Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

Metro

Board Report

File #: 2016-0211, **File Type:** Resolution **Agenda Number:** 7

~~**FINANCE, BUDGET AND AUDIT COMMITTEE**~~
~~**APRIL 13, 2016**~~
EXECUTIVE MANAGEMENT COMMITTEE
APRIL 14, 2016

SUBJECT: PROPOSITION C BONDS

ACTION: AUTHORIZE COMPETITIVE SALE OF REFUNDING BONDS

RECOMMENDATION

ADOPT a resolution, Attachment A, that:

A. AUTHORIZES the **issuance of bonds by competitive sale to refund the Proposition C Series 2006-A Bonds** (the “2006-A Bonds") in one or more transactions, consistent with the Debt Policy;

B. APPROVES the forms of Notice of Intention to Sell Bonds, Notice Inviting Bids, Supplemental Trust Agreement, Continuing Disclosure Agreement, Escrow Agreement, and Preliminary Official Statement, all subject to modification as set forth in the resolution; and

C. AUTHORIZES taking all action necessary to achieve the foregoing, including, without limitation, the further development and execution of bond documentation associated with the issuance of the Bonds.

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE)

ISSUE

Low interest rates offer an opportunity for Metro to lower its debt service costs by refunding on a current basis the outstanding Proposition C Sales Tax Revenue Refunding Bonds Series 2006-A. Approximately $112.7 million of the outstanding 2006-A Bonds can be refunded on July 1, 2016. It is our expectation that the 2006-A Bonds will be refunded through one competitive sale, depending on market conditions. Under current market conditions, the refunding would achieve nearly $11 million in present value savings over the life of the bonds, or almost $1 million in savings on an annual basis over the next 14 years. We are requesting the authority to sell Proposition C Sales Tax Revenue Refunding Bonds Senior Bonds, Series 2016 (the “Refunding Bonds”) in one or more transactions through December 31, 2016, to allow flexibility should significant market volatility occur.

DISCUSSION

The Debt Policy establishes criteria to evaluate refunding opportunities. The refunding of the Prop C 2006-A Bonds is currently estimated to provide net present value savings in excess of the minimum 3% of the refunded par amount set forth in the Debt Policy criteria for evaluating refunding opportunities.

The Refunding Bonds will be sold as fixed rate bonds. The Refunding Bonds will be issued using a competitive process where prospective underwriters bid for the refunding bonds on the date of sale. The Refunding Bonds will be sold to the underwriter offering the lowest true interest cost. The timing of the bond sale is contingent upon our ability to take advantage of favorable market conditions as they arise. In the event that bids do not meet our criteria, all bids will be rejected and the sale rescheduled.

As part of this issuance of Refunding Bonds, the Resolution provides for an amendment to the Trust Agreement to eliminate the Debt Service Reserve Fund (“DSRF”) requirement. This is similar to an amendment that was recently made for our Proposition A Sales Tax Revenue Bonds, and consistent with the provisions of our Measure R Sales Tax Revenue Bonds. Metro will only proceed with the amendment if confirmation is received from Moody’s Investors Service and Standard & Poor’s that the elimination of the DSRF requirement will not adversely affect the Prop C Senior Lien bond ratings. The Reserve Requirement was created in 1992 when the Trust Agreement was originally executed. Purchasers of Metro bonds and the rating agencies no longer place a significant amount of value on a debt service reserve fund for an issuer with the AA+/Aa2 credit strength of our Prop C bonds.

If amended, the Refunding Bonds and any future Prop C bonds will be issued under supplemental trust agreements that allow for the elimination of the DSRF requirement once 60% of all outstanding Senior Lien bonds are issued under or otherwise approve the amended DSRF provision. During the period between this Refunding Bond issue and when the amendment is effective, Metro may have to contribute funds to satisfy the DSRF requirement. Once the amendment takes effect, Metro will have the option to eliminate or establish a new DSRF requirement on the Refunding Bonds and any future series of Prop C bonds issued under the amended Trust Agreement or to have such series of bonds participate in the existing reserve fund.

Currently, Metro is required to set-aside approximately $142 million in a DSRF, which secures all Prop C Senior Lien Bonds. Metro meets this requirement with cash and investments funded from prior Prop C Senior Lien bonds, and currently earns a relatively low investment rate.

Assuming no new money bond issuance and current estimates of refundings, we project that the DSRF requirement will be approximately $76 million in 2022, prior to the amendment taking effect. Under these assumptions we anticipate meeting the 60% consent requirement in 2023, when the amendment will become effective and we will no longer be required to have a DSRF. However, assuming the issuance of additional bonds for new projects based on the current capital plan, as well as refunding bonds, the amendment could take effect as early as 2019. As the DSRF requirement decreases, the cash in the DSRF will be available to pay for Prop C projects or to pay Prop C debt service.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The costs of issuance for the Refunding Bonds will be paid from proceeds of the financing and will be budget neutral. Bond principal and bond interest expense for the Prop C 2006-A Bonds are included in the FY17 budget in project 610307, account 51101 for principal and account 51121 for interest. If issued, the Refunding Bonds will generate a positive variance in the debt service accounts for the Prop C 2006-A bonds beginning in FY17 and subsequent years, currently estimated at nearly $1 million per year for the next 14 years, for a net present value of $11 million in savings.

ALTERNATIVES CONSIDERED

The Board could defer the refunding to a later time or indefinitely. This is not recommended because current market conditions are favorable for the refunding savings and there is no certainty about the movement in long term rates over time. In the current market, the refunding of the 2006-A Bonds exceeds the Debt Policy requirement for a refunding.

NEXT STEPS

- Further develop bond issuance documentation and publish the sales notices
- Obtain credit ratings
- Distribute the preliminary official statement to prospective underwriters and potential investors
- Initiate pre-marketing effort
- Receive electronic bids from underwriters
- Finalize bond documentation and deliver the bonds

ATTACHMENTS

Attachment A - Authorizing Resolution

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