

Metro



Board Report

File #: 2015-0216, Version: 2

REVISED
FINANCE, BUDGET AND AUDIT COMMITTEE
MAY 20, 2015

SUBJECT: MEASURE R PROGRAM

ACTION: AUTHORIZE MEASURE R SHORT-TERM BORROWING

RECOMMENDATION

Adopt a Resolution, Attachment A, authorizing:

- A) a short-term borrowing program not to exceed \$300,000,000;
- B) the execution and delivery of documents related to the short-term borrowing program; and
- C) the pledge of revenues and other security for such subordinate obligations and super subordinate obligations.

Requires separate, simple majority Board vote

ISSUE

Metro is focused on ensuring delivery of the transit capital and highway projects set forth in the Measure R Expenditure Plan. Large capital project cash flows 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 funding sources are received, or until long-term financing is arranged. The Long Range Transportation Plan assumes the use of short-term borrowing as well as long-term bonds to deliver Measure R capital projects.

Short-term interest rates are typically lower in a normal yield curve environment (upward sloping) and are at historically low levels. In addition to near term-interest rate savings, a short-term borrowing program should be more efficient since the debt can generally be drawn down as needed rather than issuing a larger amount in advance. Also, a conventional fixed-rate bond issue at this time would require paying interest on borrowed funds that would be earning minimal investment income.

Short-term borrowing vehicles such as commercial paper and revolving credit facilities provide a source of flexible, low cost financing that allows more effective management of a debt program. Eventually, these financing instruments are expected to be repaid from a more permanent source of financing such as Measure R revenue bonds or TIFIA loans.

DISCUSSION

Commercial paper (CP) 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; because 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.

Short-term borrowing in the form of CP programs has proven to be a flexible, cost effective method of financing for Proposition A (Prop A) and Proposition C (Prop C). The Prop A CP program, authorized for up to \$350 million, was first approved in January 1991 and the Prop C CP program in the amount of up to \$150 million was first approved in June 1993.

A revolving credit facility is an alternative to CP that has 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 plus a spread, which is generally reset monthly. In addition, a fee is charged for the unutilized amount of the facility. The 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, offering documents or broker-dealer fees are required.

See Attachment B for a comparison of estimated interest costs on commercial paper and revolving credit facilities compared to long-term fixed rate bonds and TIFIA loans. The ability to use a mix of short term and long term borrowing facilities gives the greatest flexibility and should also save on interest expense by not borrowing more than necessary in advance of long term bond issues. We may combine short term borrowing with our TIFIA loans to lower interest costs and to bridge the gap while TIFIA drawdowns are processed. Short term borrowing also can be used as an interim source of funds before Federal grants are received.

The Resolution (Attachment A) authorizes access to a combination of vehicles 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. Proposals for short-term borrowing facilities under Measure R have been received from several banks. See Attachment C for a Summary of Proposal Terms & Estimated Costs and the proposed mix of vehicles.

In accordance with Section 8(i)(4) of the Measure R Ordinance, the Proposition R Independent Taxpayers Oversight Committee of MTA ("Measure R Oversight Committee") is required to find that the benefits of the proposed financing for accelerating project delivery, avoiding future cost escalation, and related factors exceed issuance and interest costs. The Measure R Oversight Committee ~~is expected to make~~ made the finding of benefit at its May 13, 2015 meeting, Attachment D.

DETERMINATION OF SAFETY IMPACT

Approval of this report will not impact the safety of Metro's patrons or employees.

FINANCIAL IMPACT

Funding of \$7,098,000 for the Measure R short-term borrowing program is included in the FY15

budget in cost center #0521, Treasury Non-Departmental, under project #660301, task 03, Measure R Debt Service. The cost center manager and the Executive Director, Finance and Budget will be accountable for budgeting the cost in future years.

ALTERNATIVES CONSIDERED

The Board could elect not to authorize a short-term borrowing program. This action is not recommended because a flexible tool to manage cash flow will facilitate delivery of the Measure R program.


