



Measure R Sales Tax: 2021 Bond Financing

**Measure R Independent Taxpayers
Oversight Committee Meeting
April 19, 2021**



Measure R 2021 Bond Financing

Measure R Ordinance authorized & anticipated debt financing

Measure R Ordinance Section 12

Establishment of Bonding Authority

6 Metro is authorized to issue limited tax bonds, from time to time, payable
7 from and secured by Sales Tax Revenues to finance any program or project in the
8 Expenditure Plan, pursuant to Sections 130500 et sez. Of the Public Utilities Code, and
9 any successor act. ...

Measure R 2021 Bond Financing

Measure R Ordinance authorized & anticipated debt financing

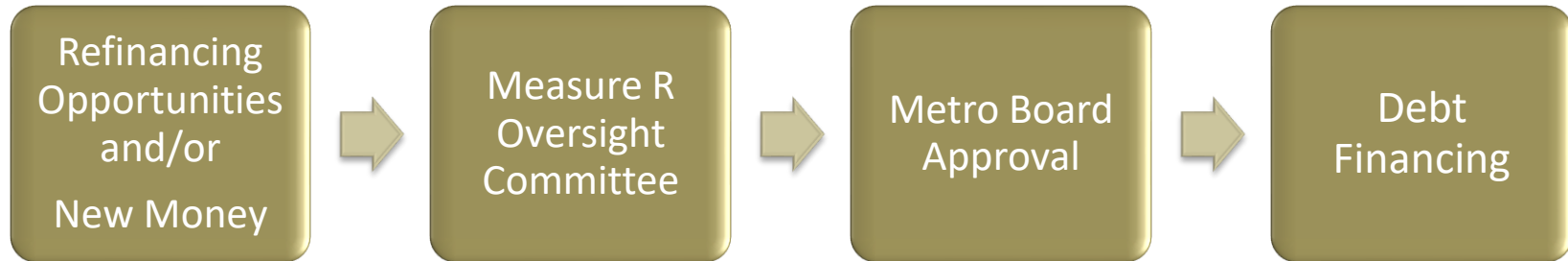
Measure R Ordinance Section 8

The Measure R Oversight Committee shall:

- 18 4. Review all proposed debt financing and make a finding as to
19 whether the benefits of the proposed financing for accelerating project delivery,
20 avoiding future cost escalation, and related factors exceed issuance and interest
21 costs.

Measure R 2021 Bond Financing

Measure R's debt approval process



- Treasury Staff determines future financing needs for Measure R projects
- Present proposed debt financing recommendations to the Measure R Oversight Committee for a finding of benefit
- Metro Board Approval
- Treasury staff executes and facilitates the debt financing

Debt Strategy

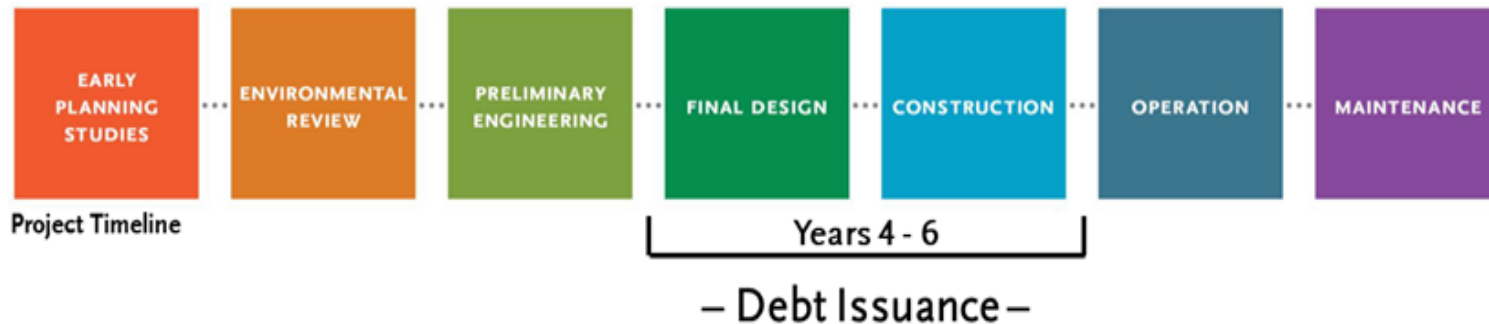
Purpose and Strategy of Metro's Debt Program

