



**FINANCE, BUDGET AND AUDIT COMMITTEE
MAY 16, 2012**

SUBJECT: WESTSIDE SUBWAY EXTENSION

ACTION: SUBMIT APPLICATION FOR FEDERAL LOAN

RECOMMENDATION

Authorize the Chief Executive Officer ("CEO") to submit the Transportation Infrastructure Finance and Innovation Act ("TIFIA") loan application to the U.S. Department of Transportation ("USDOT") and pay related fees and expenses subsequent to the Board's approval of the environmental reports for the Westside Subway Extension Project.

ISSUE

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

DISCUSSION

Borrowing through TIFIA is consistent with the Measure R debt issuance assumptions in the Long Range Transportation Plan update of November 2011 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 later this calendar year. If the Board decides to accept the loan, Measure R 35% Transit Capital and line 18, Capital Project Contingency, are the intended source of payment for the loan principal, interest and other ongoing costs of the loan.

By submitting the application MTA will be obligated to pay the \$50,000 application fee and 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 was 3.12% on April 19, 2012, which was lower than the 30-year tax-exempt rate we could have borrowed at.

A TIFIA loan is potentially beneficial. By locking-in the loan rate when the loan agreement is executed in advance of the draws, we effectively hedge our exposure to rising rates. TIFIA also provides favorable terms such as allowing the loan to be drawn based on our actual cash flow needs over time, also allowing us to select between funding from the TIFIA loan or from Measure R bonds, whichever is more advantageous. For typical loans, including issuing bonds, the full amount of the loan is borrowed at the closing and interest costs begin to accrue. The TIFIA loan may be drawn incrementally and interest is assessed only on the amounts drawn. For each draw we retain the option to draw on the loan or issue tax-exempt bonds whichever provides the more favorable rate at the time.

We previously submitted an application for a TIFIA loan for the Crenshaw/LAX Transit Corridor Project in November 2011. Since that time we have been working with the TIFIA Office and expect to close the loan in June 2012. A separate item regarding the approval of the Crenshaw Project loan is on the Committee's May agenda. During these discussions the TIFIA staff confirmed that the proposed conduit borrower structure would meet their requirements. We expect to use a similar structure in our application for the Westside Subway Extension.

DETERMINATION OF SAFETY IMPACT

There is no safety impact from this action.

FINANCIAL IMPACT

Funding of \$300,000 to fund the TIFIA loan application costs is included in the FY13 budget in cost center #0521, account 50999, Treasury Non-Departmental under project #660301, task 01, Measure R Debt Service.

ALTERNATIVES

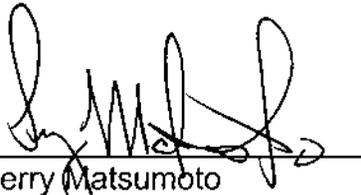
We could choose not to apply for the TIFIA loan to avoid the non-refundable application and processing costs. However, we would lose the opportunity for a low cost hedge against higher future borrowing costs.

NEXT STEPS

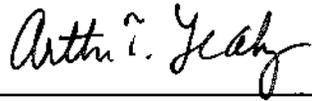
- Submit TIFIA loan application subsequent to approval of environmental reports
- Negotiate loan terms and conditions
- Form a California nonprofit mutual benefit corporation

- Obtain MTA Board's and the Corporation Board's approvals to execute all loan related agreements and documents

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