



Memorandum

Agenda Item 4

TO: Bay Area Headquarters Authority (BAHA)

DATE: October 16, 2013

FR: Deputy Executive Director, Operations

RE: BAHA Resolution No. 12 – Air District Financing Plan

This item would authorize BAHA to purchase up to \$30 million in Certificates of Participation (COPs) to be used for the financing of the Bay Area Air Quality Management District (the Air District) acquisition of its office space at 375 Beale Street.

The Bay Area Toll Authority (BATA) and the Air District have been working on the acquisition financing of the 375 Beale Street space for over a year now. The Air District had a number of factors to consider when evaluating its financing options:

- Strict limitations on the amount of debt the Air District could issue.
- Limiting future costs to the current amount of maintenance and operating costs - \$2.3 million.
- No capitalized or funded interest.
- No payments prior to occupancy.

While the Air District has financial resources to directly undertake a financing, its debt limitations and lack of history in the public market would make the transaction potentially prohibitively expensive.

Over the past year our financing team has worked with the Air District's team to develop a financing structure that will meet the Air District's needs and provide security for BATA. BATA will contribute \$30 million to BAHA allowing BAHA to purchase the Air District financing proceeds as an investment. The financing structure includes:

- Structured sale/lease between the Air District and BAHA.
- Air District issues \$30 million in taxable COPs.
- BAHA purchases the \$30 million COPS as an investment.

- 30-year variable rate structure with preset interest rate caps:

<u>Year</u>	
1-5	3.20%
6-10	4.20%
11-30	5.20%

- Preset fixed payments:

<u>Year</u>	
1-10	\$1.20 million
11-30	\$1.37 million

- Interest paid by escrow earnings prior to occupancy.
- Debt service and operating costs approximate to the Air District's current costs of \$2.3 million (\$1.2 million lease + \$1.1 million estimated operating costs).

The Air District Board approved the structure and issuance documents on August 7, 2013.

This is not the first time BATA has facilitated a project financing. BATA underwrote a California General Obligation structure for \$194 million to keep local projects going, and underwrote \$10 million for WETA to facilitate its construction program. In both cases, the funds were repaid and BATA earned a reasonable return for the risk.

We believe the recommended Air District structure contains an equivalent level of security and return built into the previous transactions. Safeguards include:

- Air District has agreed to contribute \$8 million from the sale of its building, reducing the net financing obligation to \$22 million.
- At current market rates, Air District payments exceed the calculated amount required to amortize the loan allowing the Air District to prepay the principal.
- At current market rates, prepayments would retire the obligation in 24 years.
- Payments are made monthly and paid directly to a trustee.
- The Air District's property is always the ultimate security for the financings.
- BATA will receive SIFMA (Securities Industry and Financial Marketing Association Index)+ 1.2% up to the cap.

These safeguards help protect BATA's security in the transaction. BATA will perform the task of seeing that the monthly payments are paid to the trustee and ultimately transferred to BATA.

BAHA's actions will be those of an investor and then custodian of the investment. The appropriate timeline for the transaction is:

	<u>Date</u>
• Air District Approves Transaction	August 2013
• BATA Approves Contribution to BAHA	October 2013
• BAHA Approves Purchase of Securities	October 2013
• Financing Close	November 2013
• Air District Prepayment (\$8 million)	December 2013
• Lease Commences (Payments equal earnings on Escrow)	December 2013
• Air District Occupancy (Lease payments to \$120,000/month)	April 2015
• 2014 Proceeds and Lease payments Transferred to BATA	July 2015

The transaction will carry on until the financing is repaid. The Air District can prepay the balance of the obligation at any time. Throughout the transaction, legal ownership of the space will reside with the Air District.

Staff requests approval of BAHA Resolution No. 12.



Andrew B. Fremier

Attachments

AF/BM/cm

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Date: October 23, 2013
W.I.: 9130

ABSTRACT

BAHA Resolution No. 12

This Resolution authorizes the Bay Area Headquarters Authority to assist the Bay Area Air Quality Management District by purchasing certificates of participation in a lease financing of a portion of the headquarters building.

Discussion of this action is contained in the Deputy Executive Director's Memorandum dated October 16, 2013.

Date: October 23, 2013
W.I.: 9130

Re: Purchase of Certificates of Participation

BAY AREA HEADQUARTERS AUTHORITY

RESOLUTION NO. 12

WHEREAS, the Metropolitan Transportation Commission (“MTC”) and the Bay Area Toll Authority (“BATA”) have executed a joint exercise of powers agreement dated September 28, 2011 (the “Joint Powers Agreement”), which creates and established the Bay Area Headquarters Authority (“the Authority”); and

WHEREAS, the Authority currently owns and is in the process of remodeling an office building located at 375 Beale Street, San Francisco, California (the “Facility”), and has agreed to lease a portion of the Facility (the “Premises”) to the Bay Area Air Quality Management District (the “District”) pursuant to an office lease effective April 19, 2012 (the “Office Lease”), between the Authority and the District; and

WHEREAS, the District desires to exercise its option to purchase the Premises pursuant to Article 23 of the Office Lease (the “Purchase Option”); and

WHEREAS, the Purchase Option will be exercised as of the date certain contractual conditions precedent thereto are met (the “Acquisition Date”); and

