

# **Bond Case Briefs**

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## **San Francisco Sets Bond Vote for Aging Transit System.**

San Francisco lawmakers are asking voters to approve a \$500 million bond measure as a population surge stoked by technology-industry growth strains the transit network in California's fourth-largest city.

The general-obligation bonds would fund upgrades to reduce travel times in the 98-year-old system, plus traffic signals and bicycle paths as the city's 837,442 population is projected to swell to 1 million by 2040. The 11-member San Francisco Board of Supervisors agreed July 15 to send the plan to voters.

"It's really about how we sustain our public transportation and bring it to the next decade and beyond, or else we're not going to be able to accommodate the growing population," said Supervisor Katy Tang, who sponsored the measure.

San Francisco's bus and light-rail system is trying to keep up with the city's transformation into a social-media industry hub as payroll tax breaks offered by Mayor Ed Lee lure employers such as Twitter Inc. (TWTR) and Yammer Inc. Last year, 21 pedestrians died from traffic-related collisions, the most since 24 deaths in 2007, according to the San Francisco Municipal Transportation Agency.

### **Aging Systems**

The city and neighboring Alameda County, home to Berkeley and Oakland, are among communities across the U.S. seeking to bolster or replace aging mass-transit systems, roads and bridges. Speaking in May with New York's aging and overburdened Tappan Zee Bridge in the background, President Barack Obama said that the U.S. risks its economic supremacy by neglecting to repair and upgrade its transportation system.

Investors in the \$3.7 trillion municipal market have treated San Francisco securities as better than AAA debt, even though Standard & Poor's and Moody's Investors Service grade it one step lower. Fitch Ratings ranks the city AA, its third-highest level.

San Francisco general obligations maturing in June 2020 changed hands July 15 at an average yield of 1.52 percent, data compiled by Bloomberg show. That's 0.16 percentage point less than benchmark munis.

### **City's Appeal**

San Francisco is an attractive investment because of its "strong economy, a very large and diverse tax base, which contribute to overall solid credit quality," said Michael Johnson, managing partner at Gurtin Fixed Income Management LLC.

"Given where interest rates are right now, it's definitely a good time" to borrow, said Johnson, whose Solana Beach, California-based firm manages \$9.1 billion.

Sitting at the tip of a peninsula, the city is 7 miles (11 kilometers) long and equally wide. The San

Francisco-Oakland-Hayward metropolitan area added 62,117 people in the year ending July 1, 2013, the ninth-largest increase in the U.S., according to Census data.

The number of technology jobs in San Francisco more than doubled to 53,319 in the fourth quarter, compared with 24,438 in the corresponding period four years earlier, according to data from real-estate brokerage CBRE Group Inc. (CBG) in San Francisco. The number of technology companies grew 41 percent to 2,012 in the fourth quarter from four years earlier.

## Tech Shuttle

The Municipal Transportation Agency this week agreed to impose a \$3.55 fee on private commuter shuttle buses to use the city's bus stops starting Aug. 1. The fee is aimed at commuter buses that ferry employees of Google Inc. and other technology firms from the city to Silicon Valley.

Voters approved a \$400 million earthquake safety bond measure in June, on the heels of a similar \$412 million request in 2010. In 2008, voters agreed to let the city borrow \$887 million to rebuild San Francisco General Hospital and Trauma Center.

San Francisco has "more than enough capacity" to borrow, said Nadia Sesay, director of the city's public-finance office.

The bonds would be sold in four issues from 2015 to 2019 and would have a maturity of 20 to 25 years, she said. The city uses an interest rate of 6 percent for illustration purposes, she said. Municipal yields are close to the lowest since the 1960s.

"We hope we'll continue to be in this low interest-rate environment," Sesay said.

## Electoral Bar

The measure, the first to be placed on the ballot for the transit system since 1966, will require a two-thirds vote to pass when it goes before voters in November.

"The challenge is that it's always difficult to get above two-thirds for funding measures," said Gabriel Metcalf, executive director of the San Francisco Planning & Urban Research Association, a nonpartisan urban policy organization. "There's always a certain segment of people who would just rather say no to any taxes on principle."

The transit measure stems from a task force convened by Lee last year to study the city's transportation needs. The city should invest \$10 billion through 2030 in transportation as its population grows, according to a report from the group.

"We don't have any major credit concerns with San Francisco right now," said Karen Ribble, a senior director at Fitch in San Francisco. "The city's debt levels are fine. Their economy is doing very well."

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