

**Metro**Los Angeles County
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metro.net**MEASURE R OVERSIGHT COMMITTEE
APRIL 6, 2015****SUBJECT: MEASURE R PROGRAM****ACTION: ADOPT A RESOLUTION FINDING THAT THE BENEFITS
OF A SHORT-TERM BORROWING PROGRAM EXCEED
ISSUANCE AND INTEREST COSTS****RECOMMENDATION**

Adopt a resolution finding that the benefits of a \$300 million Short-term Borrowing program secured with Measure R revenues exceed issuance and interest costs, Attachment A.

ISSUE

The Measure R Ordinance requires that The Proposition R Independent Taxpayers Oversight Committee of LACMTA, ("Measure R Oversight Committee") "review all proposed debt financings and make a finding as to whether the benefits of the proposed financing for accelerating project delivery, avoiding future cost escalation, and related factors exceed issuance and interest costs".

DISCUSSION

Metro is focused on ensuring delivery of the transit capital and highway projects set forth in the Measure R Expenditure Plan. Large capital project costs and timing are subject to change and difficult to predict. A short-term borrowing program will provide interim financing to fund cash flow requirements for construction payments until grant funding is received, TIFIA loans are drawn upon or until alternative long-term financing is arranged. Metro's Long Range Transportation Plan assumed we will use short-term borrowing as well as long-term bonds to deliver Measure R capital projects.

The proposed program authorizes access to a combination of vehicles including commercial paper, revolving credit facilities and bond anticipation notes, to provide the flexibility to structure the program depending on the availability of credit and cost, while meeting existing covenants in the existing trust agreement and the documentation for the TIFIA loans secured by Measure R revenues. The optimum mix of these

instruments will not be determined until credit proposals are received from banks. Staff and our financial advisor are in the process of soliciting such proposals.

The key benefits of short-term borrowing vehicles such as commercial paper, revolving credit facilities and bond anticipation notes include:

- A source of flexible low cost financing
- More efficient borrowing since the debt can be drawn down as needed rather than issuing a large amount in advance, deferring interest payments
- Metro is not obligated to borrow the full amount of the program and can adjust permanent financing to actual expenditures.

Eventually, all of these financing instruments are expected to be repaid from a more permanent source of financing such as Measure R revenue bonds or TIFIA loans.

Commercial paper is a short-term debt instrument that can be issued for maturities of from 1 to 270 days. Amounts borrowed typically remain outstanding longer than the maturity of the notes themselves; as notes mature, new notes are simultaneously issued, i.e., rolled over. CP requires a letter of credit from a bank to guaranty liquidity to investors when their notes mature. As a result of the letter of credit bank's guaranty of payment, the CP enjoys the favorable short-term credit ratings of the letter of credit bank.

Revolving credit facilities and bond anticipation notes are alternatives to CP that have similar benefits of typically lower costs of funds. A revolving credit facility is a direct loan from a bank, at a rate that will float based on an index. In addition, a fee is charged for the unutilized amount of the facility. Metro's Prop C short-term program currently includes a revolving credit facility, in addition to commercial paper. As a floating-rate borrowing that is drawn on over time, it is similar to a CP program for practical purposes, but because we borrow directly from a bank no ratings or broker-dealer fees are required. A bond anticipation note is a fixed rate instrument, typically of 3 to 5 years in term, and generally does not require any credit enhancement or remarketing fees.

The proposed short-term borrowing alternatives may provide interim financing in conjunction with our TIFIA loan program to fund projects at the lowest cost possible and to bridge the gap while TIFIA drawdowns are processed. They may also be used to provide funding in advance of the receipt of grant funds or prior to the issuance of long-term Measure R bonds.

Short-term borrowing in the form of CP has proven to be a cost effective method of financing for Metro's Proposition A (Prop A) Sales Tax debt program. The Prop A

commercial paper program, authorized in the amount of up to \$350 million, with A-1/P-1 ratings has experienced an average annual borrowing rate of approximately 1.1% over the past 5 years. We estimate that a revenue bond for this program, with a final maturity in 2039, would have a true interest cost of approximately 3.35% in the current market. The costs of issuance related to the execution of the program are estimated to be approximately \$200,000 to \$250,000 depending on the final structure of the financing program.

NEXT STEPS

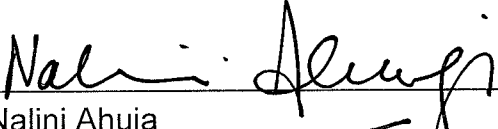
- LACMTA Board approves the Measure R Short-term Borrowing Program
- Analyze short-term borrowing proposals
- Negotiate final terms and conditions with proposers
- Prepare Short-term Program Documents
- Obtain credit ratings (if applicable)
- Execute Documents

ATTACHMENT

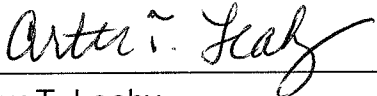
- A. Resolution Finding Benefits of a Short-term Borrowing Program

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Nalini Ahuja
Executive Director, Finance and Budget



Arthur T. Leahy
Chief Executive Officer

ATTACHMENT A

**RESOLUTION PURSUANT TO MEASURE R ORDINANCE FINDING THAT THE
BENEFITS OF A SHORT TERM BORROWING PROGRAM EXCEED
ISSUANCE AND INTEREST COSTS**

WHEREAS, the Measure R Ordinance provides sales tax revenues for the construction of 12 transit capital projects over the next 30 years; and

WHEREAS, The America Fast Forward Initiative adopted by the LACMTA Board of Directors in April 2010 proposes to complete construction of the 12 transit capital projects in 10 rather than 30 years; and

WHEREAS, accelerated construction would avoid inflationary cost growth; and

WHEREAS, a short-term borrowing program will provide interim financing vehicles such as commercial paper, revolving credit facilities and bond anticipation notes which provide a source of flexible, low cost financing that allows more effective management of a debt program to fund cash flow requirements for construction payments until funding sources are received, the federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loans are drawn upon, federal grant funds are available, or until other long-term financing is arranged; and

WHEREAS, LACMTA desires to establish a short-term borrowing program (the "Short-Term Borrowing Program") to finance projects and programs set forth in the Expenditure Plan that would be secured by the Measure R Sales Tax Revenues and be in an aggregate principal amount not to exceed \$300,000,000; and

NOW, THEREFORE, the Proposition R Independent Taxpayers Oversight Committee of LACMTA finds that the economic, environmental and transit benefits of the \$300,000, 000 Short-Term Borrowing Program as a cost effective and efficient component of the approved Measure R secured debt program, exceed issuance and interest costs.

Adopted this ___ day of April, 2015