WHEREAS, the Authority has determined to assist the District in purchasing the Premises by entering into the following documents: (i) a Site and Facilities Lease, tentatively dated as of October 1, 2013 (the “Site Lease”), by and between the District as lessor and the Authority as lessee by which the District will lease the Premises to the Authority commencing on the Acquisition Date; and (iii) a Facilities Sublease, tentatively dated as of October 1, 2013 (the “Facilities Sublease”), by and between the Authority as sublessor and the District as sublessee, by which the Authority will lease the Premises back to the District commencing on the Acquisition Date; and

WHEREAS, under the Facilities Sublease, the District will be obligated to make payments to the Authority in consideration of the Purchase Option (the “Option Payments”) and to make base rental payments in consideration of the District’s use and occupancy of the Premises commencing on the Acquisition Date (herein called “Base Rental”); and

WHEREAS, all rights to receive such Option Payments and Base Rental (together with additional payments provided for in the Facilities Sublease) will be assigned without recourse by the Authority to The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), pursuant to an agreement entitled “Assignment Agreement” and tentatively dated as of October 1, 2013 (the “Assignment Agreement”); and

WHEREAS, it is desirable and necessary to accomplish the purposes described above that the Authority enter into a “Trust Agreement” with the District and the Trustee, tentatively dated as of October 1, 2013, pursuant to which the Trustee will execute and deliver certificates of participation entitled “Bay Area Air Quality Management District Certificates of Participation (BAAQMD Office Project),” in an aggregate principal amount not to exceed \$30,000,000 (the “Certificates”), each evidencing and representing a fractional undivided interest in the Option Payments and Base Rental payable under the Facilities Sublease, and the District will use the proceeds of the sale thereof to purchase the Premises; and

WHEREAS, the Certificates shall be executed, delivered and sold prior to the date on which the District takes possession of the Premises (the “Acquisition Date”) and the District shall cause the proceeds of such sale to be deposited and applied pursuant to Article VII of the Trust Agreement; and

WHEREAS, during the period from the date the Certificates are executed and delivered until the Premises are acquired by the District (the “Escrow Phase”), the Certificates will be held by the Trustee in an escrow account established pursuant to the Trust Agreement (the “Escrow Account”); and

WHEREAS, the Authority has determined to assist the District by purchasing the Certificates pursuant to a Purchase Contract, to be dated the date of execution thereof (the “Purchase Contract”), by and between the District and the Authority; and

WHEREAS, pursuant Section 7 of the Joint Powers Agreement, BATA may contribute funds to the Authority in order to assist the Authority in accomplishing the purposes set forth in the Joint Powers Agreement; and

WHEREAS, BATA has authorized an additional contribution of up to \$30,000,000 to the Authority in accordance with Section 7 of the Agreement to provide funds for the acquisition of the Certificates which furthers the purposes of the Authority; and

WHEREAS, the Authority has the power, pursuant to Government Code Section 6588, to purchase the Certificates and thereby assist the District in financing the Purchase Option; and

WHEREAS, in connection with the execution and delivery of the Certificates, there have been prepared drafts of the Purchase Contract, the Site Lease, the Facilities Sublease, the Assignment Agreement and the Trust Agreement (collectively, the “Certificate Documents”); and

WHEREAS, all acts, conditions and things required by the Constitution and the laws of the State of California to exist, to have happened and to have been performed in connection with the taking of the actions referred to herein and the execution of the Certificate Documents do exist, have happened and have been performed in regular and due time, form and manner and required by law, and the Authority is duly authorized and empowered, pursuant to each and every requirement of law, to execute Certificate Documents; now therefore, be it

RESOLVED, that the Authority finds that the foregoing recitals are true and correct; and be it further

RESOLVED, that the Authority hereby approves the Certificate Documents and hereby authorizes and directs the Executive Director, and Deputy Executive Director and the

Treasurer and Auditor of the Authority, and each of them (each an “Authorized Representative”), to execute and deliver the Certificate Documents for and on behalf of the Authority in substantially the form submitted to this meeting with such changes therein as the Authorized Representative shall require or approve; and be it further

RESOLVED, that all certificates, documents, approvals, consents, directions, instructions, notices, orders, requests, representations, indemnifications and other actions permitted or required by the Certificate Documents may be given or taken by an Authorized Representative, without further authorization or direction by the Authority, and each Authorized Representative is hereby authorized and directed to give any such certificate, document, approval, consent, direction, instruction, notice, order, request, indemnification or other action and to take any such action at any time in the future that such Authorized Representative, with the advice of General Counsel to the Authority, may deem necessary or desirable to further the purposes of this Resolution and to carry out, consummate and perform the duties and exercise the rights of the Authority under the Certificate Documents; and be it further

RESOLVED, that all actions heretofore taken by the members of the governing board of the Authority, committees of the governing board of the Authority, and officers and agents of the Authority with respect to the Certificate Documents and the transactions contemplated thereby are hereby ratified, confirmed and approved.

BAY AREA HEADQUARTERS AUTHORITY

Amy Rein Worth, Chair

The above resolution was entered into by the Bay Area Headquarters Authority at a regular meeting of the Authority held in Oakland, California, on October 23, 2013.