



**FINANCE AND BUDGET COMMITTEE
JULY 20, 2011**

SUBJECT: FEDERAL LOAN FOR CRENSHAW/LAX TRANSIT CORRIDOR

ACTION: SUBMIT APPLICATION FOR A FEDERAL LOAN

RECOMMENDATION

Authorize the CEO to submit the Transportation Infrastructure Finance and Innovation Act ("TIFIA") loan application to the USDOT and pay related fees and expenses at any time subsequent to the Board's approval of the environmental reports for the Crenshaw/LAX Transit Corridor Project.

RATIONALE

TIFIA staff requires that we demonstrate that submission of the application was approved by the MTA Board.

Borrowing through TIFIA is consistent with the Measure R debt issuance assumptions in the Long Range Transportation Plan update of April 2010 and takes advantage of currently low taxable interest rate environment.

This action only authorizes submission of the application and does not authorize the loan. Authorization to execute the loan documents will be requested when the loan terms are substantially finalized in Fall 2011 or Winter 2012. If the Board decides to accept the loan, Measure R 35% Transit Capital, line 17 Capital Project Contingency, is the intended source of payment for the interest and other ongoing costs of the loan.

BACKGROUND

By submitting the application MTA will be obligated to pay the actual costs of TIFIA's external financing counsel and financial advisor related to the credit analysis and loan negotiations. TIFIA estimates those non-refundable costs to typically be in the range of \$300,000.

Interest rates for TIFIA loans are based on the appropriate U.S. Treasury Bond ("UST") maturity at the closing date commensurate with the loan life. As an example, the rate for the 30-year UST is currently 4.2%. Based on that rate as of June 23, 2011, the TIFIA loan rate would have been lower than our 30-year tax exempt rate at that time. When the application is fully approved, we can lock-in the then current rate, which effectively hedges our exposure to rising rates.

TIFIA also provides favorable terms such as allowing the loan to be drawn based on our actual cashflow needs over time. Typical loans, including issuing bonds, are on an “all at once” basis at closing. TIFIA interest is assessed only on the amounts drawn. We retain the option to draw on the loan or issue tax exempt bonds at more favorable rates depending on future market conditions when our cashflow needs are known.

In October 2010, we were notified that we had been selected to receive a \$20 million TIGER II TIFIA subsidy to support our request for a \$546 million TIFIA loan for the Crenshaw Project. Since that time we have been in contact with the TIFIA Office and the Federal Transit Administration (“FTA”) to set out the path forward. During these discussions the TIFIA staff confirmed that the proposed conduit borrower structure would meet their requirements.

FINANCIAL IMPACT

Funding of \$300,000 to fund the TIFIA loan application costs is included in the FY12 budget in cost center #0521, Treasury Non-Departmental under project #660301, task 01, Measure R Debt Service.

Impact on Enterprise Fund Bus and Rail Operations Budget

There is no financial impact to operations from this action.

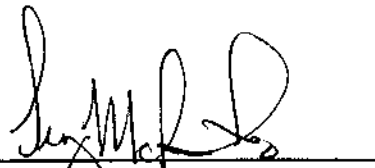
ALTERNATIVES

We could choose not apply for the TIFIA loan to avoid the non-refundable application and processing costs. However, we would also forego the \$20 million TIGER II grant that was awarded to us for this purpose.

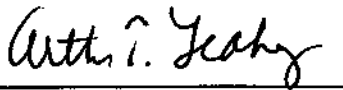
NEXT STEPS

- Form a California nonprofit mutual benefit corporation
- Submit final TIFIA loan application subsequent to approval of environmental reports
- Negotiate loan terms and conditions
- Obtain MTA Board’s and the Corporation Board’s approvals to execute loan documents
- Finalize Corporation funding agreement

Prepared by: Michael J. Smith, Assistant Treasurer



Terry Matsumoto
Chief Financial Services Officer and Treasurer



Arthur T. Leahy
Chief Executive Officer