



**Metro**

Metropolitan Transportation Authority

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**101**

**REGULAR BOARD MEETING  
JANUARY 24, 2013**

**SUBJECT: PROP A COMMERCIAL PAPER PROGRAM**

**ACTION: AWARD CONTRACTS FOR LETTERS OF CREDIT**

**RECOMMENDATION**

- A. Authorize the Chief Executive Officer to finalize negotiations with the recommended banks and enter into reimbursement agreements and related documents for direct-pay letters of credit ("LOC"):
1. With Sumitomo Mitsui Banking Corporation ("Sumitomo") for a commitment amount of \$75 million for a three-year term at an estimated cost of \$1,135,000, including legal fees and other related expenses.
  2. With Union Bank for a commitment amount of \$75 million for a three-year term at an estimated cost of \$1,130,000, including legal fees and other related expenses.
- B. If unable to reach agreement with one or both of the recommended banks, authorize the Chief Executive Officer to finalize negotiations with each successively ranked bank for agreements having three year terms and the estimated costs shown in Attachment A.
- C. Adopt a resolution that approves the selection of Sumitomo and Union Bank or successor(s), a form of the reimbursement agreement on file with the Board Secretary and makes certain benefit findings in compliance with the Government Code, Attachment B.

**Requires separate, simple majority Board vote.**

**ISSUE**

The Prop A Commercial Paper ("CP") program has been proven to be a flexible, cost effective method of short-term financing for our capital program. A letter of credit is required for the CP program's operation in order to guarantee repayment of the maturing notes.

**DISCUSSION**

The purpose of the CP program is to provide interim taxable or tax-exempt financing for the rail capital program until grant or other reimbursements are received or until permanent financing is arranged. The borrowing cost under the program has been approximately 1.2% over the past year.

The Prop A CP program allows us to issue and have outstanding at any one time up to \$350 million of commercial paper notes. In 2010, we reduced the amount of letters of credit, effectively reducing program capacity, to \$250 million in order to lower our expenses because of our reduced need for CP due to the issuance of the Measure R Build America Bonds (BABs) and permanent financing of \$100 million of CP last year. Two letters of credit totaling \$100 million were allowed to expire in July 2012 resulting in a planned temporary reduction in total capacity to \$150 million as BABs proceeds are still available. The current \$150 million program is secured by a letter of credit with Barclays Bank that remains in effect until June 2013.

With the two new LOCs for \$150 million, the program capacity will be \$300 million until June 2103 or until we decide to terminate the Barclays Bank LOC once the new LOCs are in place. The short-term overlap of the letters of credit will ensure there is no gap in the program.

We are planning to maintain the CP program capacity at \$150 million in the near term. We can add additional capacity if warranted by delayed grant funding or accelerated capital expenditures. The current outstanding balance is \$75 million of taxable CP.

Commercial paper is a short-term debt instrument that can be issued with maturities from 1 to 270 days. As notes mature, new notes are simultaneously issued, i.e., rolled over. The CP program is backed by one or more direct-pay LOCs and a subordinate pledge of 75% of Prop A sales tax revenues. The LOC provides guaranteed liquidity to the investors when their notes mature and is a required component of the program. Additionally, the LOC provides a safety net in the form of a term loan in the unlikely event the notes cannot be remarketed, precluding any requirement that we immediately repay the entire outstanding amount from cash. As a result of the letter of credit bank's guaranty of payment, the notes enjoy the favorable short-term credit ratings of the letter of credit bank, allowing the program to maintain high short-term ratings of P-1 and A-1 from Moody's and from Standard & Poor's, respectively.

Requests for proposals were sent to 21 banks by our financial advisor, Public Financial Management ("PFM"). Under our Debt Policy, the financial advisor conducts competitive processes to select financial product providers including letters of credit. The RFP required banks to have short-term ratings of at least P-1 and A-1 in order to compete. Evaluation criteria included approach, financial condition and cost. Seven proposals were received for commitment amounts ranging from \$50 million to \$150 million. The source selection panel was composed of Treasury staff, PFM and a representative from the CAO's Office of San Bernardino Count. The panel ranked each proposer and we are recommending the two highest rated providers, Sumitomo and Union Bank to provide \$75 million each of letter of credit support at total estimated cost of \$2,265,000 for the three year term.

