Capital Programs - Short-Term Funding Needs and Considerations

Board of Directors Item 10
November 20, 2020

Update

• Data collection (taxable retail sales) during COVID-19 shows significant volatility
• Length and severity of economic disruption is unknown
• Federal/State stimulus add uncertainty to forecasts
• State of California revenue payments are unpredictable
  • Deferred payments
  • accounting issues

Data only available thru Q1, which only includes 2 weeks of COVID-effect
Recommendation: Wait for Q2 data (Nov 12), prepare forecast Q1 2021
Challenges with CDTFA

Software transition effects sales tax data
The California Department of Taxes and Fees Administration (CDTFA) transitions to new reporting software – Centralized Revenue Opportunity System (CROS) creating many issues with the data and caused reporting shortfalls or anomalies.

Slow start to 2019
Local sales and use tax receipts from January through March sales were 1.0% higher than the first quarter of 2018 after factoring out accounting anomalies and back payments from previous state reporting shortfalls. This was the lowest percentage increase since first quarter 2010.

Marketplace Facilitator Act
Effective October 1, 2019, companies such as Amazon, eBay, and Google who provide sales tax related services to other retailers are required to assume the obligation for collecting and remitting their client’s sales and use tax. This was implementation of the Wayfair v. South Dakota ruling that requires out-of-state retailers to collect and remit sales tax on merchandise sold to California customers.

Software issues yet to be resolved
MuniServices adjustments for delayed payments and other reporting deficiencies indicate that statewide receipts from the local one cent tax rose 5.2% over the first three quarters of 2018 versus the comparison period.

Online filing issues
The local 1% share of California’s sales and use tax from April through June sales was 29.4% higher than the same quarter of 2018. However, the actual gain came to 2.9% after factoring for online filing issues and accounting anomalies.

COVID-19 Pandemic
Taxpayer relief programs accounted for much of the decline with receipts down roughly 3.1% after factoring for payment deferrals and other accounting anomalies. Severe drops in auto sales, general consumer goods, service stations, and restaurants were largely offset by new revenue from implementation of the Wayfair v. South Dakota decision that now requires out-of-state retailers to collect and remit Californian’s sales and use tax.

CDTFA Actual Sales Tax Revenues vs. Adjustments

<table>
<thead>
<tr>
<th>CA Department of Tax and Fee Administration (CDTFA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
</tr>
<tr>
<td>$247,221,162</td>
</tr>
<tr>
<td>4.3%</td>
</tr>
</tbody>
</table>

CDTFA with Adjustments

| Actual                                                                                     | Projected |
| $247,221,162    | $260,114,931    | $268,840,549    | $275,500,023    | $284,456,260    | $301,501,324    | $305,851,214    | $285,654,845    |                 |
| 4.3%            | 5.2%            | 3.4%            | 2.5%            | 3.3%            | 6.0%            | 1.3%            | 0.2%            | -6.60%           |
Estimated COVID-19 Impact on the San Diego Regional Economy

- **Jobs Lost**
  - 450,000 (May 2020)
  - 176,000 (Sept. 2020)

- **Lost Wages**
  - $4.5-5.5 billion (March to Sept. 2020)

- **San Diego GRP**
  - $10-15 billion, -3.8% to -5.7% (calendar year 2020)

- **Taxable Sales**
  - $5-7 billion, -8% to -11% (calendar year 2020)
**Estimated Job Loss in the San Diego Region by Employment Sector**

*August 2019 to August 2020*

<table>
<thead>
<tr>
<th>Sector</th>
<th>Job Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitality</td>
<td>-77,700</td>
</tr>
<tr>
<td>Retail</td>
<td>-36,100</td>
</tr>
<tr>
<td>Education</td>
<td>-27,500</td>
</tr>
<tr>
<td>Healthcare</td>
<td>-11,500</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-9,300</td>
</tr>
<tr>
<td>Construction</td>
<td>-8,800</td>
</tr>
<tr>
<td>Professional Services</td>
<td>-4,700</td>
</tr>
<tr>
<td>Transportation</td>
<td>-1,600</td>
</tr>
<tr>
<td>Wholesale/Trade</td>
<td>-900</td>
</tr>
<tr>
<td>Government</td>
<td>1,800</td>
</tr>
</tbody>
</table>

