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REVISED
FINANCE, BUDGET AND AUDIT COMMITTEE
SEPTEMBER 19, 2012

**SUBJECT: TRANSPORTATION INFRASTRUCTURE FINANCE AND INNOVATION
ACT MASTER CREDIT AGREEMENT**

ACTION: APPROVE LETTER OF INTEREST

RECOMMENDATION

- A. Approve the transit projects shown in Attachment A for a Letter of Interest request for loans in the amount of up to \$3.3 billion to the United States Department of Transportation (USDOT) for a Transportation Infrastructure Finance and Innovation Act (TIFIA) Master Credit Agreement (MCA) and **pay related fees and expenses**; and
- B. Defer the San Fernando Valley I-405 Corridor Connection and West Santa Ana Branch Corridor from the initial MCA request because current project development schedules indicate that they cannot meet a three-year deadline to close a project-specific TIFIA loan.

ISSUE

Pursuant to the recently enacted Moving Ahead for Progress in the 21st Century Act (MAP-21), USDOT has announced increased funding for the TIFIA program to support up to \$10 billion of loans annually. Additionally, MAP-21 made some significant changes to the TIFIA program's structure, including broadening eligibility to include programs of multiple related projects through a Master Credit Agreement (MCA). LACMTA will be uniquely positioned to take advantage of the enhanced TIFIA program for its Measure R Capital Program if Measure J is approved. The first step to obtaining a contingent commitment of TIFIA credit assistance is submission of a Letter of Interest (LOI) for a MCA with USDOT.

DISCUSSION

Through MAP-21, USDOT has announced the availability of funding authorized in the amount of \$1.75 billion (\$750 million in Federal Fiscal Year (FFY) 2013 funds and \$1 billion in FFY 2014 funds) to provide TIFIA credit assistance for eligible projects. Additionally MAP-21 made some significant changes to the TIFIA program's structure, including broadening eligibility to include programs of multiple related projects secured by a single pledge (such as Measure R/Measure J) through a Master Credit Agreement (MCA).

We recommend that proposed Measure R/Measure J based sub-regional program transfers be included in the MCA now, and withdrawn later if the actual transfer does not occur later in the process. We recommend this because we believe it will be more difficult to add the projects during the evaluation of the proposed loans than it will be to withdraw them later. So far as we know, there are two sub-regions who are considering transfers that would involve this transit MCA. The Green Line Extension: Redondo Beach Station to South Bay Corridor and Gold Line Foothill Light Rail Transit Extension (beyond Azusa within LA County) could be included in the LOI, subject to later withdrawal if the LACMTA Board does not approve a formal request by the applicable Council of Government for the respective sub-region.

MAP-21 requires that loans approved through an MCA close within three years of the execution of the MCA. Staff has reviewed the Measure R transit project schedules and has identified a list of projects that can reasonably be closed within three years from an expected MCA execution in calendar year 2013 (Attachment A).

We therefore recommend that the LOI exclude the San Fernando Valley I-405 Corridor Connection and West Santa Ana Branch Corridor from the initial MCA request because current project development schedules are not consistent with meeting the three-year deadline for closing the loan after execution of the MCA.

The second tranche of transit projects excluded from the initial LOI and loans proposed for the Measure R highway program will be included in a subsequent MCA LOI.

FINANCIAL IMPACT

The TIFIA MCA Letter of Interest is the first step towards securing contingent commitments for federal loans authorized by MAP-21. In total, the LACMTA's draft strategic financial plan calls for a request of up to ~~\$3.65~~ **\$4.55** billion in federal TIFIA loans necessary to accelerate the transit projects included in Measure R, **including the two Measure R/Measure J based sub-regional program transfers discussed above, the Crenshaw/LAX loan and the second tranche MCA loans in Attachment A.** LACMTA has previously applied for a \$545.9 million TIFIA loan for the Crenshaw/LAX Transit Corridor project. This loan is expected to close on September 20 ~~20~~ **25**, 2012.

Loans under the TIFIA program have become attractive relative to tax-exempt municipal bonds due to current market conditions. TIFIA loans bear an interest rate which tracks

long-term treasury rates. Traditionally TIFIA loans were more costly than our highly rated municipal bonds, but recently the relationship has reversed. Current TIFIA rates are under 3.00% for 35-year debt while rates for 30-year LACMTA tax-exempt bonds are over 3.00%. Since we are seeking a subordinate position for the repayment of the TIFIA loans relative to our planned senior borrowing, these rates are considered very attractive and are likely to be very popular nationally. We believe acting now to make a request contingent on the passage of Measure J is the most appropriate course given the likely national popularity of these loans.

TIFIA loans also provide more flexibility than LACMTA's traditional tax-exempt bonds. TIFIA loans can be structured with a capitalized interest period during construction, an interest-only early payment period, and deferred principal repayment. These features are particularly favorable for LACMTA's draft accelerated expenditure plan as they allow LACMTA to borrow funds based on future growth in sales tax revenues.

By submitting the Letter of Interest, LACMTA will be obligated to pay the actual costs of USDOT's external financial and legal advisors related to determining a project's eligibility, credit analysis and loan negotiations. Funding of the \$100,000 fee is included in the FY13 budget in cost center #0521, Treasury Non-Departmental under project #660301, task 01, Measure R Debt Service.

ALTERNATIVES CONSIDERED

LACMTA could attempt to finance the Measure R transit projects through traditional tax-exempt municipal bonds. This alternative is not recommended because it does not provide enough funding to accelerate all 12 Measure R transit projects.

LACMTA could delay preparation of the TIFIA LOI until after the November election. This alternative is not recommended due to the increased demand for TIFIA credit assistance expected as a result of the program's expansion.

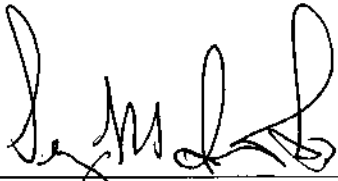
NEXT STEPS

Staff to prepare and submit to USDOT a Master Credit Agreement Letter of Interest for the projects listed in the first tranche on Attachment A.

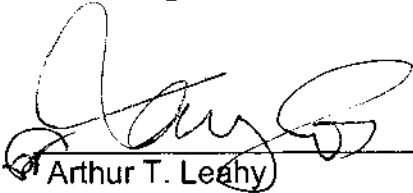
ATTACHMENTS

A. TIFIA MCA Letter of Interest Project List (Assumes Approval of Measure J)

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