The estimated cost values assume full utilization of the respective facilities over a three year contract period. Additional fees and interest could be incurred under certain

extreme circumstances. To date, none of our commercial paper notes have ever failed to be remarketed. The LOC banks do not have any influence in the remarketing of the notes.

### **DETERMINATION OF SAFETY IMPACT**

Approval of the recommended actions has no impact on safety.

### **FINANCIAL IMPACT**

Funding of \$2,890,000 for the Prop A CP letters of credit is included in the FY13 budget in cost center #0521, Treasury Non-Departmental, under project #610306, task 03.01, Prop A Debt Service. Due to lower letter of credit fees, entering into the new agreements will generate a favorable variance in Prop A Debt Service that will offset the costs of replacement. Since this is a multi-year contract, the cost center manager and the Chief Financial Services Officer will be accountable for budgeting the cost in future years.

#### **Impact to Budget**

The FY13 budget includes these costs, which are funded from Prop A 35%.

### **ALTERNATIVES CONSIDERED**

The Board could delay awarding these contracts until shortly before the Barclays Bank letter of credit expires in June 2013, or to direct a reduction below the \$150 million capacity. A delay and reissuance of the RFP carries the additional market risk between now and Spring 2013. A decision to cancel the program and not replace the letter of credit support would result in the need to refund all of the outstanding commercial paper with a higher cost fixed rate financing. A reduction of the capacity of the CP program would reduce our ability to quickly provide low cost, interim financing when needed. These alternatives are not recommended.

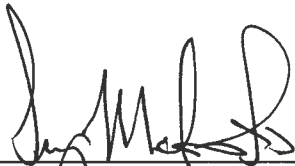
### **NEXT STEPS**

- Negotiate final terms and conditions with the recommended proposers
- If satisfactory terms cannot be agreed upon with the recommended proposers, negotiate with each of the next highest ranked proposers in order to obtain the best combination of terms and pricing.
- Prepare agreements and documentation to implement the letters of credit, including, among others, notices, reimbursement agreements and an offering memorandum.
- Obtain credit ratings for the CP notes based on the reimbursement agreement and credit ratings of the letter of credit banks.
- Execute documents in the third quarter of FY13, prior to the expiration date of the current agreement in June.

## **ATTACHMENTS**

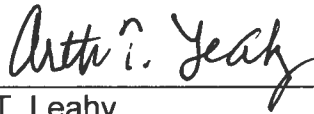
- A. Recommendation Summary
- B. Authorizing Resolution

Prepared by: Terry Matsumoto, Chief Financial Services Officer and Treasurer  
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Terry Matsumoto  
Chief Financial Services Officer and Treasurer



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Arthur T. Leahy  
Chief Executive Officer

**Recommendation Summary  
Letter of Credit  
Supporting  
Prop A Commercial Paper Program**

<b>Proposer</b>	<b>Maximum Commitment</b>	<b>Term</b>	<b>Estimated Total Cost</b>	<b>Estimated First Year Cost per \$75,000,000</b>
<b>Sumitomo Mitsui (recommended)</b>	<b>\$75,000,000</b>	<b>3 Years</b>	<b>\$1,135,000</b>	<b>\$405,000</b>
<b>Union Bank (recommended)</b>	<b>\$75,000,000</b>	<b>3 Years</b>	<b>\$1,130,000</b>	<b>\$400,000</b>
Bank of Montreal	\$50,000,000	3 Years	\$1,280,000	\$450,000
State Street Bank	\$150,000,000	3 Years	\$1,263,000	\$448,000
Bank of the West	\$75,000,000	3 Years	\$1,173,000	\$418,000
RBC	\$150,000,000	3 Years	\$1,965,000	\$680,000
JP Morgan	\$150,000,000	3 Years	\$2,413,000	\$828,000

Note - The estimated first year cost assumes that the current credit ratings on the Prop A senior lien bonds will be maintained over the term.