- 80% of new unemployed workers: 141,000 unemployed
- 20% of new unemployed workers: 35,000 unemployed


**Activity Levels at Businesses in the San Diego Region**

*Sources: SafeGraph COVID-19 Response Dataset - Weekly Patterns*
TransNet Collection compared to Economic Activity data (year over year change)

Economic Outlook
Transnet Sales Tax Forecast Scenarios

Short-Term Funding Picture

- Updated Costs and Revenues
- Identified Cashflow Needs FY 2021 – FY 2025
  - $170 million to $220 million
Major Corridor Debt Portfolio – $2.3 Billion


2018 Short-Term Notes (TIFIA)  2019 Grant Anticipation Notes (FFGA)

Short-Term Funding Picture

• Revenue uncertainty

• Favorable economic conditions
Options

- Refinance existing bonds to lower borrowing costs and create capacity to issue additional bonds
- Release Series 2008 debt service reserve funds
- Execute interfund loans
- Increase commercial paper program

Refinancing and New Issuance

- Lower borrowing costs

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Estimated Savings*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 federal TIFIA loan – Mid-Coast</td>
<td>$156.2 million (2026-2046)</td>
</tr>
<tr>
<td>Series 2014A bonds</td>
<td>$24.7 million ($14 million 2021 to 2025)</td>
</tr>
<tr>
<td>Series 2018A short-term notes</td>
<td>$10.5 million (2026-2046)</td>
</tr>
</tbody>
</table>

*will vary based on rates at time of transactions

- New bond issuance

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Estimated Proceeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series 2021A bonds</td>
<td>$113 million</td>
</tr>
</tbody>
</table>
Release Debt Service Reserve Funds

- Series 2008 bonds issued with $17 million debt service reserve fund to support high credit rating
- Evolution of rating agency criteria – no debt service reserve on sales-tax revenue bonds in the portfolio since 2008
- No added benefit to maintaining
  - SANDAG funds debt service payments monthly in advance

Interfund Loans

- Ordinance provision
- Internalizes risks
- Minimizes borrowing costs
- Generally requires interest payments
- Example – Major Corridors Program to Environmental Mitigation Program (EMP)
Increase Commercial Paper Program

- Currently $100 million
- Could increase to $200 million
- Used by local agencies and SANDAG
- Short-term borrowing instrument (on second lien)
- Manage uncertainty

Remaining Needs

- New issuance plus release of debt service reserve fund = approximately $130 million
- $40 million to $90 million gap
- Revised sales tax forecast in early 2021
- Any actions approved by the Board would be included in the FY 2022 budget
Considerations

- Debt capacity
- Credit rating

Schedule

- **November 2020**: Committee and Board Presentations*
- **December 2020**: Financing Documents
- **Early 2021**: 2018 Short-Term Notes Refinance and Release of Debt Service Reserve Fund
- **May 2021**: FY 2022 Budget Adoption

* Including TIFIA refinancing documents
2020 Loan Replacement Team

• San Diego County Regional Transportation Commission
  ▪ Hasan Ikhrata, Executive Director
  ▪ Andre Douzdjian, Chief Financial Officer
  ▪ John Kirk, General Counsel
  ▪ Ray Major, Chief Economist
  ▪ Jose Nuncio, TransNet Department Director
  ▪ Dawn Vettese – Capital Program Funding Manager

• Financial Advisors, Public Financial Management
  ▪ Peter Shellenberger, Managing Director

• Outside Counsel, Norton Rose Fulbright US LLP
  ▪ Victor Hsu, Partner
2020 TIFIA Replacement Presentation

1. Why are we replacing the loan
2. Description of the main components of the loan
3. Review of various loan documents

Market Update

30-yr Treasury Rate (Taxable Rate) compared to 30-yr MMD Rate (Tax-Exempt Rate)

- Spread between 30 Year MMD and 30 Year TSY
- 30 Year MMD
- 30 Year TSY
Loan Terms

• Single draw of funds
• 5-year deferred repayment
• Increasing debt service
• Issuance of short-term notes
• Debt service coverage
• Credit ratings
• Additional bonds test

Costs

• Cost of refinancing are estimated at $400,000 and include
  ▪ Bond Counsel
  ▪ Advisory Services
  ▪ Build America Bureau Legal Advisors
Debt Portfolio

Commission’s debt portfolio contains a prudent mix of fixed-rate and synthetic fixed-rate debt and a level debt service structure for our senior lien bonds.