NEXT STEPS

- Negotiate final terms and conditions with banks or other providers
- Prepare Short-Term Program Documents (see Resolution, Attachment A)
- Execute documents

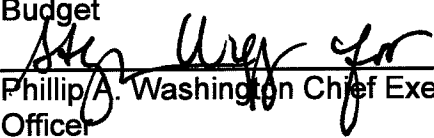
ATTACHMENTS

- A. Authorizing Resolution
- B. Comparison of Short & Long-Term Borrowing Costs
- C. Summary of Proposal Terms & Estimated Costs
- D. Measure R Oversight Committee Finding of Benefit Resolution

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Nalini Ahuja Executive Director Finance and
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Phillip A. Washington Chief Executive
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RESOLUTION OF THE LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY AUTHORIZING A SHORT-TERM BORROWING PROGRAM; THE EXECUTION AND DELIVERY OF DOCUMENTS RELATED THERETO; THE PLEDGE OF CERTAIN REVENUES OF THE AUTHORITY AND OTHER SECURITY FOR SUCH SUBORDINATE OBLIGATIONS AND SUPER SUBORDINATE OBLIGATIONS; AND RELATED MATTERS

WHEREAS, the Los Angeles County Metropolitan Transportation Authority (the "LACMTA") is authorized under Section 130500 et seq. of the California Public Utilities Code (the "Act") to issue "bonds," which term includes indebtedness and securities of any kind or class, including bonds, notes, bond anticipation notes, commercial paper and other obligations for purposes authorized by the Act, and to finance the cost of acquiring, constructing and developing facilities for transit systems within the meaning of the Act; and

WHEREAS, the LACMTA is authorized by Sections 130350.4 and 130350.5 of the California Public Utilities Code to impose a retail transactions and use tax at a rate of one-half of one percent that is applicable in the incorporated and unincorporated areas of the County of Los Angeles, California (the "County") if authorized by at least two-thirds of the electors voting on the issue; and

WHEREAS, in accordance with such provisions, the LACMTA, on July 24, 2008, adopted Ordinance No. 08-01, known as the "Traffic Relief and Rail Expansion Ordinance" (the "Ordinance"), imposing a transactions and use tax of one-half of one percent for a period of thirty years, and the Ordinance was submitted to the electors of the County in the form of Measure R and approved by greater than a two-thirds vote at an election held on November 4, 2008; and

WHEREAS, the Ordinance, as so approved, imposed for a period of 30 years, beginning July 1, 2009, a tax upon the sale of tangible personal property at retail at a rate of one-half of one percent of the gross receipts of the sale and a complementary tax upon the storage, use or other consumption in the County at a rate of one-half of one percent of the sale price of the property whose storage, use or other consumption is subject to the tax (the "Measure R Sales Tax," amounts received in respect to the Measure R Sales Tax, less any refunds and the administrative fee deducted by the State of California Board of Equalization and less the Local Return (as defined in the Senior and Junior Subordinate Trust Agreement (as defined below)) being referred to herein as the "Measure R Sales Tax Revenues"); and

WHEREAS, the LACMTA has commenced and is proceeding with the financing of projects and programs described in the Expenditure Plan adopted as part of the Ordinance (the "Expenditure Plan"); and

WHEREAS, the 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

WHEREAS, the LACMTA desires that the Short-Term Borrowing Program consists of one or more of the following, including modifications, extensions and replacements thereof (each, a “Short-Term Obligation”):

- (a) A commercial paper program (a “Commercial Paper Program”), pursuant to which the LACMTA would issue commercial paper notes (“CP Notes”), together with CP Enhancement Agreements (defined below) and advances thereunder; and
- (b) One or more series of variable rate drawdown bonds (“Drawdown Bonds”), pursuant to which the LACMTA would issue bonds and draw down principal on those bonds and repay that principal from time to time; and
- (c) One or more revolving credit facilities (“Revolving Credit Facilities”) pursuant to which the LACMTA may borrow amounts from time to time from one or more financial institutions; and

WHEREAS, the Short-Term Obligations may constitute either one of or a combination of Subordinate Obligations (as such term is defined in the Senior and Junior Subordinate Trust Agreement (as defined below)) or Super Subordinate Obligations (as such term is defined below); and

