

**Board Report**

File #: 2017-0842, **File Type:** Program**Agenda Number:**

**FINANCE, BUDGET AND AUDIT COMMITTEE
FEBRUARY 14, 2018****SUBJECT: LOCAL RETURN BORROWING****ACTION: APPROVE ADOPTION OF LOCAL RETURN BORROWING GUIDELINES****RECOMMENDATION**

APPROVE Local Return Borrowing Guidelines to establish procedures for borrowings secured by Proposition A (Prop A), Proposition C (Prop C), Measure R and Measure M Local Return (LR) funds as described in Attachment A. Approve incorporating the Local Return Borrowing Guidelines into the Guidelines for Prop A, Prop C, Measure R, and Measure M local return programs.

ISSUE

The California Public Utilities Code and the respective sales tax Ordinances/Measures permit Jurisdictions to issue debt secured by their LR allocation to provide for the financing of local transit needs, but is silent about how such borrowing is to be accomplished.

DISCUSSION

The Board has approved borrowings that were secured by a Jurisdiction's share of Prop C and Measure R LR funds (see Attachment B). In order to facilitate Measure R LR borrowing, in 2013 the Board approved Measure R guidelines that codified the procedures previously used to accomplish borrowings. The proposed Local Return Borrowing Guidelines model those adopted for Measure R. Approval of this item will standardize the LR borrowing procedures for all four sales taxes, create consistency and equitable treatment of local Jurisdictions with respect to LR borrowing.

The Local Return Borrowing Guidelines reference three basic methods used to borrow against LR funds:

- Method 1) Jurisdiction issues its own debt - only Metro local return program/project approval required with little financing oversight.
- Method 2) Metro issues the bonds on the Jurisdiction's behalf - requires Metro Board approval and staff oversight.
- Method 3) Jurisdiction borrows directly from Metro - requires Metro Board approval and Metro full control of any bond sale.

The specific procedures for each type of borrowing are shown in Attachment A.

The respective sales tax' Local Return Guidelines address project eligibility, timely use of funds, reporting and compliance requirements. A Jurisdiction seeking to borrow against its LR funds must adhere to the Local Return Guidelines for the respective sales tax pledged to secure the borrowing. Measure R and Measure M LR funds are under the purview of their respective Oversight Committee (s) and require Metro Board approval of the request to borrow.

Adoption of this item delegates the authority to approve a Jurisdiction's request to borrow on its own (Method 1) to the Local Return Program Manager with notification to the Board. When Metro issues the bonds for the Jurisdiction, the guidelines require that the bond terms are sufficient to achieve ratings of at least A- or its equivalent from any nationally recognized statistical rating organization. To the extent a Jurisdiction issues its own tax-exempt debt, compliance with Federal and State restrictions and requirements related to the issuance of tax-exempt debt would be the sole responsibility of the Jurisdiction.

Staff distributed the proposed guidelines to the Bus Operations Subcommittee (BOS), the Local Transit Systems Subcommittee (LTSS) and to the Independent Cities Finance Authority (ICFA) for review and incorporated feedback from the groups. The Technical Advisory Committee will review the guidelines at their meeting on February 7, 2018.

DETERMINATION OF SAFETY IMPACT

Approval of the Local Return Borrowing Guidelines will not impact the safety of Metro's patrons or employees.

FINANCIAL IMPACT

Method 1 has minimum direct financial impact to Metro because all costs are borne by the local Jurisdiction. Under Methods 2 and 3 there is a potential financial impact, depending on the volume and timing of bond requests from local Jurisdictions. Should Metro issue debt to provide a direct loan, Metro's borrowing capacity for the respective sales tax would be reduced by that amount. Methods 2 and 3 involve Metro staff time to sell bonds and complete all the related administrative actions. These costs can be recovered by billing the local Jurisdiction for Metro staff time.

ALTERNATIVES CONSIDERED

The Board could choose to consider each LR borrowing individually without establishing borrowing guidelines. This is not recommended as the borrowing guidelines contribute to consistency with respect to the review and approval of requests and contribute to equitable treatment across Jurisdictions.

NEXT STEPS

Make the Local Return Borrowing Guidelines available to all interested parties.

ATTACHMENTS

Attachment A - Borrowing Guidelines for Local Return Programs

Attachment B - Examples of Prior Local Return Borrowings

Prepared by:

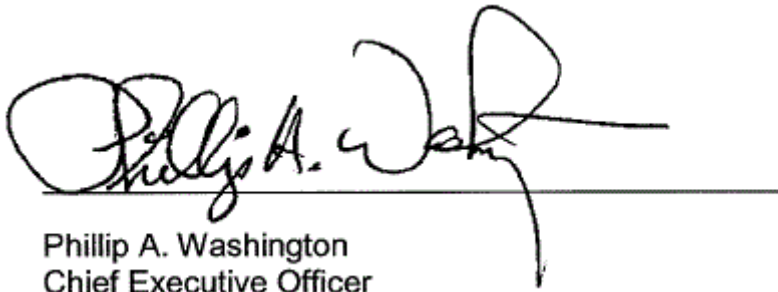
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