Summary of Outstanding Debt

<table>
<thead>
<tr>
<th>Series</th>
<th>Tax Status</th>
<th>Coupon Type</th>
<th>Original Issue Size</th>
<th>Outstanding Par</th>
<th>Call Option</th>
<th>Final Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008A</td>
<td>Tax-Exempt</td>
<td>Variable Rate</td>
<td>$150,000,000</td>
<td>$100,575,000</td>
<td>Current</td>
<td>4/1/2038</td>
</tr>
<tr>
<td>2008B</td>
<td>Tax-Exempt</td>
<td>Variable Rate</td>
<td>$150,000,000</td>
<td>$100,575,000</td>
<td>Current</td>
<td>4/1/2038</td>
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<td>$150,000,000</td>
<td>$100,575,000</td>
<td>Current</td>
<td>4/1/2038</td>
</tr>
<tr>
<td>2010A</td>
<td>Taxable</td>
<td>Fixed Rate</td>
<td>$338,960,000</td>
<td>$338,960,000</td>
<td>Make-Whole</td>
<td>4/1/2048</td>
</tr>
<tr>
<td>2012A</td>
<td>Tax-Exempt</td>
<td>Fixed Rate</td>
<td>$420,585,000</td>
<td>$40,935,000</td>
<td>Current</td>
<td>4/1/2022</td>
</tr>
<tr>
<td>2014A</td>
<td>Tax-Exempt</td>
<td>Fixed Rate</td>
<td>$350,000,000</td>
<td>$170,430,000</td>
<td>4/1/2024</td>
<td>4/1/2044</td>
</tr>
<tr>
<td>2016A</td>
<td>Tax-Exempt</td>
<td>Fixed Rate</td>
<td>$325,000,000</td>
<td>$307,880,000</td>
<td>4/1/2026</td>
<td>4/1/2048</td>
</tr>
<tr>
<td>2018A</td>
<td>Taxable</td>
<td>Fixed Rate</td>
<td>$442,620,000</td>
<td>$442,620,000</td>
<td>4/1/2020</td>
<td>4/1/2048</td>
</tr>
<tr>
<td>2020A</td>
<td>Taxable</td>
<td>Fixed Rate</td>
<td>$325,000,000</td>
<td>$325,000,000</td>
<td>4/1/2026</td>
<td>4/1/2048</td>
</tr>
<tr>
<td>2022A</td>
<td>Taxable</td>
<td>Fixed Rate</td>
<td>$350,000,000</td>
<td>$350,000,000</td>
<td>4/1/2026</td>
<td>4/1/2048</td>
</tr>
<tr>
<td>2030A</td>
<td>Taxable</td>
<td>Fixed Rate</td>
<td>$442,620,000</td>
<td>$442,620,000</td>
<td>4/1/2020</td>
<td>4/1/2048</td>
</tr>
</tbody>
</table>

Total

- $2,315,415,000

Summary of TIFIA Loan Commitment

<table>
<thead>
<tr>
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<th>Coupon Type</th>
<th>Original Issue Size</th>
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<th>Call Option</th>
<th>Final Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIFIA</td>
<td>Taxable</td>
<td>Fixed Rate</td>
<td>$537,484,439</td>
<td>$0</td>
<td>Anytime</td>
<td>10/1/2045</td>
</tr>
</tbody>
</table>

Total with Loan Commitment

- $2,315,419,439

Credit Rating Agency Reviews

- Current high credit ratings on SANDAG debt program
- Current ratings – senior lien:
  - Standard & Poor’s: AAA
  - Fitch: AAA
- Current ratings – junior subordinate lien (TIFIA):
  - Standard & Poor’s: A+
  - Fitch: A
Financial Advisor Memo
(Attachment 1)

- Market update
- TIFIA loan structure
- Financial considerations

SANDAG Direct Agreement
(Attachment 2)

- Required since SANDAG is the administering agency to construct the project and is the grant recipient for the Mid-Coast New Starts grant from the Federal Transit Administration
- Updates reference to the TIFIA Loan Agreement and signatories
**MTS Direct Agreement**  
(Attachment 3)

