



Board Report

File #: 2020-0469, File Type: Resolution

Agenda Number: 10.

FINANCE, BUDGET AND AUDIT COMMITTEE
OCTOBER 14, 2020

SUBJECT: MEASURE R SHORT-TERM BORROWING PROGRAM

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to:

- A. REPLACE the direct purchase revolving credit facilities (“RCF”) and drawdown bond facility (“DBF”) with a Measure R Commercial Paper Program, finalize negotiations with the recommended banks and execute agreements and related documents:
1. REPLACE the RCFs currently being provided by Bank of the West (“BW”) of \$50 million and State Street Public Lending Corporation (“State Street”) of \$100 million with a Direct-pay Letter of Credit (“LOC”) to be provided by State Street Public Lending Corporation for a committed principal amount of \$100 million for a two-year term at an estimated cost of \$1.3 million including interest, legal fees and other related expenses.
 2. REPLACE the DBF currently being provided by RBC Capital Markets, LLC (“RBC”) of \$150 million with a LOC provided by Bank of America, N.A. (“BANA”) for a committed principal amount of \$90 million for a two-year term at an estimated cost of \$1.4 million including interest, legal fees and other related expenses.
- B. If unable to reach agreement with one or more of the recommended banks described above, authorize the Chief Executive Officer to finalize negotiations with each successively ranked bank for LOCs and/or RCFs having two-year terms and the estimated costs shown in **Attachment A**.
- C. ADOPT a resolution with respect to the Measure R short-term program that approves the selection of State Street and BANA or such other banks selected by the Chief Executive Officer for the Measure R short-term program, and the forms of the supplemental trust agreement, issuing and paying agent agreement, dealer agreement, reimbursement agreements, and commercial paper offering memorandum 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**.

(Requires separate, simple majority Board vote)

ISSUE

The Measure R Short-Term Borrowing program has proven to be a flexible, cost effective method of short-term financing for Metro's capital program. A letter of credit or similar facility provided by a highly-rated financial institution or bank is required for commercial paper programs to guarantee repayment of notes at maturity. Measure R's Short-term Borrowing facilities with State Street, BW, and RBC expire in November 2020.

BACKGROUND

The purpose of the Commercial Paper ("CP") program is to provide interim taxable or tax-exempt financing until grant reimbursement or other funding sources are received. Fixed-rate, long-term debt may also be issued providing a more efficient asset/liability match over the life of the asset. CP 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). A LOC is required by investors purchasing the CP in order to guarantee repayment of the maturing notes. Additionally, the LOCs provide a safety net to Metro in the form of a term loan in the unlikely event the notes cannot be remarketed, precluding any requirement that the entire outstanding amount be repaid immediately from cash.

The Measure R Short-term program authorizes Metro to issue, and have outstanding at any one time, up to \$300 million in Measure R Subordinate Obligations. Currently, Metro has a total of \$106 million outstanding under the RCFs and DBF with BW, State Street and RBC. The RCFs and DBF will expire in November 2020.

Metro is authorized to issue either tax-exempt or taxable CP under the program. The securities are backed by a subordinate pledge of 85% of Measure R sales tax revenues.

DISCUSSION

As directed in the Metro Debt Policy, the Municipal Advisor conducts a competitive process to select financial product providers, including letters of credit. Requests for proposal were sent to 18 banks by the municipal advisor selected for this transaction, PFM Financial Advisors LLC ("PFM"). 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 in order to respond. Evaluation criteria included pricing, any rate penalties investors may impose on a particular bank, the status of a bank's credit approval and willingness to execute Metro's form of agreement. Overall program objectives include seeking the lowest cost of capital while maximizing access to borrowing capacity achieved through diversification of products and providers across Metro's entire short-term debt portfolio. Eight proposals were received for commitment amounts ranging from \$50 million to \$300 million. Although certain proposals received from the banks included alternative products such as revolving credit agreements, the selection group determined these products and terms to be less desirable than those associated with LOCs. For example, the selection group took into account the fact that the London Inter-bank Offered Rate

("LIBOR") is expected to be discontinued at the end of calendar year 2021. LIBOR is an index commonly used in setting the interest rate for many adjustable financial products and was the elected index for which most proposers based their pricing for revolving credit facilities. An index is a benchmark interest rate that reflects market conditions. At the current time, no LIBOR replacement has been confirmed. With the uncertainty of a LIBOR replacement, the selection team concluded the risk was too great to seek a revolving credit facility. The source selection group was comprised of Treasury staff and PFM. The selection group ranked each proposer and recommends State Street and BANA, both for two-year terms.

Costs will vary depending on the amount of tax-exempt and taxable debt Metro issues under the program. Additional fees and interest may be incurred under certain extreme circumstances. To date, none of Metro's commercial paper notes have 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

The Source of funds for the recommended action is Measure R 35% Transit Capital. The fund is not eligible for bus and rail operating capital projects. Funding for the recommended action is included in the FY2021 budget in the amount of \$11.2 million in Cost Center #0521, Treasury Non-Departmental, under project #660301, task 03. The cost center manager and the Chief Financial Officer will be accountable for budgeting the cost in future years.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports the following Metro Strategic Plan Goal(s):

Goal #5: Provide responsive, accountable, and trustworthy governance within the Metro organization.

ALTERNATIVES CONSIDERED

The Board could choose to not approve the recommended credit support for the Measure R Short-term program. A decision to cancel the program and not replace the short-term borrowing facilities would result in the need to refund all of the outstanding short-term debt (\$106 million) with a higher cost fixed rate financing under the current agreements or retire the outstanding amount with cash. Canceling the program would also remove our ability to quickly provide low cost, interim financing when needed. This alternative is 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 including, among others, notices, reimbursement agreements, fee agreements, reimbursement notes, supplemental trust agreements and offering memoranda.
- Obtain credit ratings for the CP notes based on the credit ratings of the banks.
- Execute documents prior to the expiration date of the current agreements in November 2020.

ATTACHMENTS

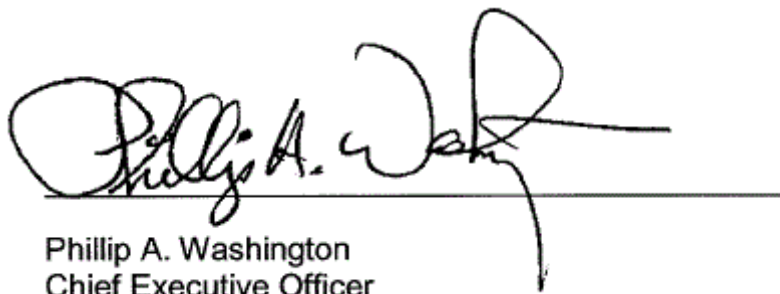
Attachment A - Bank Recommendation Summary

Attachment B - Authorizing Resolution

Attachment C - Finding of Benefit Resolution

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