

Date: August 8, 2007

Committee Meeting Date: August 16, 2007

Board Meeting Date: August 30, 2007

**BOARD MEMORANDUM**

ACTION  DISCUSSION  INFO

**TO:** Administration and Finance Committee  
Santa Clara Valley Transportation Authority  
Board of Directors

**THROUGH:** Michael T. Burns  
General Manager

**FROM:** Jerry G. Mikolajczyk  
Chief Financial Officer

**SUBJECT:** Peninsula Corridor Joint Powers Board Financing

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**Policy-Related Action: No**

**Government Code Section 84308 Applies: No**

**RECOMMENDATION:**

Adopt a resolution: (1) determining there is a significant public benefit in the acquisition, by the Peninsula Corridor Joint Powers Board (PCJPB), of eight passenger bi-level railcars (railcars) to enhance its service levels; and, (2) approving the issuance of the PCJPB 2007 Series A Farebox Revenue Bonds, the proceeds of which will be used to purchase railcars and refund outstanding 1999 Farebox Revenue Bonds.

**BACKGROUND:**

Under Government Code Section 6586.5 (part of California Joint Powers Authority law), a joint powers agency may not issue bonds for a joint project unless the member agencies also approve such financing following a public hearing. A public hearing, as required by Government Code 6586.5 was scheduled and held by the Administration & Finance Committee on August 16, 2007.

The Peninsula Corridor Joint Powers Board (PCJPB) has previously:

- Issued \$3.8 million of Farebox Revenue Bonds, 1999 Series A (1999 Bonds), of which \$2.4 million remains outstanding, the proceeds of which provided funding towards the acquisition and installation of head-end power units for Caltrain locomotives,
- Provided authorization to initiate a financing transaction for the purpose of refinancing the 1999 Bonds (if feasible) and provide additional funding towards the purchase of railcars,
- Declared its intent to reimburse the PCJPB with bond proceeds for certain expenditures incurred in the purchase of the rail cars, and,
- Approved the use of a competitive negotiation procurement process with Bombardier for the purchase of the railcars.

### **DISCUSSION:**

As of February 2006, the Caltrain system (which is managed by the PCJPB) has experienced an average weekday ridership increase of approximately 13% as compared to the same period of the prior year. This is a result of the implementation of the Baby Bullet service in June 2004. Ridership has continued to increase with the subsequent introduction of more and faster trains in August 2005. Projections indicate that in FY 2008 ridership will have grown 42% over FY 2005 levels. Based on continuing increases in ridership, it is currently estimated that seats in the peak hour will be at capacity in roughly two years. The purchase of the railcars is needed to support the ridership demands on the Caltrain system. Funding for the purchase of the railcars is anticipated to come from a combination of federal grants, matching local funds, and bond proceeds.

The PCJPB intends to issue up to \$22 million of fixed rate farebox revenue bonds to finance a portion of the purchase of railcars. In connection with this transaction, the PCJPB may also refund the outstanding amount of its 1999 Bonds, of which \$2.1 million will be outstanding after October 1, 2007 (the combined refunding and railcar acquisition bonds will be called the “2007 Bonds”). The PCJPB will seek to obtain bond insurance and a reserve fund surety (if economical) for the 2007 Bonds. The PCJPB intends to negotiate the sale of the 2007 Bonds, with a closing in late October 2007.

### ***Bond Structure***

The PCJPB intends to structure the 2007 Bonds as traditional fixed rate bonds with a final maturity not to exceed October 1, 2037. It is anticipated that the 2007 Bonds will be callable on October 1, 2015 to provide the PCJPB with flexibility to redeem or refund. Based on recent interest rates, the true interest cost of an insured farebox revenue bond would be approximately 4.80%. Aggregate debt service would be approximately \$1.54 million per year on the 2007 Bonds – or approximately \$1.2 million more than current levels of annual debt service for the 1999 Bonds. The final interest rate on the 2007 Bonds and the annual debt service impact will be known only after the sale of the 2007 Bonds.

***Refunding.*** As part of these 2007 Bonds, PCJPB staff and its finance team will be considering the possibility of refinancing the 1999 Bonds. Given the small amount of outstanding 1999 Bonds and the short remaining maturity (2014), a standalone refinancing would not be economic. However, as part of a larger transaction, a refinancing might generate some savings and achieve administrative

economies. Based on recent interest rates, the refinancing would generate net present value savings of approximately \$41,000, or approximately 2% of the refunded 1999 Bonds. These savings do not include savings associated with administrative efficiencies.

### ***Finance Team***

Bond counsel for the 2007 Bonds is Orrick, Herrington & Sutcliffe. The PCJPB's financial advisors are Ross Financial and Robert Kuo Consulting, LLC. The underwriter has not yet been determined but will be selected on the basis of a competitive procurement process consisting of a formal request for proposals and telephone interviews, each scored by a panel of PCJPB staff.