- Required since MTS is the administering agency to procure the vehicles, traction power substations, and new fare collection system
- Also required since MTS is the operator
- Updates reference to the TIFIA Loan Agreement and signatories

**TIFIA Loan Agreement**  
(Attachment 4)

- The replacement TIFIA Loan Agreement is an update of the original agreement
- Updates interest rate
- No other significant changes to terms
- Updates old information
Tenth Supplemental Indenture
(Attachment 5)

- Needed to reference new TIFIA loan and bond
- Seventh Supplemental Indenture remains in effect for all other provisions

Resolution RTC-2021-02
(Attachment 6)

- The Resolution approves the replacement TIFIA financing method and authorizes the Executive Director to execute the following documents on behalf of SANDAG acting as the RTC:
  - TIFIA Loan Agreement and TIFIA Bond
  - Direct Agreements
  - Tenth Supplemental Indenture
Resolution 2021-07
(Attachment 7)

- The Resolution authorizes the Executive Director to execute the SANDAG direct agreement on behalf of SANDAG

Next Steps

- Early December – loan approval
- Late December/Early January – loan execution
**Recommendation**

The Transportation Committee recommends that the Board of Directors, also acting as the Regional Transportation Commission (RTC), approve a Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Agreement and associated Direct Agreements to secure a replacement loan for the Mid-Coast Corridor Transit Project and the Tenth Supplemental Indenture, providing for the issuance of a Junior Subordinate Sales Tax Revenue Bond evidencing the RTC obligations under the TIFIA Loan Agreement. Additionally, the Transportation Committee recommends that the Board:

1. Acting as the RTC, approve the replacement TIFIA financing method for the Mid-Coast Corridor Transit Project;
2. Acting as the RTC, adopt RTC Resolution No. RTC-2021-02, authorizing the Executive Director to execute the TIFIA Loan Agreement and Direct Agreements, the TIFIA Bond and the Tenth Supplemental Indenture; and
3. adopt SANDAG Resolution No. 2021-07, authorizing the Executive Director to execute the SANDAG Direct Agreement.

**Recommendation (continued)**
APPROVAL OF PROPOSED CONTRACT AWARD
Rancho Lilac

SANDAG Board of Directors | November 20, 2020
RFP TIMELINE and STATUS

- **2011**: Caltrans Acquires Rancho Lilac
- **2014**: Release of RFP to the public. Three proposals received
- **2016**: SANDAG Board authorizes release of RFP
- **2017**: SDHC selected for negotiations
- **2017–2020**: Negotiation with SDHC on endowment
- **May 22, 2020**: Caltrans Management of Property

Legend:
- Rancho Lilac
- General Plan Trails
- Lilac Road

SANDAG BOARD MEETING DATE: May 22, 2020
**Staff Recommendation**

SANDAG staff is recommending award to SDHC and retaining a trail easement from Caltrans

- SDHC was recommended for award through a fair, competitive procurement based on information available in 2016.

- Additional assurances to accommodate a future trail would be secured through a floating trail easement for future public access.

- Offer County of San Diego an exclusive negotiation agreement for the study and potential development of future public access trails.

**Other Options for Consideration**

1. Cancel RFP for Rancho Lilac Property and send out new RFP

2. Cancel RFP for Rancho Lilac Property and recommend to Caltrans inclusion of Rancho Lilac property in ongoing negotiations with County of San Diego
Next Steps

- Pending approval by the Board, SANDAG will execute an agreement with SDHC or take other action as directed by the Board.
- Caltrans would then bring this property to CTC for property transfer.
- Caltrans would grant a trail easement to SANDAG
- SANDAG and SDHC would enter into an agreement, and a conservation easement would be granted to SANDAG in exchange for the establishment of an endowment account.
- SANDAG would offer an exclusive negotiation agreement for the study and potential development of future public access trails to the County of San Diego.
- SDHC would then have 18 months to submit the HMP, to be reviewed and approved by SANDAG and Caltrans

Recommendation

Action: Approve

The Board of Directors is asked to: (1) authorize the Executive Director to execute an agreement for the transfer and long-term management of mitigation land with the San Diego Habitat Conservancy (SDHC) and accept a conservation easement as a condition of release of endowment funds, (2) accept a trail easement from Caltrans, and (3) offer to the County of San Diego an exclusive negotiation agreement for the study and potential development of a future trail system