The table below provides indicative interest rates on advances and term loans compiled from Sumitomo and Union Bank:

Base Rate:	The greater of: - 6.5%, - Prime Rate plus 2.0%, - Federal Funds rate plus 3.0% - 1-Month LIBOR plus 3.0%, and - SIFMA index plus 3.0%
Advance Rate:	Days 1-30: Base Rate Days 31-90 Base Rate plus 1.0% After 90 days, Base Rate plus 2.0%.
Term Loan:	In the event a term loan is incurred, it will bear interest at the Term Loan Rate (Base Rate plus 2.0%) and be repaid over a period of up to five years.
Maximum CP Rate:	Maximum permissible under resolution.

Selection Criteria

Criteria	Bank of Montreal	Bank of the West	JP Morgan	RBC	State Street	Sumitomo	Union Bank
Cost	29	32	14	19	29	32	32
Financial Condition	28	22	24	26	30	23	22
Approach	28	22	30	28	24	32	32
<b>Total</b>	<b>85</b>	<b>76</b>	<b>68</b>	<b>73</b>	<b>83</b>	<b>87</b>	<b>86</b>

Sumitomo Mitsui Bank scored the highest of all the banks submitting proposals based on the three evaluation criteria. Cost included the annual facility fee, other rates and fees, including fee escalation provisions, and trading differential estimated by our current commercial paper dealers. Financial condition included long-term credit ratings and outlook. Approach was measured by a bank’s responsiveness in proposing the facility types, terms and conditions requested by MTA and the bank’s apparent willingness to work with us to optimize the reimbursement agreement. Each criterion made up a third of the total possible score of 100.

Sumitomo and Union Bank had nearly identical scores for cost and had the highest total rankings. Although financial condition, including higher long-term ratings and potential for future downgrades, was better for other proposing banks, particularly State Street and Bank of Montreal, the combined cost and approach of the other banks did not score as high as Sumitomo and Union Bank. Because Sumitomo and Union Bank previously had reimbursement agreements with us and indicated they anticipated using the prior reimbursement agreement as a template for this transaction, the approach of Sumitomo and Union Bank ranked the highest.

**RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN  
TRANSPORTATION AUTHORITY APPROVING AND AUTHORIZING  
THE EXECUTION OF ONE OR MORE REIMBURSEMENT  
AGREEMENTS AND CERTAIN OTHER DOCUMENTS RELATED TO  
THE PROPOSITION A COMMERCIAL PAPER PROGRAM AND  
AUTHORIZING OTHER RELATED MATTERS**

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "LACMTA"), as successor to the Los Angeles County Transportation Commission (the "Commission"), is authorized, under Chapter 5 of Division 12 of the California Public Utilities Code (the "Act"), to issue bonds, including but not limited to notes, to finance and refinance the acquisition, construction or rehabilitation of facilities to be used as part of a countywide transportation system; and

WHEREAS, pursuant to the provisions of Section 130350 of the California Public Utilities Code, the Commission was authorized to adopt a retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory of the County of Los Angeles (the "County") subject to the approval of the voters of the County; and

WHEREAS, the Commission, by Ordinance No. 16 adopted August 20, 1980 ("Ordinance No. 16"), imposed a 1/2 of 1% retail transactions and use tax upon retail sales of tangible personal property and upon the storage, use or other consumption of tangible personal property in the County, the proceeds of the tax to be used for public transit purposes (the "Proposition A Tax"), and such tax was approved by the electors of the County on November 4, 1980; and

WHEREAS, the revenues received by the LACMTA from the imposition of the Proposition A Tax are, by statute, directed to be used for public transit purposes, which purposes include a pledge of such tax to secure any bonds issued pursuant to the Act and include the payment or provision for the payment of the principal of such bonds and any premium, interest on such bonds and the costs of issuance of such bonds; and

WHEREAS, the LACMTA, on an on-going basis, is planning and engineering a County-wide public transportation system (the "Public Transportation System") to serve the County and on an on-going basis is constructing portions of the Public Transportation System; and