WHEREAS, in connection with one or more of the Short-Term Obligations, the LACMTA expects to execute and deliver one or more of the following (collectively, the “Short-Term Program Documents”):

- (a) One or more supplements and/or amendments to that certain Amended and Restated Trust Agreement, dated as of February 1, 2014 (the “Senior and Junior Subordinate Trust Agreement”), by and between the LACMTA and U.S. Bank National Association, as trustee; and
- (b) One or more subordinate trust agreements, together with one or more supplements thereto to provide for the issuance of Subordinate Obligations to the extent that the Short-Term Obligations constitute Subordinate Obligations; and
- (c) One or more trust agreements, together with one or more supplements thereto to provide for the issuance of obligations (the “Super Subordinate Obligations”), that are secured by a pledge of and lien on Measure R Sales Tax Revenues after release from the pledge and lien established by the Senior and Junior Subordinate Trust Agreement and after satisfaction of any other obligations secured by a pledge on Measure R Sales Tax Revenues, as determined by a Designated Officer (defined below); and
- (d) In connection with any Revolving Credit Facility and/or Drawdown Bonds, one or more revolving credit facility agreements, bondholder agreements, continuing covenant agreements and/or similar agreements or evidences of indebtedness, bond purchase agreements, and fee agreements between the LACMTA and one or more commercial banks, financial institutions and/or investment banks (each, a “Financial Institution”); and

- (e) In connection with any Commercial Paper Program, one or more reimbursement agreements, credit agreements and/or other similar agreements, together with any related fee agreements (each, a “CP Enhancement Agreement”) pursuant to which one or more commercial banks (each, a “CP Enhancement Provider”) would agree to issue a letter of credit and/or make loans for the purpose of supporting the payment of principal and/or interest on the CP Notes (each such support, “CP Enhancement”); and
- (f) Any other documents deemed by a Designated Officer to be necessary or desirable to establish, modify, extend or replace any Short-Term Obligations that constitute part of the Short-Term Program;

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

1. **Findings.** The LACMTA hereby finds and determines that:

(a) The Short-Term Borrowing Program, including the issuance of any and all Short-Term Obligations, if determined by any Chief Executive Officer (“CEO”), any Executive Director, Finance and Budget, any Treasurer or 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”), to be in the best interest of the LACMTA, is in the public interest.

(b) Under the provisions of the Ordinance, all of the Measure R Sales Tax Revenues are revenues of the LACMTA available for public transit purposes as set forth in the Ordinance and to that extent are available to be and are, by the terms of the Senior and Junior Subordinate Trust Agreement and will be, by the terms of the applicable Short-Term Program Documents, pledged to secure the Subordinate Obligations and the Super Subordinate Obligations, respectively, and, by this Resolution, such pledge is reaffirmed and affirmed (as applicable).

(c) The forgoing recitals are true and correct and the LACMTA so finds and determines.

2. **Approval of the Short-Term Borrowing Program.** For purposes of providing for the financing of the transit projects and programs authorized by the Act and the Expenditure Plan, the LACMTA hereby authorizes the establishment and continuation of the Short-Term Borrowing Program and the issuance or incurrence of each and every Short-Term Obligation thereunder. Each Designated Officer is hereby authorized to determine, on behalf of and in the name of the LACMTA, each of the following:

(a) Whether the Short-Term Obligations will consist of a Commercial Paper Program, one or more series of Drawdown Bonds, one or more Revolving Credit Facilities, or a combination of some or all of these; and

(b) The interest rates, maturity dates and any and all terms and conditions of each and every Short-Term Obligation; and

(c) When each Short-Term Obligation shall be established; and

(d) The term of each component of the Short-Term Borrowing Program; provided that no component shall have a term extending beyond the time at which the Measure R Sales Tax is no longer in effect (as such date may be extended); and

(e) The selection of any CP Enhancement Provider, Financial Institution, and any dealer, underwriter, trustee, paying agent, or other party a Designated Officer deems necessary or desirable to effect the Short-Term Borrowing Program; and

