



Board Report

File #: 2025-0109, File Type: Resolution

Agenda Number: 16.

FINANCE, BUDGET AND AUDIT COMMITTEE APRIL 17, 2025

SUBJECT: PROPOSITION A AND PROPOSITION C 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”) 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”) short-term borrowing program (Attachment B).

(REQUIRES SEPARATE, SIMPLE MAJORITY VOTE OF THE BOARD)

ISSUE

The Prop A and Prop C 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 Bank of America expires in June 2025 and the Prop C Revolving Credit Facility (“RCF”) with the Bank of Montreal (BMO), formerly known as Bank of the West, expires in May 2025.

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 Commercial Paper (“CP”) notes. An LOC, which guarantees payment of the maturing CP Notes, is a required feature of the CP program.

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 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.

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 Secured Overnight Financing Rate ("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.

DISCUSSION

A request for proposals was sent to 18 banks by Metro's municipal advisor, PFM Financial Advisors LLC ("PFM"). 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, 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. Local institutions do not offer these types of financial products or services. Overall program objectives include low cost and maximizing access to borrowing capacity achieved through diversification of products and providers. Seven proposals were received for a commitment amount of \$150 million for each program. The selection group was composed of Treasury staff and PFM. The selection group ranked each proposer and recommended Sumitomo Mitsui Banking Corporation (SMBC) for the Prop A LOC (4-year term) and BMO for the Prop C RCF (3-year term) (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 \$26.2 million for the Prop A and Prop C programs are included in the FY2025 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 specific equity benefits or concerns anticipated due to this action.

VEHICLE MILES TRAVELED OUTCOME

Vehicle Miles Traveled (VMT) and VMT per capita in Los Angeles County are lower than national averages, the lowest in the SCAG region, and on the lower end of VMT per capita statewide, with these declining VMT trends due in part to Metro's significant investment in rail and bus transit.* Metro's Board-adopted VMT reduction targets align with California's statewide climate goals, including achieving carbon neutrality by 2045. To ensure continued progress, all Board items are assessed for their potential impact on VMT.

While this item does not directly encourage taking transit, sharing a ride, or using active transportation, it is a vital part of Metro operations, as it provides interim taxable or tax-exempt financing until grant reimbursement or other funding sources are received. Because the Board has adopted an agency-wide VMT Reduction Target, and this item generally supports the overall function of the agency, this item is consistent with the goals of reducing VMT.

* Based on population estimates from the United States Census and VMT estimates from the highway performance monitoring system data between 2001-2019.

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. The termination of the Prop A CP or the Prop C RCF programs reduces Metro's liquidity and hinders the ability to provide low-cost short-term financing options when needed on Prop A and Prop C 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 one or both 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 May and June of 2025.

ATTACHMENTS

Attachment A - Proposition A Authorizing Resolution

Attachment B - Proposition C Authorizing Resolution

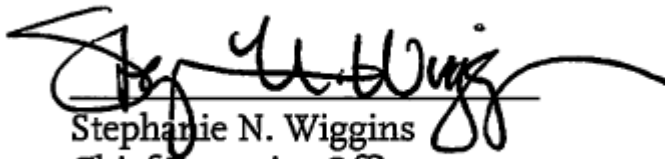
Attachment C - Bank Recommendation Summary

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