

**Board Report**

---

**File #:** 2022-0466, **File Type:** Resolution**Agenda Number:** 17.

---

**FINANCE, BUDGET AND AUDIT COMMITTEE  
SEPTEMBER 14, 2022****SUBJECT: MEASURE R SHORT-TERM BORROWING PROGRAM****ACTION: APPROVE RECOMMENDATIONS****RECOMMENDATION**

ADOPT 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 Measure R Short-Term Borrowing Program, Attachment A.

**(REQUIRES SEPARATE, SIMPLE MAJORITY VOTE OF THE BOARD)****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 ("CP") programs to guarantee repayment of notes at maturity. The Measure R LOCs provided by Bank of America, N.A., and State Street Bank and Trust Company expire in October 2022.

**BACKGROUND**

The Board established the Measure R Short-Term Borrowing Program in May 2015 to provide interim taxable or tax-exempt financing until grant reimbursement or other funding sources are received. In accordance with the Measure R Ordinance, the Measure R Independent Taxpayers Oversight Committee approved the attached finding of benefit resolution (Attachment B) in favor of the \$300 million Measure R short-term borrowing program at the May 2015 committee meeting. Under the program, Metro is authorized to issue and have outstanding at any one time up to \$300 million in Measure R Subordinate Obligations. Historically, Measure R Subordinate Obligations have mostly been issued in the form of CP or Revolving Credit Obligations. Currently, Metro does not have any Measure R Subordinate Obligations outstanding. Measure R Subordinate Obligations are backed by a subordinate pledge of 85% of Measure R sales tax revenues.

CP notes are a short-term debt instrument that can be issued with maturities from one (1) to 270 days. As CP notes mature, new CP notes are simultaneously issued (i.e., rolled over). A LOC is required by investors purchasing the CP 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.

## **DISCUSSION**

A request for proposals was sent by Metro's municipal advisor, PFM Financial Advisors LLC ("PFM"). In addition to large commercial banks that regularly provide these types of financial products, the request for proposals was also sent to local community banks and credit unions to promote inclusion and further explore opportunities to advance DBE/SBE/DVBE firm participation. 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 primary banks submitting proposals for a LOC 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, as is standard practice and required by Metro's Debt Policy. 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 the form of agreement. Overall program objectives include low cost and maximizing access to borrowing capacity achieved through diversification of products and providers. Ten proposals were received for commitment amounts ranging from \$90 million to \$200 million. The selection group was composed of Treasury staff and PFM. The selection group ranked each proposer and recommends TD Bank, N.A for a 5-year term (See Attachment C).

Costs will vary depending on the amount of tax-exempt and taxable CP notes Metro issues under the Measure R Short-Term Borrowing Program. Additional fees and interest may be incurred under certain extreme circumstances. None of Metro's Measure R 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 for the recommended action is included in the FY2023 budget in the amount of \$7.0 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.

### **Impact to Budget**

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.

## **EQUITY PLATFORM**

Approval of this item will maintain liquidity support and/or borrowing capacity for Metro's Measure R Short-Term Borrowing Program that facilitates planned financing for Metro's capital program.

---

The proposed banks are large, multinational institutions that have publicly stated a commitment to diversity and inclusion as show below. It is imperative to engage financial institutions that understand the importance of, and are committed to, diversity and inclusion, in alignment with Metro's Equity Platform. Below is a statement from the bank and a link that details their commitment to diversity, equity and inclusion.

Diversity and inclusion are part of our fundamental values that help us support our customers, colleagues and communities. From our hiring practices to our accessible building designs, we're working towards maintaining a welcoming, barrier-free culture for everyone.

<https://www.td.com/ca/en/about-td/who-we-are/diversity-and-inclusion/>

Additionally, Treasury solicited the RFP to local community banks and credit unions to promote inclusion and further explore opportunities to advance DBE/SBE/DVBE firm participation.

There are no adverse equity impacts anticipated as a result of 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 to not approve the recommended credit support for the Measure R Short-Term Borrowing Program. The termination of the program reduces Metro's liquidity and hinders the ability to provide low-cost short-term financing options when needed on Measure R projects. The capital projects that require immediate cash flow to continue moving forward would not have financing mechanisms in place. 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 the next highest ranked proposer 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 banks' credit ratings.
- Execute documents prior to the expiration date of the current agreements in October 2022.
- Metro staff is committed to continuing the outreach efforts as a standard practice for future financial services.

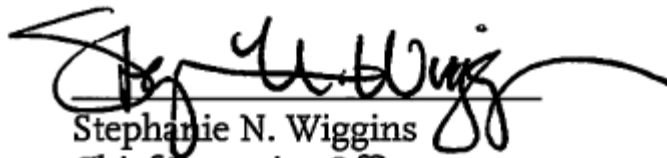
### **ATTACHMENTS**

Attachment A - Authorizing Resolution

Attachment B - 2015 Finding of Benefit Resolution  
Attachment C - Bank Recommendation Summary

Prepared by: Rodney Johnson, Deputy Executive Officer, Finance, (213) 922-3417  
Biljana Seki, Assistant Treasurer, (213) 922-2554  
Michael Kim, Debt Manager, (213) 922-4026

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



Stephanie N. Wiggins  
Chief Executive Officer