



Board Report

File #: 2017-0416, File Type: Resolution

Agenda Number: 11

FINANCE, BUDGET AND AUDIT COMMITTEE JULY 19, 2017

SUBJECT: PROPOSITION A COMMERCIAL PAPER PROGRAM

ACTION: AWARD CONTRACT FOR LETTER OF CREDIT

RECOMMENDATION

CONSIDER:

- A. AUTHORIZING the Chief Executive Officer to award the direct-pay letter of credit ("LOC") to be provided by Citibank, N.A. ("Citi") for a commitment amount of \$150 million for a three-year term for the Proposition A Commercial Paper program at an estimated cost of \$4.313 million and enter into a reimbursement agreement and related documents associated with such LOC.
- B. If unable to reach agreement with the recommended bank described above, authorize the Chief Executive Officer to finalize negotiations with each successively ranked bank for an LOC having a three-year term and the estimated costs shown in Attachment A.
- C. ADOPTING a resolution with respect to the Proposition A Commercial Paper program that approves the selection of Citi or such other banks selected by the Chief Executive Officer for the Proposition A commercial paper program, and the form of the reimbursement agreement, fee agreement and reimbursement note in substantially similar form with those on file with the Board Secretary and that makes certain benefits findings in compliance with the Government Code, Attachment B.

(REQUIRES SEPARATE, SIMPLE MAJORITY VOTE OF THE BOARD)

ISSUE

The Proposition A Commercial Paper program ("Prop A CP") has been proven to be a flexible, cost effective method of short-term financing for our capital program. A letter of credit or similar facility is required for this program in order to guarantee repayment of notes at maturity. Currently the \$200 million of Prop A CP LOCs with Sumitomo and Union Bank are at capacity and we are seeking to increase liquidity by \$150 million to bring us up to the authorized Prop A CP program amount of \$350 million. The additional capacity is necessary because of the cash flow requirements of the Prop A capital projects.

DISCUSSION

The purpose of the Commercial Paper ("CP") programs generally is to provide interim taxable or tax-exempt financing until grant reimbursement or other funding sources are received, or until permanent financing is arranged. The Prop A CP program authorizes us to issue and have outstanding at any one time up to \$350 million in commercial paper notes. A letter of credit is required for the Prop A CP program in order to guarantee repayment of the maturing notes.

Commercial paper is a short-term debt instrument that can be issued with maturities from 1 to 270 days. As CP notes mature, new notes are simultaneously issued, i.e., rolled over. The LOCs provide guaranteed liquidity to investors when their notes mature and are a required component of the program. Additionally, the LOCs provide a safety net to us 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. The securities are backed by a subordinate pledge of 75% of Proposition A sales tax revenues, and we can issue either tax exempt or taxable CP under the Prop A CP program. The all-in borrowing cost under the Prop A CP program has been just over 1.15% over the past year. Currently, the LOC Agreements with Sumitomo and Union Bank-MUFG are scheduled to expire on March 7, 2019. Entering into this additional LOC Agreement will not only increase capacity, but allow for flexibility in not having to renew all of the Prop A CP facilities at a single point in time.

Requests for proposal were sent to 29 banks by our financial advisor, Montague DeRose and Associates, LLC ("Montague"). Under our Debt Policy, the financial advisor conducts competitive processes to select financial product providers including letters of credit. The request for proposal required banks to have short-term ratings of at least P-1, A-1 or F-1 from at least two of the three following rating agencies: Moody's Investor Services, S&P Global Ratings and Fitch Ratings, respectively, in order to respond. Evaluation criteria included pricing, any rate penalties investors may impose on a particular bank, the status of a bank's credit approval and willingness to execute our form of agreement. We also wanted to maintain diversity in the number of banks providing us with credit. Ten proposals were received for commitment amounts ranging from \$75 million to \$150 million for the Prop A CP program. The source selection group was composed of Treasury staff and Montague. Proposals were received from certain banks that included alternative products or terms that were considered to be less desirable, such as standby bond purchase agreements and extendable commercial paper. The selection group ranked each proposer and we are recommending Citi for the Prop A CP program for a three-year term.

Based on the lower pricing received under the RFP, assuming full utilization of the LOC facility over a three-year contract period, the estimated cost value is lower than the cost under the current letters of credit by more than \$800,000, based on \$150 million of CP. Costs will also depend on the amount of tax-exempt and taxable debt we issue under the Prop A CP program. Additional fees and interest could be incurred under certain extreme circumstances. To date, none of our CP notes have ever failed to be remarketed.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

Funding of \$7,443,000 for the Prop A CP program is included in the FY18 budget in Cost Center #0521, Treasury Non-Departmental, under project #610306, task 03.01, and project #611309, task 01. The cost center manager and the Chief Financial Officer will be accountable for budgeting the cost in future years.

ALTERNATIVES CONSIDERED

The Board could choose to not increase the capacity of the Prop A CP program to \$350 million. Not increasing the capacity of the Prop A CP program would reduce our ability to quickly provide low cost, interim financing when needed. This alternative is not recommended.

NEXT STEPS

- Negotiate final terms and conditions with the recommended bank.
- If satisfactory terms cannot be agreed upon with the recommended bank, 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 LOC including, among others, notices, reimbursement agreement, fee agreement, reimbursement notes, supplemental trust agreement and the offering memorandum.
- Obtain credit ratings for the Prop A CP notes based on the credit ratings of the bank.
- Execute documents in the first quarter of FY2018.

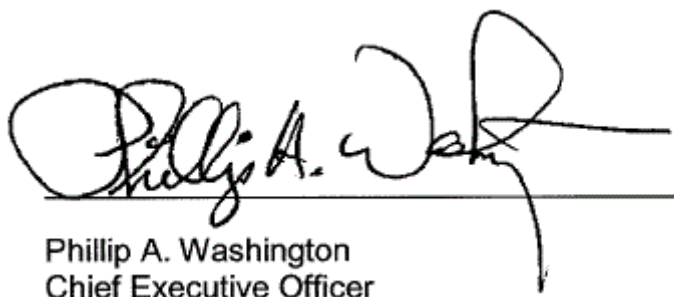
ATTACHMENTS

Attachment A - Recommendation Summary

Attachment B - Authorizing Resolution

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