Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

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REGULAR BOARD MEETING
FEBRUARY 28, 2019

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

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

CONSIDER:

A. AUTHORIZING the Chief Executive Officer to renew and/or replace the direct-pay letters of credit ("LOC") and direct purchase revolving credit facility ("RCF") to be provided by the banks described below, finalize negotiations with the recommended banks and enter into reimbursement/credit agreements and related documents associated with such LOCs and RCF;

1. Replace the LOCs currently being provided by Sumitomo Mitsui Banking Corporation ("Sumitomo") and MUFG Union Bank, N.A. ("MUFG"), for the Proposition A commercial paper program with a LOC to be provided by Barclays Bank PLC ("Barclays") for a commitment amount of $200 million for a 3 year term at an estimated cost of $13.5 million including interest, legal fees and other related expenses.

2. Replace the LOC currently being provided by Bank of America ("BANA") of $75 million for the Proposition C commercial paper program with a revolving credit facility provided by Wells Fargo Bank, N.A. ("Wells Fargo") for an estimated amount of $150 million (Metro currently has $75 million outstanding with Wells Fargo) for a 3 year term at an estimated cost of $9.9 million including interest, legal fees and other related expenses

B. If unable to reach agreement with one of the recommended banks described above, AUTHORIZE the Chief Executive Officer to finalize negotiations with each successively ranked bank for LOCs and/or RCFs having 3 year terms and the estimated costs shown in Attachment A;

C. ADOPTING a resolution with respect to the Proposition A commercial paper and short-term program that approves the selection of Barclays or such other banks selected by the Chief Executive Officer for the Proposition A commercial paper program, and the forms of the reimbursement agreement, fee agreement and reimbursement note in similar form with those on file with the Board Secretary and that makes certain benefits findings in compliance with the Government Code, Attachment B;

D. ADOPTING a resolution with respect to the Proposition C commercial paper and short-term borrowing program that approves the selection of Wells Fargo or such other banks selected by the Chief Executive Officer for the Proposition C commercial paper program, and the forms of the revolving credit agreement, revolving obligation notes and supplemental subordinate trust agreement in similar form with those on file with the Board Secretary and that makes certain benefits findings in compliance with the Government Code, Attachment C.

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE)

ISSUE

The Proposition A ("Prop A CP") and Proposition C ("Prop CP") Commercial Paper/Short-Term Borrowing programs have proven to be flexible, cost effective methods of short-term financing for our capital program. A letter of credit or similar facility is required for CP programs in order to guarantee repayment of notes at maturity. A revolving credit facility provides short-term financing by entering into a direct loan with a bank and bears interest at variable interest rates. Prop A CP LOCs with Sumitomo and Union Bank expire in March 2019. The Prop C CP LOC with Bank of America and the RCF with Wells Fargo expire in April 2019.

BACKGROUND

The purpose of the Commercial Paper ("CP") programs is to provide interim taxable or tax-exempt financing until grant reimbursement or other funding sources are received, or until permanent financing is arranged. The Prop A CP and Prop C CP programs authorize us to issue and have outstanding at any one time up to $350 million and $150 million in commercial paper notes, respectively. A letter of credit is required for the CP programs in order to guarantee repayment of the maturing notes. Commercial paper 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 LOCs provide guaranteed liquidity to investors when their notes mature and are a required component of the program. Additionally, the LOCs provide a safety net to us in the form of a term loan in the unlikely event the notes cannot be remarketed, precluding any requirement that we immediately repay the entire outstanding amount from cash. The securities are backed by a subordinate pledge of 75% of Proposition A sales tax revenues and 80% of Proposition C sales tax revenues for the Prop A and the Prop C programs, respectively. We can issue either tax-exempt or taxable CP under both programs. The borrowing costs under the CP programs have been just under 1.75% over the past year.

The RCF operates in a similar manner as the Prop C CP in that Wells Fargo will provide short-term revolving loans to us directly of up to $150 million outstanding at any one time. The loans provided under the RCF will bear interest at variable interest rates based on an index of 80% of 1-month LIBOR for tax-exempt loans and 100% of 1-month LIBOR for taxable loans, plus the bank's applicable fee. The 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 2.20% over the past year.

DISCUSSION

Requests for proposal were sent to 19 banks by our financial advisor, PFM Financial Advisors LLC (“PFM”). Under our Debt Policy, the financial advisor conducts competitive processes 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 Investor Services, Standard & Poor’s and Fitch ratings, respectively in order 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 $75 million to $200 million for both programs. The source selection group was composed of Treasury staff and PFM. Proposals were received from banks that included alternative products or terms that were considered to be less desirable, such as standby purchase agreement. The selection group ranked each proposer and we are recommending Barclays and Wells Fargo, both for 3 year terms.

Costs will also depend on the amount of tax-exempt and taxable debt we issue under the Prop A and Prop C programs. Additional fees and interest could be incurred under certain extreme circumstances. To date, none of our commercial paper notes have ever failed to be remarketed.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

Funding of $15.6 million for the Proposition A and Proposition C commercial paper programs is included in the FY2019 budget in Cost Center #0521, Treasury Non-Departmental, under project #610306, task 03.01 and project #611309, task 01 for Proposition A and project #610307, task 03.01 for Proposition C. The cost center manager and the Chief Financial Officer will be accountable for budgeting the cost in future years.

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

The Board could choose to not approve the recommended credit support for the Prop A CP or the Prop C CP programs or could direct a reduction below the current capacity for each program. A reduction of the capacity of the CP 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 would result in the need to refund all of the outstanding short term debt ($105 million for Prop

A and approximately $143 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 the recommended banks, negotiate with each of the next highest ranked proposers in order to obtain the best combination of terms and pricing.
- Prepare agreements and documentation to implement the letters of credit and revolving credit facility, 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 banks.
- Execute documents prior to the expiration date of the current agreements in March and April of 2019.

ATTACHMENTS

Attachment A - Recommendation Summary
Attachment B - Proposition A Authorizing Resolution
Attachment C - Proposition C Authorizing Resolution

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