

**SAN MATEO COUNTY TRANSPORTATION AUTHORITY
STAFF REPORT**

TO: Transportation Authority

THROUGH: Carter Mau
Acting Executive Director

FROM: April Chan
Chief Officer, Planning, Grants, and Transportation Authority

SUBJECT: **SAN MATEO COUNTY EXPRESS LANES JOINT POWERS AUTHORITY'S (SMCEL-JPA) REQUEST TO THE TRANSPORTATION AUTHORITY (TA) TO AGENDIZE, DISCUSS, AND CONSIDER THE CREDIT ENHANCEMENT FEE INCLUDED IN THE JULY 2020 LOAN AGREEMENT FOR THE EXPRESS LANES EQUITY PROGRAM**

ACTION

This item is being presented to the Board for discussion only. Possible actions may be taken at subsequent meeting(s).

SIGNIFICANCE

At the April 9, 2021 SMCEL-JPA Board Meeting, its board members voted to request that the TA discuss and consider applying, by appropriate means, the revenues from the Enhancement Fee to the JPA's Equity Program. The Enhancement Fee was agreed to and set forth in the Loan Agreement by which the TA made available \$100 million in bond proceeds to SMCEL-JPA to cover the capital costs of the 101 Express Lanes Project. A copy of the letter requesting the TA to consider this is included as Attachment A.

This item is being presented to the Board for discussion only. Staff will discuss the implication of the SMCEL-JPA inquiry, and possible options on how the TA can respond to the request.

At the July 2020 meeting, the TA Board authorized and approved the issuance of Tax Bonds in an aggregate amount not to exceed \$100 million to assist in the financing, on behalf of SMCEL-JPA, of its portion of the capital costs associated with the US 101 Express Lanes Project.

The TA and SMCEL-JPA entered into a Loan Agreement so the Tax Bonds will be repaid by SMCEL-JPA in the future by toll revenues generated by the express lanes once they are operational.

The Loan Agreement set forth terms and conditions of the loan arrangement and would include repayment of the up to \$100 million loan plus all required interest, costs, and fees during the life of the loan. As part of the Loan Agreement, there is an Enhancement Fee that was included, and it would be paid by SMCEL-JPA to the TA.

The Enhancement Fee is a charge from the TA to compensate it for risks and efforts associated with the issuance and maintenance of the bonds. The Enhancement Fee will be charged on the outstanding balance of the loan at an annual rate of 0.4 percent. However, in any fiscal year in which the Capital Loan balance is reduced by a minimum of at least \$5 million, the TA would use 0.15 percent of the Enhancement Rate to reduce the outstanding principal on the Capital Loan.

Furthermore, included in the \$100 million loan was \$1 million to provide SMCEL-JPA start-up funds for an equity program to be administered by SMCEL-JPA, anticipated to begin when the express lanes are operational. In addition to the initial, one-time set-aside of \$1 million from the bond proceeds for the Equity Program, the TA, and SMCEL-JPA also agreed that when annual payments are made to the TA for the loan repayment, SMCEL-JPA will pay off first the annual operating and administrative expenses associated with the operation of the express lanes, and then set aside an annual \$600,000 for the ongoing administration of the equity program before making payments to the TA.

BACKGROUND

As a partner agency, the TA agreed to enter into a Loan Agreement with SMCEL-JPA to issue up to \$100 million in tax bonds on behalf of SMCEL-JPA for the Project. The cost of tax bond issuance by the TA is much more favorable and cost-effective than the SMCEL-JPA would have received in the bond marketplace, since the TA has an excellent and established credit rating, as well as the fact that the tax bonds are backed by both Measures A and W.

As reported to the TA Board at their April 2021 meeting, at the time of issuance, the interest rate assumption of 2 percent was used to base the debt service for this entire debt issuance with Fiscal Year 2021 expected interest cost to be around \$1.45 million; however, with the historically low interest rate environment, interest rates are currently at 1 basis point. As of February 2021, the total interest cost for the entire \$100 million has only been \$28,191.

Prepared By: April Chan, Chief Officer, Planning, Grants & the TA

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