- **Debt only used for capital infrastructure and equipment**
- **Debt is primarily limited to transit and highway capital ordinance categories**
- **Debt Policy affordability limits impose responsible use of debt**
 - Revenue Source required to repay the obligation
 - Money needed to operate the system
 - Economy is volatile and revenues may decline
 - Financial flexibility needed to address unforeseen event
- **Long-term debt matches the life of funded capital projects with timing of the payment of debt service**

Debt Strategy

Prudent Debt Management Requires Defined Project Scope, Cost and Budget

Life of a Project



- **Strategic Goal** – Issue debt when the start of physical construction is imminent as this is the period with the largest expenditures
 - Timing debt issuance with construction reduces unnecessary interest costs
 - IRS Tax-exempt rules generally require debt proceeds to be spent within three years

Measure R 2021 Bond Financing

Measure R Debt Program

(in millions)

Debt Type	Current Outstanding (February 1, 2021)	Projects Funded by Debt Proceeds
Measure R Short-Term Notes	\$106.0	Westside Extension Sections 1 and 3, Southwestern Yard, Crenshaw/LAX Transit Corridor, Expo Line 2
Measure R Long-Term Bonds	\$2,400.7	Expo Line 2; Gold Line Foothill Extension; Blue Line; Crenshaw/LAX; Regional Connector; Westside Extension Sections 1, 2 and 3
Grand Total Measure R Debt	\$2,506.7	

Measure R 2021 Bond Financing

We are seeking a Finding a Benefit for a bond issuance to finance capital expenditures and keep Measure R projects moving forward:

- \$850 million bond issue
 - Refinancing outstanding short-term debt: \$106 million
 - New Money for Capital Projects: \$744 million
- Tax-exempt fixed rate bonds
- Final maturity expected to be 2039
- Summer 2021 sale

The bond issue will conform to the guidelines established by Metro's Board approved Debt Policy.

New Money Project Delay Analysis

Using long term debt accelerates project delivery and avoids future cost escalation

	Estimated Amounts
Project Capital Expenditures for WS1 & WS2	\$460 million ⁽¹⁾
Estimated Project Cost End Date	FY 2025 (WS1), FY2026 (WS2)
Estimated total interest cost on \$460 million in bonds	\$205 million ⁽²⁾
Additional Project Cost with a 5-year delay⁽³⁾	\$340 million
Additional Project Cost with a 7-year delay ⁽³⁾	\$440 million
Net benefit of issuing debt 5-year scenario⁽³⁾	\$135 million
Net benefit of issuing debt 7-year scenario ⁽³⁾	\$235 million

¹ Portion of the total \$744 million in project costs.

² Financing costs are based on a 2.80% estimated all in true interest cost.

³ Cost delay analysis is based on assumptions that all specified project expenditures would be delayed and increased at an assumed annual rate of inflation of 3.50%.

Recommendation & Next Steps

- Adopt a Resolution finding that the benefits of a Measure R bond financing accelerating project delivery and avoiding future cost escalation exceeds issuance and interest costs
- Next Steps
 - Metro Board authorizes the issuance of Bonds per the guidelines established in the Debt Policy
 - Obtain ratings on the Bonds
 - Complete legal documentation and distribute the preliminary official statement to potential investors, initiate the pre-marketing effort
 - Negotiate the sale of the Bonds with the underwriters
 - Price and deliver the Bonds in the Summer of 2021

Measure R 2021 Bond Financing