(f) Whether and the extent to which the Short-Term Obligations constitute Subordinate Obligations or Super Subordinate Obligations or a combination of both; and

(g) Whether the Short Term Obligations shall be issued on a taxable or tax-exempt basis or a combination of both; and

(h) What modifications, extensions or replacements (if any) shall be made with respect to each of the Short-Term Obligations from time to time;

provided, however, that (a) a Designated Officer determines that (i) the interest rate terms for each Short-Term Obligation are fair and reasonable in market conditions at the time of the initial establishment of such obligation and that the interest rate terms for any modified, extended or replacement Short-Term Obligation are fair and reasonable in market conditions at the time of such modification, extension or replacement and (ii) the aggregate principal amount of the Short-Term Borrowing Program shall not exceed \$300,000,000 at any time.

3. **Short-Term Program Documents.** The Designated Officers are, and each of them hereby is, authorized and directed to have prepared and to execute, acknowledge and deliver in the name of and on behalf of the LACMTA each of the Short-Term Program Documents, in each case, to the extent, in the form, and with the terms and provisions as the Designated Officer executing the same shall determine is appropriate and necessary for the Short-Term Borrowing Program, including, but not limited to, affirmative and negative covenants relating to the Short-Term Borrowing Program, the Measure R Sales Tax, and the finances and operations of the LACMTA.

4. **Offering Documents.** Should a Designated Officer determine to establish a Short-Term Obligation for which the preparation and circulation of an offering memorandum or other offering document is deemed appropriate by such Designated Officer, the LACMTA hereby authorizes the preparation and circulation of one or more offering memoranda and/or other offering documents relating to such Short-Term Obligation, as determined by a Designated Officer. The LACMTA also authorizes the circulation of any supplements or amendments to offering documents that are approved by a Designated Officer. Each offering document, supplement and/or amendment shall be circulated at such time or times as a Designated Officer (after consultation with the relevant Dealer(s), the LACMTA's financial advisor and bond counsel and/or such other advisors as such Designated Officer believes to be useful) determines.

Each Designated Officer is authorized to execute and deliver any offering document, supplement and/or amendment.

5. **Other Documents.** The Designated Officers are, and each of them is, hereby authorized, empowered and directed to execute, acknowledge and deliver in the name and on behalf of the LACMTA such documents as are necessary or desirable to effectuate the Short-Term Borrowing Program or to extend, modify or replace any Short-Term Obligation (the "Related Documents"), including, but not limited to, any promissory notes, any tax certificate(s), note purchase agreements, issuance and paying agent agreements, dealer agreements and/or continuing disclosure certificates. The Related Documents, as executed and delivered, shall be in the form approved by the Designated Officer executing the same (which may include, but not be limited to, affirmative and negative covenants); the execution thereof shall constitute conclusive evidence of the Board's approval of such Related Documents; and from and after the execution and delivery of each Related Document, 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 Related Document.

6. **Pledge of Measure R Sales Tax Revenues.** The Measure R Sales Tax Revenues are hereby irrevocably pledged in accordance with the terms of the Senior and Junior Subordinate Trust Agreement and the Short-Term Program Documents, as applicable, to secure the Short-Term Obligations.

7. **Additional Authorization.** The Designated Officers and all officers, agents and employees of the LACMTA, for and on behalf of the LACMTA, be and they each hereby are authorized and directed to do any and all things necessary to effect (i) the establishment of the Short-Term Borrowing Program and the issuance and/or incurrence each of the Short-Term Obligations, (ii) the execution and delivery of the Short-Term Program Documents and the Related Documents and the carrying out of the terms thereof, (iii) any extensions, modifications or replacements of Short-Term Obligations as determined by a Designated Officer to be in the interest of the LACMTA, and (iv) the transactions contemplated by this Resolution. 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 that may be required in order to carry out the authority conferred by this Resolution, the Short-Term Program Documents and/or the Related Documents or to evidence the same authority and its exercise. The foregoing authorization includes, but is in no way limited to, authorizing LACMTA staff to pay costs of issuance in connection with the Short-Term Obligations and the Short-Term Program Documents, as applicable, and authorizing the investment of the proceeds of the Short-Term Obligations in one or more of the permitted investments provided for under the Short-Term Program Documents. All actions heretofore taken by the officers, agents and employees of the LACMTA in furtherance of this Resolution are hereby confirmed, ratified and approved.

