



Board Report

File #: 2016-0607, **File Type:** Resolution

Agenda Number: 6.

**FINANCE, BUDGET & AUDIT COMMITTEE
OCTOBER 19, 2016**

SUBJECT: MEASURE R BONDS

ACTION: AUTHORIZE NEGOTIATED SALE OF BONDS AND APPOINT UNDERWRITERS

RECOMMENDATION

ADOPT a Resolution that:

- A. AUTHORIZES the negotiated bond sale and issuance of up to \$600 million of bonds (**Measure R Senior Sales Tax Revenue Bonds, 2016**) in one or more series, to finance capital projects and to repay outstanding short-term revolving debt;
- B. APPROVES the forms of the supplemental trust agreement, continuing disclosure certificate, preliminary official statement and such other documents as required for the issuance of the bonds, and approves related documents on file with the Board Secretary as set forth in the resolution all as subject to modification as set forth in the Resolution;
- C. APPROVES the form of the bond purchase contract on file with the Board Secretary, that will be entered into with the underwriters as listed in Attachment B hereto; and
- D. AUTHORIZES taking all action necessary to achieve the foregoing, including, without limitation, the further development and execution of the bond purchase contract and bond documentation associated with the issuance of the Measure R 2016 Bonds.

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE.)

ISSUE

Currently, low long-term interest rates provide the opportunity to issue bonds to finance capital project expenditures and to repay short-term debt that was used to pay capital project expenses with permanent fixed rate financing in order to keep Measure R projects moving forward.

DISCUSSION

The Measure R Ordinance anticipated and authorized the use of debt to finance projects in the Measure R Expenditure Plan. Metro's Long Range Transportation Plan (LRTP) assumed the

issuance of long-term debt to deliver projects faster than possible on a “pay as you go” basis. The proposed \$600 million tax-exempt fixed rate bond issue is needed to bridge the gap between annual Measure R tax receipts and the money needed to fund Measure R capital projects. Metro’s Board-approved Debt Policy permits new debt issues for financing capital projects and certain capital equipment where financing over time, with interest, allows us to meet certain public policy goals such as accelerating the completion of projects and/or improvements. The issue size is based on the FY17 budget assumption of \$300 million of non-TIFIA debt primarily for Measure R project construction expenses. The \$300 million balance will refinance on a permanent basis existing short-term debt that was used to pay Measure R project expenses in order to lock in currently low long-term interest rates and to restore capacity under the short-term program for continued use. Current long-term rates are at or near historical lows, making it a good time to lock in long-term interest rates by refinancing short-term debt with fixed rate debt.

In accordance with Section 8(i)(4) of the Measure R Ordinance, the Proposition R Independent Taxpayers Oversight Committee of Metro (Measure R Oversight Committee) is required to find that the benefits of any proposed Measure R debt financing for accelerating project delivery, avoiding cost escalation and related factors exceed issuance and interest costs prior to the Board authorizing the debt issuance. The Measure R Oversight Committee made the finding of benefit at its July 19, 2016 meeting, see Attachment C.

The negotiated sale method is recommended for this sale of Measure R Senior Bonds in accordance with the Debt Policy criteria for determining the method of bond sale due to the relatively large size of the bond sale and because the bond markets have been experiencing increased interest rate volatility owing to economic uncertainty and geopolitical events. If market conditions change suddenly, a negotiated sale puts us in the best position to alter the sale date and/or bond structure as needed. A negotiated sale method allows Metro to further its DBE/SBE/DVBE firm participation goals as well. The underwriter’s sales force will also be helpful to address any investor concerns about the new sales tax measure that Metro is placing on the November 2016 ballot, litigation associated with the projects, and general uncertainty about the direction of the economy that is typically generated during an election season. Also, we have not issued any Measure R Senior Bonds since the initial and only issuance in 2010, so a negotiated sale will be helpful in making sure that the bond issue is marketed to as many investors as possible. The underwriters will pre-market the issue, assist with the rating process and advise on market timing for pricing the bonds.

Consistent with our Debt Policy, in order to select underwriters for this transaction, a competitive Request for Proposal (RFP) process was conducted by Fieldman Rolapp, our Financial Advisor. RFPs were distributed to the 12 firms in Metro’s Underwriter Pool, approved by the Board in October 2015. Treasury staff and our financial advisors reviewed the proposals, evaluating them based on the criteria listed in the RFP. Staff is recommending a team of underwriters to be led by Bank of America Merrill Lynch, who was ranked first in the selection process. The additional underwriting team members are JP Morgan Securities LLC, Loop Capital Markets LLC, Citigroup Global Markets Inc., RBC Capital Markets, and Drexel Hamilton LLC. Including this transaction, Metro has utilized 75% (9 out of 12 firms) of the underwriter pool that was approved in October, 2015. Attachment B sets forth the “take down” the underwriters will receive as consideration for underwriting the transaction, and the percentage of bonds to be sold to each of the underwriters. If any of the selected underwriters decide not to participate in the transaction, their percentage of bonds will be distributed

among the remaining underwriter team members.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The costs of issuance for the bonds will be paid from proceeds of the financing and will be budget neutral. Funding for the bond principal and interest expense for this financing will be included in future budgets as follows: bond principal, account 51101 and bond interest account 51121.

ALTERNATIVES CONSIDERED

Authorization of the sale and the appointment of the underwriters could be delayed. This is not recommended as it would expose us to higher interest costs in the future should interest rates rise and could delay the construction of projects if Measure R funds are not available.

NEXT STEPS

- 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

ATTACHMENTS

Attachment A - Authorizing Resolution

Attachment B - Summary of Underwriter Selection

Attachment C - Finding of Benefit Resolution

Prepared by: Donna R. Mills, Treasurer, (213) 922-4047
LuAnne E. Schurtz, Assistant Treasurer, (213) 922-2554

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088



Phillip A. Washington
Chief Executive Officer