

Borrowing Guidelines for Prop A, Prop C, Measure R and Measure M Local Return Programs

The following guidelines are provided to establish consistency for Local Return borrowing under Los Angeles County Metropolitan Transportation Authority's ("Metro") four sales taxes, facilitate the review and approval of Local Return Borrowings, and ensure equitable treatment of local jurisdictions. A Jurisdiction borrowing against its Local Return funds must adhere to the Local Return Guidelines for the respective sales tax/taxes committed to secure the borrowing.

Structures

There are three basic methods that a Jurisdiction may use to borrow against its Local Return funds:

- Method 1) Issue its own debt – only Metro local return program/project approval with little financing oversight
- Method 2) Metro issues the bonds on the Jurisdiction's behalf – requires Metro Board approval and staff oversight
- Method 3) Borrow directly from Metro – requires Metro board approval and Metro controls the execution of any bond sale

Approval Process and Issuance Procedures

- Method 1) Direct Issuance by the Jurisdiction
 - A. The Jurisdiction requests approval for it to borrow via the normal Local Return approval process.
 - B. The Local Return Program Manager ("Program Manager") is delegated the authority to approve the borrowing. The Program Manager also has the authority to approve eligible Local Return projects.
 - C. The Program Manager notifies the Jurisdiction and the Board in writing within 30 days of the jurisdiction request for approval to borrow that the projects were in compliance with the LR Guidelines and the borrowing has been approved.
 - D. The Jurisdiction selects its debt issuance team, including conduit issuer (if applicable), municipal advisor, bond counsel, and underwriters if the debt is sold through negotiated sale or a private placement.
 - E. Metro Treasury staff assists the Jurisdiction by reviewing its borrowing documents as to information related to Metro.
 - F. The Jurisdiction issues the debt and is solely responsible for the repayment from its Local Return over the life of the bonds and compliance with Federal and State restrictions and requirements related to the issuance of tax-exempt or taxable debt.

Method 2) Issuance by Metro on Behalf of the Jurisdiction

- A. The Jurisdiction takes the necessary legal actions to authorize the debt issuance, such as through an authorizing resolution by the governing body. The authorization should include the terms and conditions of the sale and the delegation of authority to enter into required agreements.
- B. The Jurisdiction selects its financing team and determines whether to sell through competitive or negotiated sale. For a negotiated bond sale, the Jurisdiction approves selection of bond underwriters.
- C. The Jurisdiction requests approval from Metro to borrow on its behalf via normal Local Return approval process. The Program Manager reviews the projects to be bonded to ensure compliance with the Local Return Guidelines.
- D. Local Programs/Treasury with assistance from the Jurisdiction prepares an item for the Oversight Committee findings as required by Measure R or Measure M.
- E. The Program Manager notifies the Jurisdiction that findings have been made by the Oversight Committee.
- F. The Program Manager and Treasury staff request authorization from the Board to approve the borrowing and enter into the MOU and Master Trust Agreement. Board authorization will include terms and conditions of the bond issue and concurrence with the financing team selected by the Jurisdiction. Any subsequent Local Return bonds will be issued under the master trust and a supplemental trust agreement.
- G. The Jurisdiction and Metro enter into a memorandum of understanding (“MOU”) and a trust agreement with a trustee bank. The MOU will cover the following points:
 - a. Metro will issue the bonds on behalf of the Jurisdiction for the Jurisdiction’s benefit to be used for approved Local Return projects.
 - b. The Jurisdiction and Metro will determine reasonable security features such as debt service coverage ratios and debt service reserve requirement sufficient to obtain ratings of A- from Standard & Poor’s or A3 from Moody’s.
 - c. Negotiate associated fees provided that all fees are reimbursed by the Jurisdiction.
 - d. The Jurisdiction will repay the bonds by pledging its share of the respective Local Return.
 - e. One-twelfth of annual debt service will be withheld from the Jurisdiction’s monthly Local Return allocation and be transferred to the Trustee. The balance will be remitted to the Jurisdiction.
 - f. The Jurisdiction will reimburse Metro for any and all costs incurred in the issuance and administration of these bonds.
 - g. The Jurisdiction will indemnify the Metro against all other possible expenses, liabilities, or required actions resulting from the outstanding bonds that would not otherwise have been incurred by the Metro.
- H. Following the sale of bonds the Jurisdiction is responsible for on-going debt management including arbitrage rebate calculations, annual continuing disclosure requirements and for spending bond proceeds in a timely manner.

Method 3) Direct Loan between Metro and the Jurisdiction

This method is reserved for circumstances where the Jurisdiction is unable to borrow under the first two methods. Should Metro choose to borrow through the capital markets to advance the funds, it would generally be part of a larger Metro bond issue. This method reduces the total amount of borrowing available for Metro's own capital program.

- A. The Jurisdiction requests approval to borrow via the normal Local Return approval process.
- B. The Program Manager notifies the Jurisdiction in writing that the projects submitted for bonding are in compliance with the LR Guidelines.
- C. The Jurisdiction and Metro negotiate the loan terms and develop required documentation.
- D. The Jurisdiction obtains authorization from its governing body for the loan and to enter into the necessary legal documents to secure repayment of the loan.
- E. The Program Manager and Treasury staff request authorization from the Board to approve the loan and to enter into all appropriate legal agreements (i.e., MOU/Assignment Agreement/Promissory Note, other required documents) required to provide for repayment of the loan to Metro.

The MOU/ Promissory Note will cover at a minimum the following:

- A. Project description.
- B. Principal amount, interest rate, term.
- B. The Local Return committed by the Jurisdiction to repay the loan.
- C. Amortization/ repayment schedule. Typically one-twelfth of annual debt service will be withheld from the Jurisdiction's monthly Local Return allocation by Metro. The balance will be remitted to the Jurisdiction.
- D. Jurisdiction to reimburse its allocable share of costs incurred in the issuance and administration of the outstanding debt if the advance is part of a larger Metro bond issue.
- E. Other terms and conditions as appropriate.