

Debt Policy Overview

Finance, Budget & Audit Committee
February 14, 2018



Debt Policy Overview

Debt Policy establishes guidelines for the use, issuance and management of debt.

- Government Finance Officers Association recommends as “Best Practice” state and local governments/authorities adopt a debt policy that reflects local, state and federal laws and regulations.
- Effective in 2017, California Government Code Section 8855 requires that state and local governments/authorities issuing debt certify that they have adopted a debt policy.



Debt Policy Overview

Metro Debt Policy Goals:

- Provide liquidity at lowest cost of borrowed capital
- Maintain a prudent level of risk
- Preserve financial flexibility in Metro's capital structure
- Maintain strong credit ratings and good investor relations
- Encourage small and disadvantaged investment banking and financial firms participation in lead and senior manager roles in accordance with the LACMTA procurement policy



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Debt Policy Overview

Debt Policy addresses:

Use of debt – to *finance essential capital projects and certain capital equipment*

Authorization – Board must approve borrowing

Revenue Sources – Sales Tax (Prop A, Prop C, Measure R, Measure M)

Affordability Limits – borrowing restricted primarily to capital allocation categories of ordinances



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Debt Policy Overview

Section IV: Affordability Limits – Debt Policy restricts borrowing primarily to *capital allocation categories of ordinances*

Sales Tax Ordinances	Categories Available for Bonding	Maximum Revenue used for Debt Service per Debt Policy
Proposition A	35% Rail Capital Revenues	87% of 35%
Proposition C	40% Discretionary; 25% Highway; 10% Commuter Rail	40% of 40%; 60% of 25%; 40% of 10%
Measure R	35% Transit Capital; 20% Highway Capital; 3% Metrolink Capital; 2% Metro Rail Transit Capital	87% of 35%; 60% of 20%; 87% of 3%; 87% of 2%
Measure M	35% Transit Construction; 17% Highway Construction; 2% Metro Active Transportation; 2% State of Good Repair; 1% of Regional Rail	87% of 35%; 87% of 17%; 87% of 2%; 87% of 2%; 87% of 1%



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Debt Policy Overview

- Debt issuance largely limited to ordinance capital allocation categories, in recognition of system operating requirements
- Debt Policy further constrains how much debt we issue to provide protection in economic downturns
- Affordability limits coordinate with Additional Bonds Test (ABT), legal covenants that limit additional debt

	Proposition A	Proposition C	Measure R	Measure M
Bondable Percentage under Debt Policy	30%	35%	47%	50%
Non-Bondable Percentage	45%	45%	38%	34%
Local Return	25%	20%	15%	16% ⁽¹⁾
Legal ABT	2.46x MADs	1.3x MADs	2.5x MADs	2.0x MADs ⁽²⁾



⁽¹⁾ Local return set to increase to 19% in FY 2040

⁽²⁾ Proposed ABT.

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Debt Policy Overview

Long-Term Debt (as of 01/01/2018)				
Issuer Type	Principal Outstanding	Moody's	S&P	Fitch
Proposition A Senior Bonds	\$1,285,870,000	Aa1	AAA	NR
Proposition C Bonds	\$1,434,255,000	Aa2	AA+	AA
Measure R Bonds	\$1,145,995,000	Aa1	AAA	NR
Measure R TIFIA Loans	\$1,150,303,044	NR	Private	Private
General Revenue	\$97,610,000	Aa2	AA	NR
Total Long-term Debt	\$5,114,033,044			
Short-term Debt				
Proposition A CP	\$107,500,000	P-1	A-1	NR
Proposition C CP	\$5,309,000	P-1	A-1	NR
Proposition C Revolving Credit	\$45,000,000	NR	NR	NR
Measure R Short-term Obligations	\$65,422,743	NR	NR	NR
Total Short-term Debt	\$223,231,743			
Total Debt Outstanding	\$5,337,264,788			



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Debt Policy Overview

Recommendation

- Adopt the revised Debt Policy



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