8. **Continuing Authority of Designated Officers.** The authority of any individual serving as a Designated Officer under this Resolution by a written designation signed by any Designated Officer shall remain valid notwithstanding the fact that the individual officer of the

LACMTA signing such designation ceases to be an officer of the LACMTA, unless such designation specifically provides otherwise.

9. **Further Actions.** The Designated Officers and each of them are hereby authorized and directed to amend, supplement or otherwise modify any documents related to the Short-Term Borrowing Program at any time and from time to time and in any manner determined to be necessary or desirable by the Designated Officer executing such amendment, supplement or modification, upon consultation with the LACMTA's financial advisor and bond counsel, the execution of such amendment, supplement or other modification being conclusive evidence of LACMTA's approval thereof.

10. **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.

11. **Effective Date.** This Resolution shall be effective upon adoption. It shall remain in effect as long as the Measure R Sales Tax is in effect.

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 _____, 2015.

LACMTA Board Secretary

DATED: _____

Comparison of Short & Long-Term Borrowing Costs

Based on \$300 Million Program

	Estimated Annual Interest Cost At \$300M
I. <u>Short-Term Borrowing Program</u>¹	
(Based on bank proposals received)	
Current short-term rates (borrowing rate of 0.83%)	\$ 2,488,000
5-year average of short-term rates (borrowing rate of 0.85%)	\$ 2,548,400
10-year average of short-term rates (borrowing rate of 1.92%)	\$ 5,745,100
II. <u>Long-Term Borrowing</u>	
TIFIA Loans (Crenshaw rate of 2.43%) ²	\$ 7,290,000
Measure R Bonds (estimated rate of 3.29%)	\$ 9,870,000

¹ Credit proposals are summarized in Attachment C – this analysis assumes the terms of the costliest proposal.
² TIFIA loan terms differ – this analysis assumes most advantageous TIFIA loan.

Summary of Proposals & Recommendations
Credit Agreements
Supporting \$300 Million Measure R Short-Term Borrowing Program

Rank	Bank	Maximum Commitment Amount	Estimated Annual Interest Cost At \$300M*
<u>5-Year Revolver Program</u> (Estimated borrowing rate of .49% to .83%)			
1	Bank of the West	\$ 50 million	\$ 1,513,000
2	State Street	\$ 100 million	\$ 1,465,700
3	RBC	\$ 150 million	\$ 2,036,900
4	JP Morgan	\$ 300 million	\$ 2,488,000
<u>3-Year Revolver Program</u> (Estimated borrowing rate of .43% to .63%)			
1	Bank of the West	\$ 50 million	\$ 1,288,000
2	State Street	\$ 100 million	\$ 1,315,700
3	RBC	\$ 150 million	\$ 1,406,900
4	Wells Fargo	\$ 75 million	\$ 1,588,000
5	Bank of America	\$ 300 million	\$ 1,813,000
6	JP Morgan	\$ 300 million	\$ 1,858,000
7	Barclays	\$ 150 million	\$ 1,888,000
<u>3-Year CP Program</u> (Estimated borrowing rate of .64%)			
	Bank of Tokyo - Mitsubishi	\$ 300 million	\$ 1,916,900
* Costs are calculated on per-\$300 million basis, although most proposals are for smaller commitment amounts.			

Note: Currently targeted proposers are indicated in bold.

ATTACHMENT D

**RESOLUTION PURSUANT TO MEASURE R ORDINANCE FINDING THAT THE
BENEFITS OF A SHORT TERM BORROWING PROGRAM EXCEED
ADMINISTRATION 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 and revolving credit facilities 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 13 day of May, 2015

Signed:



Michelle Jackson
Metro Board Secretary