WHEREAS, to facilitate the development and construction of the Public Transportation System, as authorized by the Act, the LACMTA by resolution adopted January 23, 1991 (the "1991 Authorizing Resolution"), authorized and implemented a program of commercial paper (the "Program") involving the issuance from time to time of the Second Subordinate Sales Tax Revenue Commercial Paper Notes, Series A (the "Notes") for the purpose of providing for the financing of the acquisition of real and personal property and the construction of the Public Transportation System, provided



that the aggregate principal amount of Notes and Reimbursement Obligations (as defined in such 1991 Authorizing Resolution) outstanding at any time shall not exceed \$350,000,000; and

WHEREAS, the Notes and other obligations incurred in connection with the Program are issued under and secured by the Subordinate Trust Agreement, dated as of January 1, 1991 (the "Subordinate Agreement"), by and between the LACMTA (as successor to the Commission) and U.S. Bank Trust National Association, as successor to BancAmerica Trust Company, as successor to Security Pacific National Trust Company (New York), as trustee (the "Trustee"); the First Supplemental Subordinate Trust Agreement, dated as of January 1, 1991, as amended (the "First Supplemental Trust Agreement"), by and between the LACMTA and the Trustee; the Second Supplemental Subordinate Trust Agreement, dated as of January 1, 1994 (the "Second Supplemental Trust Agreement"), by and between the LACMTA and the Trustee; the Third Supplemental Subordinate Trust Agreement, dated as of December 1, 1996 (the "Third Supplemental Trust Agreement"), by and between the LACMTA and the Trustee; the Fourth Supplemental Subordinate Trust Agreement, dated as of December 1, 1996 (the "Fourth Supplemental Trust Agreement"), by and between the LACMTA and the Trustee; the Fifth Supplemental Subordinate Trust Agreement, dated as of May 1, 2004 (the "Fifth Supplemental Trust Agreement"), by and between the LACMTA and the Trustee; and the Sixth Supplemental Subordinate Trust Agreement, dated as of September 24, 2009 (the "Sixth Supplemental Trust Agreement," and collectively with the Subordinate Agreement, the First Supplemental Trust Agreement, the Second Supplemental Trust Agreement, the Third Supplemental Trust Agreement, the Fourth Supplemental Trust Agreement and the Fifth Supplemental Trust Agreement, the "Trust Agreement"), by and between the LACMTA and the Trustee; and

WHEREAS, the LACMTA has determined that it is necessary and desirable to have the Notes secured by one or more letters of credit (the "Letter of Credit," or the "Letters of Credit") that are delivered pursuant to the terms of one or more reimbursement agreements (a "Reimbursement Agreement," or the "Reimbursement Agreements") each between one or more providers of a Letter of Credit (a "Letter of Credit Provider," or the "Letter of Credit Providers") that sets forth the terms and conditions for the repayment by the LACMTA of Reimbursement Obligations; and

WHEREAS, a portion of the Notes are currently secured by a Letter of Credit (the "Barclays Letter of Credit") provided by Barclays Bank PLC ("Barclays Bank") in the stated amount of \$149,999,447 which expires on June 28, 2013; and

WHEREAS, Barclays Bank issued the Barclays Letter of Credit pursuant to the Letter of Credit Reimbursement Agreement, dated as of June 1, 2010 (the "Barclays Reimbursement Agreement"), between the LACMTA and Barclays Bank; and

WHEREAS, the LACMTA now desires to secure additional portions of the Notes with one or more additional Letters of Credit to be issued by Sumitomo Mitsui Banking Corporation ("Sumitomo") and/or Union Bank and/or such other Letter of Credit Provider that may be selected by the LACMTA from the pool of respondents to the LACMTA's

Request for Proposal for Letter of Credit Providers dated September 17, 2012 (each an "Other Letter of Credit Provider"); and

WHEREAS, so long as the Program is active, the LACMTA deems it necessary and desirable to have one or more Letters of Credit securing the payment of principal of and interest on the Notes as they mature from time to time; and

