

RAFT  
Regional Alliance For Transit  
Founded 1992

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August 25, 2011

Senator Mark DeSaulnier, Chair  
Senator Ted Gaines, Vice Chair  
Transportation and Housing Committee  
California State Senate  
State Capitol

Re: Bay Area Toll Authority, toll bridge revenues and derivative instruments

Dear Senator DeSaulnier and Senator Gaines:

The Metropolitan Transportation Commission (MTC), the Regional Transportation Planning Agency for the San Francisco Bay Area, is considering purchasing a building located at 390 Main Street in San Francisco. According to MTC, the source of funds to make the purchase will be Bay Area Toll Authority (BATA) "reserves," with \$150 million available.<sup>1</sup> BATA is an agency created by the State in 1998. BATA is a blended component unit of MTC and has the same governing board.

The Committee may benefit by reviewing how interest rate swap agreements entered into by BATA have worked out, and whether the swaps may have a deleterious effect on MTC's ability to rely on toll bridge revenues, not only to buy the building in San Francisco, but for transportation uses as well.<sup>2</sup>

As an illustration of what can happen with derivative instruments used by BATA, consider the 2009 termination of its swaps agreements with Ambac Financial Services, which cost \$104 million in toll bridge revenues. That is, this action was a charge against Bay Area bridge and transit users of \$104 million. There was a lawsuit that followed the termination which caused BATA to pay yet more toll bridge revenues to settle the litigation.<sup>3</sup>

The termination date for the remaining outstanding swaps runs in some cases to the year 2047. Should BATA decide to terminate them, the cost is shown as \$340 million as of the end of FY 2010. The spreads on the swaps may be illustrated with the Series 2001 bond series, where BATA pays 4.1% (fixed) to counterparties and in turns receives a variable rate, 65% of one month dollar LIBOR (0.23% in the annual report); the notional value of the swap is \$150 million, and it runs until 2036. The cost last year was \$5,805,000.<sup>4</sup>

These transactions have produced negative results for the bridge and transit users who were to have benefited from investments in transportation system improvements.

It may be useful to learn how much money these swaps have cost BATA compared with what it would have paid had it issued debt in the more traditional way.

Lastly, if the building is to be purchased with BATA reserves, the use of those reserves will mean they will not be available in the event there is a need for work on one or more of the state-owned toll bridges in the San Francisco Bay Area.

Sincerely,

Matt Williams  
for RAFT

- 1 [http://www.mtc.ca.gov/pdf/Proposed\\_Financing\\_5-25-11b.pdf](http://www.mtc.ca.gov/pdf/Proposed_Financing_5-25-11b.pdf)
- 2 The 2010 annual report of MTC has a note on these derivative instruments beginning on page 62 and running through page 68. A copy of the report is available at: <http://www.mtc.ca.gov/library/AnnualReport-10/>
- 3 Bridge bond deal gone bad costs MTC \$120 million. San Francisco Chronicle, May 4, 2011. <http://bit.ly/mffaWf>
- 4  $(4.1\% - 0.23\%)*\$150,000,000 =$  an annual payment from BATA to Citigroup and Morgan Stanley on this 2001 series of \$5,805,000. According to the Financial Times, one month dollar LIBOR now is lower, 0.21894%. <http://markets.ft.com/RESEARCH/markets/DataArchiveFetchReport?Category=BR&Type=MNY&Date=08/24/2011>

cc: Members of the Committee

Senator Ellen Corbett  
Senator Noreen Evans  
Senator Loni Hancock  
Senator Mark Leno  
Senator Leland Yee  
Assembly Member Michael Allen  
Assembly Member Tom Ammiano  
Assembly Member Jim Beall, Jr.  
Assembly Member Susan Bonilla  
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