



Board Report

File #: 2021-0797, **File Type:** Resolution

Agenda Number: 10.

**FINANCE, BUDGET AND AUDIT COMMITTEE
FEBRUARY 16, 2022**

SUBJECT: PROPOSITION A AND PROPOSITION C COMMERCIAL PAPER/SHORT-TERM BORROWING PROGRAMS

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

ADOPT:

- A. a resolution that authorizes the Chief Executive Officer and/or other Designated Officers to renew and/or replace the existing direct-pay letter of credit (“LOC”) with respect to the Proposition A (“Prop A”) commercial paper (“CP”) and short-term borrowing program, Attachment A; and
- B. a resolution that authorizes the Chief Executive Officer and/or other Designated Officers to renew and/or replace the existing direct purchase revolving credit facility with respect to the Proposition C (“Prop C”) revolving credit facility (“RCF”) and short-term borrowing program, Attachment B.

(REQUIRES SEPARATE, SIMPLE MAJORITY VOTE OF THE BOARD)

ISSUE

The Prop A and Prop C Commercial Paper/Short-Term Borrowing programs have proven to be flexible, cost-effective methods of short-term financing for Metro’s capital program. The Prop A LOC provided by Barclays Bank PLC and the Prop C RCF with Wells Fargo Bank, N.A., expire in April 2022.

BACKGROUND

The Board established the Prop A short-term borrowing program in January 1991 to provide interim taxable or tax-exempt financing until grant reimbursement or other funding sources are received. Under the Proposition A short-term borrowing program, Metro is authorized to issue and have outstanding at any one time up to \$350 million in CP notes. An LOC, which guarantees payment of the maturing CP Notes, is a required feature of the CP program.

The Board established the Prop C short-term borrowing program in June 1993 to provide interim taxable or tax-exempt financing until grant reimbursement or other funding sources are received.

Under the Proposition C short-term borrowing program, Metro is authorized to issue and have outstanding at any one time up to \$150 million in CP notes or revolving credit obligations.

DISCUSSION

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”). The LOC provides guaranteed liquidity to investors when their notes mature and are a required component of the program. Additionally, the LOC provides a safety net to Metro in the form of a term loan in the unlikely event the notes cannot be remarketed, protecting Metro from incurring an obligation to immediately repay the entire amount of maturing CP Notes using funds on hand. The CP will be backed by a subordinate pledge of 75% of Prop A sales tax revenues. Metro can issue either tax-exempt or taxable CP under the Prop A CP program. The borrowing costs under the CP program have been just under 1.00% over the past three years.

Under the Prop C RCF program, the selected bank will provide short-term revolving loans directly to Metro in an aggregate amount of up to \$150 million outstanding at any one time. The loans provided under the Prop C RCF will bear interest at variable interest rates based on an index of 80% of 1-month SOFR for tax-exempt loans and 100% of 1-month SOFR for taxable loans, plus the bank’s applicable fee. The Prop C RCF will be backed by a subordinate pledge of 80% of Prop C sales tax revenues. The borrowing costs for the Wells Fargo RCF have been approximately 1.80% over the past three years.

A request for proposals was sent to 19 banks by Metro’s municipal advisor, Backstrom McCarley Berry & Co. LLC (“BMcB”). Under Metro’s Debt Policy, the municipal advisor conducts a competitive process to select financial product providers, including letters of credit. 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 Investors Service, Standard & Poor’s and Fitch Ratings, respectively 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 our form of agreement. Overall program objectives include low cost and maximizing access to borrowing capacity achieved through diversification of products and providers. Twelve proposals were received for commitment amounts ranging from \$100 million to \$350 million for both programs. The selection group was composed of Treasury staff and BMcB. The selection group ranked each proposer and recommended Bank of America, N.A. for the Prop A LOC and Bank of the West for the Prop C RCF, both for 3-year terms (See Attachment C).

Costs will vary depending on the amount of tax-exempt and taxable debt Metro issues under the Prop A and Prop C programs. Additional fees and interest may be incurred under certain extreme circumstances. None of Metro’s CP notes have failed to be remarketed to date.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

Funding of \$11.5 million for the Prop A and Prop C programs are included in the FY2022 budget in Cost Center #0521, Treasury Non-Departmental, under project #610306, task 03.01 and project #611309, task 01 for Prop A and project #610307, task 03.01 for Prop C. The cost center manager and the Chief Financial Officer will be accountable for budgeting the cost in future years.

Impact to Budget

The funding sources of Prop A and Prop C are eligible for bus & rail operations and capital projects.

EQUITY PLATFORM

Approval of this item will maintain liquidity support and/or borrowing capacity for Metro's Prop A and Prop C short-term borrowing programs that facilitate planned financing for Metro's capital program. At this time, there are no equity concerns anticipated due to this action.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The 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 not to approve the recommended credit support or facility for the Prop A CP or the Prop C RCF programs or could direct a reduction below the current capacity for each program. A reduction of the capacity of the programs would reduce our ability to quickly provide low cost, interim financing when needed. A decision to cancel the programs and not replace the letter of credit support or credit facility would result in the need to refund all of the outstanding short-term debt (\$97.5 million for Prop A and approximately \$30 million for Prop C) with a higher cost fixed rate financing. These alternatives are not recommended.

NEXT STEPS

- Negotiate final terms and conditions with the recommended banks.
- If satisfactory terms cannot be agreed upon with one or both of the recommended banks, negotiate with the next highest -ranked proposers for the applicable program (Prop A or Prop C, as applicable) to obtain the best combination of terms and pricing.
- Prepare agreements and documentation to implement the replacement LOC and RCF, including, among others, notices, reimbursement agreements, fee agreements, reimbursement notes, credit agreements, revolving obligation notes, supplemental trust agreements and offering memoranda.
- Obtain credit ratings for the CP notes based on the credit ratings of the selected bank.
- Execute documents prior to the expiration date of the current agreements in April of 2022.

ATTACHMENTS

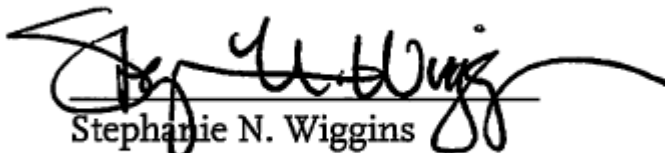
Attachment A - Proposition A Authorizing Resolution

Attachment B - Proposition C Authorizing Resolution

Attachment C - Bank Recommendation Summary

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