WHEREAS, Section 5922 of the Government Code of the State of California provides that in connection with, or incidental to, the issuance or carrying of bonds (which is defined to include notes) any public entity may enter into any contracts which the public entity determines to be appropriate to place the obligations represented by the bonds, in whole or in part, on the interest rate, cash flow or other basis desired by the public entity, including without limitation contracts providing for payments based on levels of, or changes in, interest rates or stock or other indices, or contracts to exchange cash flows or a series of payments, in each case to hedge payment, rate, spread or similar exposure; and

WHEREAS, pursuant to Section 5922 of the Government Code of the State of California, the LACMTA hereby finds and determines that the Reimbursement Agreements to be entered into in connection with, or incidental to, the Program, will reduce the amount and duration of interest rate risk with respect to the Notes and are designed to reduce the amount or duration of payment, rate, spread or similar risk or result in a lower cost of borrowing when used in combination with the Notes or enhance the relationship between risk and return with respect to investments; and

WHEREAS, in order to minimize debt service and maximize benefits to the LACMTA, the LACMTA will enter into one or more Reimbursement Agreements with Sumitomo and Union Bank and/or any Other Letter of Credit Provider which will provide one or more Letters of Credit that will separately secure the payment of principal of and interest on certain designated Notes as issued and maturing from time to time; and

WHEREAS, the Reimbursement Agreements to be entered into with Sumitomo and/or Union Bank and/or any Other Letter of Credit Provider shall be in substantially the form of the Barclays Reimbursement Agreement; and

WHEREAS, a form of the Barclays Reimbursement Agreement has been presented to the Board of Directors of the LACMTA (the "Board"); and

WHEREAS, the LACMTA hereby acknowledges that the Reimbursement Agreements to be entered into with Sumitomo and/or Union Bank and/or any Other Letter of Credit Provider will be substantially in the form of the Barclays Reimbursement Agreement, but such Reimbursement Agreements will be modified and amended to reflect the various details the LACMTA negotiates with each of Sumitomo and/or Union Bank and/or any Other Letter of Credit Provider and said Reimbursement Agreements are subject to completion to reflect the results of such negotiations; and

WHEREAS, in connection with the execution and delivery of the Reimbursement Agreements to be entered into with Sumitomo and/or Union Bank and/or any Other

Letter of Credit Provider, it may be necessary for the LACMTA to enter into such associated documents, including, but not limited to, bank notes and fee letters, and to distribute one or more new commercial paper offering memoranda with respect to the Notes; and

WHEREAS, terms used in this Resolution and not otherwise defined herein shall have the meanings assigned to them in the Trust Agreement

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY, AS FOLLOWS:

**Section 1. Findings.** The foregoing recitals are true and correct and the LACMTA so finds and determines.

**Section 2. Reimbursement Agreements.** The LACMTA is hereby authorized to enter into one or more Reimbursement Agreements with Sumitomo and/or Union Bank and/or any Other Letter of Credit Provider with respect to the Program. Such Reimbursement Agreements shall be substantially in the form of the Barclays Reimbursement Agreement, which is on file with the Secretary of the LACMTA. The form, terms and provisions of the Barclays Reimbursement Agreement within the parameters set forth in this Resolution is in all respects approved as the form of Reimbursement Agreement that the LACMTA will enter into with Sumitomo and/or Union Bank and/or any Other Letter of Credit Provider with respect to the Program, and the Chair of the LACMTA, any Vice Chair of the LACMTA, any Chief Executive Officer (“CEO”) of the LACMTA, any Chief Financial Services Officer of the LACMTA, any Treasurer of the LACMTA, any Assistant Treasurer of the LACMTA, or any such officer serving in an acting or interim capacity, and any written designee of any of them (each a “Designated Officer”), any one or more thereof, are hereby authorized, empowered and directed to execute, acknowledge and deliver in the name of and on behalf of the LACMTA one or more Reimbursement Agreements, including counterparts thereof. Each Reimbursement Agreement, as executed and delivered, shall be in substantially the form of the Barclays Reimbursement Agreement now before this meeting and hereby approved, or with such changes therein as shall be approved by the Designated Officer executing the same; the execution thereof shall constitute conclusive evidence of the LACMTA’s approval of any and all changes or revisions therein from the form of the Barclays Reimbursement Agreement now before this meeting; and from and after the execution and delivery of each Reimbursement Agreement, the officers, agents and employees of the LACMTA are hereby authorized, empowered and directed to do all such acts and things and to execute all such documents as may be necessary to carry out and comply with the provisions of each Reimbursement Agreement.

