



## Board Report

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**FINANCE, BUDGET AND AUDIT COMMITTEE  
FEBRUARY 17, 2015**

**SUBJECT: PROP A AND PROP C COMMERCIAL PAPER/SHORT-TERM BORROWING PROGRAMS**

**ACTION: AWARD CONTRACTS FOR LETTERS AND LINES OF CREDIT TO COVER \$200 MILLION OF PROP A AND \$150 MILLION OF PROP C BORROWING CAPACITY**

**RECOMMENDATION**

CONSIDER:

A. **AUTHORIZING** the Chief Executive Officer to **renew and/or replace the direct-pay letters of credit (“LOC”) and direct purchase revolving credit facility (“RCF”) for the Proposition A and Proposition C commercial paper/short-term borrowing programs** to be provided by the banks described below and finalize negotiations with the recommended banks and enter into reimbursement/credit agreements and related documents associated with such LOCs and RCF:

1. **RENEWING AND INCREASING** the stated amount of the LOC currently provided by Sumitomo Mitsui Banking Corporation, acting through its New York Branch (“Sumitomo”) for a LOC commitment amount of \$125 million for a three-year term for the Proposition A commercial paper program at an estimated cost of \$2.706 million including legal fees and other related expenses;
2. **RENEWING** the LOC currently provided by MUFG Union Bank, N.A. (“Union Bank”) for a LOC commitment amount of \$75 million for a three year term for the Proposition A commercial paper program at an estimated cost of \$1.714 million including legal fees and other related expenses;
3. **RENEWING** the RCF currently provided by Wells Fargo Bank, National Association (“Wells Fargo”) for a commitment of \$75 million for a three year term for the Proposition C short-term borrowing program at an estimated cost of \$1.702 million including legal fees and other related expenses; and

4. REPLACING the LOC currently being provided by State Street Bank and Trust Company (“State Street”) with respect to the Proposition C commercial paper program with a LOC to be provided by Bank of America, N.A. (“B of A”) for a LOC commitment amount of \$75 million for a three year term at an estimated cost of \$1.787 million including legal fees and other related expenses.
- B. If unable to reach agreement with one or more of the recommended banks described above, AUTHORIZING the Chief Executive Officer to finalize negotiations with each successively ranked bank for LOCs and/or RCFs having three year terms 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 Sumitomo and Union Bank or such other banks selected by the Chief Executive Officer, forms of the reimbursement agreements, fee agreements and reimbursement notes 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; and
- D. ADOPTING a resolution with respect to the Proposition C commercial paper and short-term borrowing programs that approves the selection of B of A and Wells Fargo or such other banks selected by the Chief Executive Officer, forms of the reimbursement agreement, fee agreement, reimbursement note, revolving credit agreement, revolving obligation notes and supplemental subordinate trust agreement 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 C.

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE)

## **ISSUE**

The Proposition A Commercial Paper program (“Prop A CP”) and Proposition C Commercial Paper/Short-Term Borrowing program (“Prop C CP”) have proven to be flexible, cost effective methods of short-term financing for our capital program. A letter of credit or similar facility is required for these programs in order to guarantee repayment of notes at maturity. Prop A CP LOCs with Sumitomo and Union Bank expire in March 2016. The Prop C CP LOC with State Street and the RCF with Wells Fargo expire in April 2016.

## **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 and Prop C CP programs authorize us to issue and have outstanding at any one time up to \$350 million and \$150 million in commercial paper notes, respectively. A letter of credit is required for the CP programs 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 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 80% of Proposition C sales tax revenues for the Prop A and the Prop C programs, respectively. We can issue either tax exempt or taxable CP under both programs. The borrowing costs under the programs have been just under 1.0% over the past year.

The RCF operates in a similar manner as the Prop C CP program in that Wells Fargo will provide short-term revolving loans to us directly of up to \$75 million outstanding at any one time. The loans provided under the RCF will bear interest at variable interest rates based on an index of 70% of 1-month LIBOR or 100% of SIFMA for tax exempt loans and 100% of 1-month LIBOR for taxable loans, plus the applicable spread. The RCF will be backed by a subordinate pledge of 80% of Prop C sales tax revenues. The borrowing costs for the Wells RCF were approximately 0.90% over the past year.

Requests for proposal were sent to 25 banks by our financial advisor, Backstrom McCarley Berry & Co., LLC ("Backstrom"). 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, Standard & Poor's and Fitch Ratings, respectively. Evaluation criteria included pricing, any risk premium 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. Nine proposals were received for commitment amounts ranging from \$75 million to \$150 million for both programs. The source selection group was composed of Treasury staff and Backstrom. The proposals received from some banks included alternative products or terms that were considered to be less desirable, such as standby bond purchase agreements. The selection group ranked each proposer and we are recommending Sumitomo (\$125 million) and Union Bank (\$75 million) for the Proposition A CP program and B of A (\$75 million) and Wells Fargo (\$75 million) for the Proposition C program, all for three year terms.

Based on the lower pricing received under the RFP, assuming full utilization of the respective facilities over a three year contract period, the estimated costs are lower than the cost under the current lines of credit by more than \$450,000, even with an additional \$50 million in capacity. Costs will also depend on the amount of tax-exempt and taxable debt we issue under the Prop A and Prop C programs. Additional fees and interest could be incurred under certain extreme circumstances. To date, none of our commercial paper 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 \$6.0 million for the Proposition A and Proposition C commercial paper programs is included in the FY16 budget and is adequate to cover the estimated \$2.3 million cost for a \$300 million drawdown. The funding is in Cost Center #0521, Treasury Non-Departmental, under project #610306, task 03.01 for Proposition A and project #610307, task 03.01 for Proposition C. 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 choose to not increase the capacity of the Prop A CP program to \$200 million or could direct a reduction below the current capacity of \$150 million for each program. It could cancel both programs and not replace the letter of credit or liquidity support. A reduction of the capacity of the CP programs would reduce our ability to quickly provide low cost, interim financing when needed. A decision to cancel the programs and not replace the letter of credit support would result in the need to refund all of the outstanding short term debt (\$62.5 million for Prop A and approximately \$63 million for Prop C) with a higher cost fixed rate financing. These alternatives are not recommended.

## **NEXT STEPS**

- Negotiate final terms and conditions with the recommended banks.
- If satisfactory terms cannot be agreed upon with the recommended banks, 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 letters of credit and revolving credit facility, including, among others, notices, reimbursement agreements, fee agreements, reimbursement notes, credit agreements, revolving obligation notes, supplemental trust agreements and offering memoranda.
- Obtain credit ratings for the CP notes based on the credit ratings of the banks.
- Execute documents in the third quarter of FY2016, prior to the expiration date of the current agreements in March and April of 2016.


## **ATTACHMENTS**

Attachment A - Recommendation Summary  
Attachment B - Authorizing Resolution for Prop A  
Attachment C - Authorizing Resolution for Prop C

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