



Board Report

File #: 2018-0595, **File Type:** Resolution

Agenda Number: 14.

**FINANCE, BUDGET AND AUDIT COMMITTEE
NOVEMBER 14, 2018**

SUBJECT: PROPOSITION C BONDS

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

ADOPT a resolution, Attachment A, that:

- A. AUTHORIZES the negotiated bond sale and issuance of up to \$650 million in aggregate principal amount of bonds (Proposition C Sales Tax Revenue Bonds, 2019) in one or more series, to finance capital projects and refinance outstanding commercial paper and revolving credit notes;
- B. APPROVES the forms of the supplemental trust agreement, continuing disclosure certificate, preliminary official statement 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 and all of which are subject to modification as set forth in the Resolution;
- C. APPROVES the form of the bond purchase contract on file with the Board Secretary, that will be entered into with the underwriters as listed in Attachment B hereto; and
- D. AUTHORIZES taking all action necessary to achieve the foregoing, including, without limitation, the further development and execution of the bond purchase contract and bond documentation associated with the issuance of the 2019 Prop C 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. Prop C new money bond issues are permitted to provide funding for eligible expenditures on highway, commuter rail, bus and rail capital projects.

BACKGROUND

The 2019 Prop C Bonds, with a par amount not to exceed \$650 million of fixed rate bonds, will fund

or reimburse LACMTA for Prop C eligible capital projects and expenditures and refinance commercial paper, the proceeds of which financed such costs. We need to obtain the funds for ongoing and planned transportation capital projects and lock in current interest rates.

DISCUSSION

In accordance with the Debt Policy, the negotiated sale method is recommended for this sale of the 2019 Prop C bonds due to its relatively large size. The underwriter's sales force will take the lead to address any investor concerns about the transaction. The underwriters will pre-market the issue, assist with the rating process, advise on timing for pricing the bonds and purchase the bonds under the terms set forth in the bond purchase contract. A negotiated sale allows Metro to further its DBE/SBE/DVBE firm participation goals as well. A significant portion of the 2019 Prop C Bonds are expected to be certified as Green Bonds, meaning the financed projects have positive environmental and/or climate benefits and meet the requirements under the Climate Bonds Initiative for low carbon assets and infrastructure. In addition, a negotiated sale gives us the ability to access alternate investor groups dedicated to purchasing bonds that are certified as Green.

Consistent with our Debt Policy, in order to select underwriters for this transaction, a competitive Request for Proposal (RFP) was conducted by PFM Financial Advisors LLC, Metro's General Financial Advisor for debt related matters. RFPs were distributed to the 12 firms in Metro's Underwriter Pool, approved by the Board in October 2015. Treasury staff and our transaction financial advisor, Public Resources Advisory Group, reviewed the proposals, evaluating them based on the criteria listed in the RFP. Staff is recommending a team of underwriters led by Siebert Cisneros Shank & Co., LLC and Citigroup Global Markets Inc. who ranked highest in the selection process. The additional underwriting team members are Bank of America Merrill Lynch, Morgan Stanley, Drexel Hamilton LLC, and Ramirez & Co., Inc. Attachment B sets forth the "take down" the underwriters will receive as consideration for underwriting the transaction, and the percentage of bonds for which each firm will be liable. If any of the selected underwriters decide not to participate in the transaction, their liability percentage of bonds will be distributed amongst the remaining underwriter team members.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The costs of issuance for the 2019 Prop C Bonds will be paid from proceeds of the financing and will be budget neutral. Funding for the new money bond principal and interest expense for this financing will be included in future budgets as follows: bond principal, account 51101 and bond interest, account 51121.

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

Authorization of the sale and the appointment of the underwriters could be delayed. We do not recommend delay as the Federal Reserve Bank actions and other market, economic and geopolitical actions may push interest rates higher thus making it more expensive to complete projects or refinance commercial paper and revolving credit notes, the proceeds of which were used to pay Project expenses.

NEXT STEPS

- Verification of Green Bond projects
- Obtain ratings on the bonds
- Complete legal documentation and distribute the preliminary official statement to potential investors and initiate the pre-marketing effort
- Negotiate the sale of the bonds with the underwriters

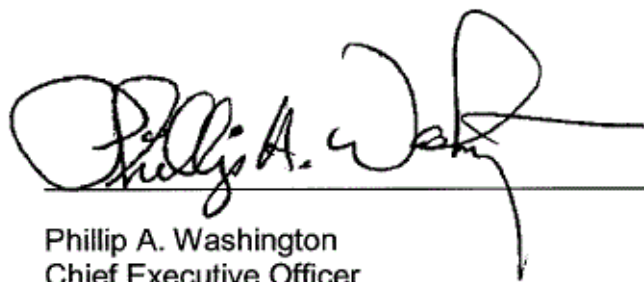
ATTACHMENTS

Attachment A - Authorizing Resolution

Attachment B - Summary of Underwriter Selection

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