The LACMTA hereby determines that entering into one or more Reimbursement Agreements with Sumitomo and/or Union Bank and/or any Other Letter of Credit Provider pursuant to Section 5922 of the Government Code of the State of California would be designed to reduce the LACMTA's cost of borrowing for the Notes. In addition to the provisions set forth in the previous paragraph, no Designated Officer shall enter

into a Reimbursement Agreement with Sumitomo and/or Union Bank and/or any Other Letter of Credit Provider unless (a) such Reimbursement Agreement is designed (i) to reduce or hedge the amount or duration of any payment, interest rate, spread or similar risk, or (ii) to result in a lower cost of borrowing when used in combination with the issuance of the Notes, (b) the term of such Reimbursement Agreement does not exceed the Program Termination Date; (c) the amount of Letters of Credit issued pursuant to the terms of the respective Reimbursement Agreements does not exceed the principal amount of the Notes issuable under the Program; and (d) the amounts payable by the LACMTA with respect to such Reimbursement Agreements shall be payable solely and exclusively from Net Pledged Revenues. In accordance with Section 5922 of the Government Code of the State of California, the LACMTA hereby finds and determines that the Reimbursement Agreements entered into in accordance with this Resolution and consistent with the requirements set forth herein is designed to reduce the amount or duration of payment, interest rate, spread or similar risk or result in a lower cost of borrowing when used in combination with the Notes.

**Section 3. Additional Authorization.** The Designated Officers and all officers, agents and employees of the LACMTA, for and on behalf of the LACMTA, be and they hereby are authorized and directed to do any and all things necessary to effect the execution and delivery of the Reimbursements Agreement to be entered into with Sumitomo and/or Union Bank and/or any Other Letter of Credit Provider and to carry out the terms thereof. The Designated Officers and all other officers, agents and employees of the LACMTA are further authorized and directed, for and on behalf of the LACMTA, to execute all papers, documents, certificates and other instruments and take all other actions that may be required in order to carry out the authority conferred by this Resolution or the provisions of the Reimbursement Agreements to be entered into with Sumitomo and/or Union Bank and/or any Other Letter of Credit Provider or to evidence said authority and its exercise. The foregoing authorization includes, but is in no way limited to, the execution and delivery of one or more bank notes and fee letters. Additionally, in connection with the execution and delivery of the Reimbursement Agreements to be entered into with Sumitomo and/or Union Bank and/or any Other Letter of Credit Provider and the issuance of the Letters of Credit by Sumitomo and/or Union Bank and/or any Other Letter of Credit Provider, the LACMTA is hereby authorized and directed to prepare and cause to be distributed, from time to time, one or more commercial paper offering memoranda with respect to the Notes. All actions heretofore taken by the officers, agents and employees of the LACMTA in furtherance of this Resolution are hereby confirmed, ratified and approved.

**Section 4. Severability.** The provisions of this Resolution are hereby declared to be severable, and, if any section, phrase or provision shall for any reason be declared to be invalid, such declaration shall not affect the validity of the remainder of the sections, phrases and provisions hereof. This Resolution shall be effective upon adoption

**Section 5. Effective Date.** This Resolution shall be effective upon adoption.

CERTIFICATION

The undersigned, duly qualified and acting as Board Secretary of the Los Angeles County Metropolitan Transportation Authority, certifies that the foregoing is a true and correct copy of the Resolution adopted at a legally convened meeting of the Board of Directors of the Los Angeles County Metropolitan Transportation Authority held on \_\_\_\_\_, 2012.

By \_\_\_\_\_  
Board Secretary, Los Angeles County  
Metropolitan Transportation Authority