for both series. As above, the Van Ness BRT project is the prime candidates to direct the $3,322,273 in bond interest (2013: $1,233,579 and 2014: $2,088,695).

Next Steps: Given staffing and pandemic-induced constraints, the work outlined may need another two quarters to complete. Managers of all four FIT units are actively involved with these tasks. Staff will continue to present updates and outcomes to the BOC at its regularly scheduled meetings.