### ***Timing***

The PCJPB plans to obtain approval of the 2007 Bonds at its October 4<sup>th</sup> 10:00 AM meeting. Following approval, the 2007 Bonds can be priced in mid-October, with a closing for late October.

San Mateo County Transit District and the City and County of San Francisco (as the other member agencies to PCJPB) will be holding their public hearings with respect to the 2007 Bonds during the month of September 2007.

### **ALTERNATIVES:**

The Board could choose not to approve the PCJPB's issuance of the 2007 Bonds. The failure to provide such approval will likely prevent the PCJPB from being able to purchase the railcars unless other sources of funds are identified.

### **FISCAL IMPACT:**

The PCJPB anticipates that debt service on the 2007 Bonds will increase its operating budget by approximately \$1.2 million. PCJPB Staff have stated there is no anticipated impact on the member agencies, as the increase will be absorbed within already negotiated annual operating subsidy increases of 3% annually.

**Resolution No. \_\_\_\_\_**

**RESOLUTION OF THE BOARD OF DIRECTORS OF SANTA CLARA VALLEY  
TRANSPORTATION AUTHORITY APPROVING THE ISSUANCE OF FAREBOX  
REVENUE BONDS BY THE PENINSULA CORRIDOR JOINT POWERS BOARD**

WHEREAS, the Peninsula Corridor Joint Powers Board (the "JPB"), is a public entity duly established and organized under the laws of the State of California, which was created pursuant to a joint exercise of powers agreement (the "Joint Powers Agreement") entered into by the Santa Clara Valley Transportation Authority ("VTA"), formerly known as the Santa Clara County Transit District, the City and County of San Francisco ("CCSF"), and the San Mateo County Transit District ("SamTrans");

WHEREAS, the JPB intends to issue certain revenue bonds (hereinafter referred to as the "Farebox Revenue Bonds") in order (i) to finance the acquisition of certain rail cars to be utilized in connection with its operation of the Caltrain commuter rail service (hereinafter referred to as "Caltrain") within the geographical boundaries of VTA, CCSF and SamTrans (each, a "Member Agency") and (ii) to refinance certain other improvements to Caltrain previously financed by the Peninsula Corridor Joint Powers Board Farebox Revenue Bonds, 1999 Series A;

WHEREAS, the Farebox Revenue Bonds which the JPB proposes to issue will be secured by and payable from farebox revenues and certain other revenues collected from the operation of Caltrain;

WHEREAS, pursuant to the Joint Powers Agreement, each Member Agency is required to contribute to the operating costs of Caltrain and provide for the costs of capital projects of the JPB in the manner set forth in the Joint Powers Agreement;

WHEREAS, pursuant to Section 6586.5 of the California Government Code (the "Government Code"), each Member Agency within whose boundaries a public capital improvement to be financed is located is required: (i) to approve the financing; and (ii) to make a finding of significant public benefit in accordance with the criteria specified in Section 6586 of the Government Code after holding a public hearing;

WHEREAS, in order to satisfy the requirements set forth in Section 6586.5 of the Government Code, the JPB has requested that the Board of Directors of VTA (the "Board") hold the required public hearing and approve the proposed financing and refinancing described herein (the "Financing");

WHEREAS, pursuant to Section 6586.5 of the Government Code, the Board caused a public hearing to be held regarding the proposed Financing, notice of which public hearing was published in a newspaper of general circulation in the County of Santa Clara at least five (5) days prior to such public hearing; and

WHEREAS, the Board now desires to approve the proposed financing in order to satisfy the requirements of Section 6586.5 of the Government Code;

**NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Santa Clara Valley Transportation Authority as follows:**

Section 1. The foregoing recitals are true and correct and the Board hereby so finds and determines.

Section 2. This Board hereby approves the Financing and hereby finds that: (i) the Financing will result in significant public benefits by assisting in the acquisition of the rail cars thereby providing more efficient delivery of transit services to residential and commercial development within the geographic boundaries of the Member Agencies; and (ii) serves a public purpose. It is the purpose and intent of the Board that this Resolution constitute such approval of the Financing as is required for the purposes of Section 6586.5 of the Government Code.

Section 3. The officers, employees and agents of VTA are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they deem necessary or advisable in order to carry out, give effect to and comply with the terms and intent of this Resolution and the Financing approved hereby.

Section 4. This Resolution shall take effect immediately upon its passage.

PASSED AND ADOPTED by the Board of Directors of the Santa Clara Valley Transportation Authority this 30th day of August, 2007, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

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Dean J. Chu, Chairperson  
Santa Clara Valley Transportation Authority

ATTEST:

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Board Secretary

Approved as to Form:

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General Counsel