



Board Report

File #: 2021-0123, **File Type:** Resolution

Agenda Number: 10.

**FINANCE, BUDGET & AUDIT COMMITTEE
MAY 19, 2021**

SUBJECT: MEASURE R BONDS

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

CONSIDER:

- A. Adopting a Resolution, Attachment A, that:
 - 1. Authorizes the negotiated sale and issuance of up to \$850 million in aggregate principal amount of Measure R Senior Sales Tax Revenue Bonds in one or more series, to finance capital projects; and refinance outstanding commercial paper notes.
 - 2. Approves the forms of the Supplemental Trust Agreement, Continuing Disclosure Certificate, Preliminary Official Statement, Bond Purchase Contract 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 subject to modification as set forth in the Resolution;
 - 3. 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 Measure R Senior Sales Tax Revenue Bonds, Series 2021-A (the "Bonds").

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE.)

ISSUE

The Debt Policy provides guidelines for new money financings that may be long-term or short-term. Measure R new-money bond issues are permitted to provide funding for eligible expenditures on highway, commuter rail, bus and rail capital projects (collectively, the "Projects").

BACKGROUND

Approval of the above recommendations will authorize the issuance of the Bonds, with a par amount not to exceed \$850 million of tax-exempt fixed rate bonds, which will fund or reimburse LACMTA for

Measure R eligible capital projects and expenditures and refinance commercial paper notes, the proceeds of which financed such costs.

DISCUSSION

The Measure R Ordinance (Ordinance) anticipated and authorized the use of debt to finance projects in the Measure R Expenditure Plan. Metro's Long Range Transportation Plan (LRTP) assumes the issuance of long-term debt to deliver projects sooner than the alternative "pay as you go" basis.

The proposed \$850 million tax-exempt fixed-rate bond issue is needed to bridge the gap between annual Measure R sales tax receipts and the revenue 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. With an aggregate par amount of approximately \$850 million, \$744 million of the bond proceeds will be used for Measure R project construction and to pay the costs of issuance related to the transaction. The \$106 million balance will refinance existing short-term debt that was used to pay for Measure R capital projects.

In accordance with Section 8(i)(4) of the Measure R Ordinance, the Measure R Independent Taxpayers Oversight Committee of Metro (the "Oversight Committee") is required to find that the benefits of any proposed Measure R debt financing for accelerating project delivery avoids cost escalation, and exceeds issuance and interest costs prior to the Board authorizing the debt issuance. Treasury is scheduled to present the proposed debt issuance to the Oversight Committee on April 19, 2021.

A negotiated sale method is recommended for this sale of Measure R Senior Bonds in accordance with the Board-approved Debt Policy criteria for determining the method of bond sale due to the relatively large size of the transaction. Further, if market conditions change suddenly, a negotiated sale provides Metro the flexibility to alter the sale date and/or bond structure as needed. A negotiated sale method also allows Metro to advance its DBE/SBE/DVBE firm participation goals as well. The underwriters will pre-market the issue to target as many investors as possible, assist with the credit rating process and advise on market conditions for optimal bond pricing.

Consistent with the Metro Debt Policy, underwriters for this transaction will be selected by a competitive Request for Proposal ("RFP") process conducted by Fieldman Rollapp and Associates ("FRA"), Metro's Transaction Municipal Advisor. Nixon Peabody LLP and Kutak Rock LLP has been selected by Treasury staff and County Counsel to serve as Bond Counsel and Disclosure Counsel, respectively.

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 bond principal and interest expense for this Measure R financing will be added to FY22 and subsequent fiscal year budgets subject to the final debt service schedule. The funding sources for debt service of this financing are eligible for bus and rail operating and capital expenditures.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

Recommendation supports the following Metro Strategic Plan Goal:

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

ALTERNATIVES CONSIDERED

The Board could defer the issuance of the 2021 Measure R Bonds to a later time or indefinitely. This is not recommended as it could delay the construction of capital 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

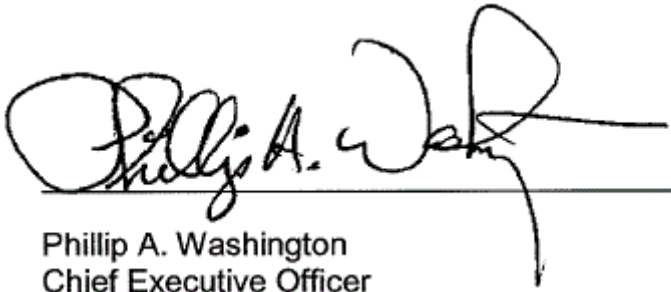
Attachment A - Authorizing Resolution

Attachment B - Finding of Benefit Resolution

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