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

File #: 2020-0222, **File Type:** Resolution **Agenda Number:** 15.

FINANCE, BUDGET & AUDIT COMMITTEE
APRIL 15, 2020

SUBJECT: MEASURE R BONDS

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATION

CONSIDER:

A. ADOPTING a Resolution, Attachment A, that:

1. AUTHORIZES Measure R Junior Subordinate Sales Tax Revenue Refunding Bonds in one or more series, to refinance one or more of Metro's Transportation Infrastructure Finance and Innovation Act ("TIFIA") Loans to achieve up to $170 million estimated net present value savings over the 18-year life of the bonds through the negotiated bond sale of up to $1.75 billion of bonds.

2. APPROVES the forms of the supplemental trust agreement, second amended and restated trust agreement, junior subordinate trust agreement, supplemental junior subordinate 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 all as subject to modification as set forth in the Resolution;

3. 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

4. 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 Measure R Junior Subordinate Sales Tax Revenue Refunding Bonds (the "Refunding Bonds").

B. ESTABLISHING an underwriter pool as shown in Attachment B that will be used to select underwriters for all future negotiated debt issues through June 30, 2024; and

C. APPOINTING the underwriter team selected for the Refunding Bonds from the above underwriter pool as shown in Attachment B that will be used to market the refunding bonds.

(REQUIRES SEPARATE, SIMPLE MAJORITY BOARD VOTE)

ISSUE

Long-term interest rates are at historic lows and currently provide the opportunity to refinance one or more of Metro's TIFIA loans. Issuing tax-exempt bonds to refinance the loans will lower debt expense.

BACKGROUND

The Refunding Bonds will refinance one or more of the TIFIA loans. The TIFIA Loans were secured as project specific financing for the Crenshaw/LAX Transit Corridor (2012), Regional Connector Transit Corridor (2014), the Westside Purple Line Extension Section 1 (2014), the Westside Purple Line Section 2 (2016) projects. The Refunding Bonds are currently estimated to provide net present value savings in excess of the minimum 3% of refunded par amount set forth in the Debt Policy criteria for evaluating refunding opportunities.

DISCUSSION

The Measure R Ordinance (Ordinance) anticipated and authorized the use of debt to finance projects in the Measure R Expenditure Plan. Metro's Long Range Transportation Plan (LRTP) assumes the issuance of long-term debt to deliver projects faster than the alternative "pay as you go" basis.

The primary benefits of using TIFIA loans to finance large capital projects occur during design and early construction phases. The TIFIA loans provided greater flexibility than traditional tax-exempt bonds during the early phases of the projects. Early phase benefits included:

- Loan draws based on our actual cash flow needs over time
- Up to 5-years of deferred draw-down of loan did not reset interest rate
- Interest did not accrue until the initial draw on the loan
- No prepayment penalty

The use of TIFIA loans proved to be not only prudent but successful in facilitating board approved infrastructure projects throughout Los Angeles County. However low rates available in the current market environment, coupled with the no prepayment penalty present an opportunity to replace the loans with lower cost debt, resulting in an economic benefit to Metro.

In accordance with Section 8(i)(4) of the Measure R Ordinance, the Proposition R Independent Taxpayers Oversight Committee of Metro (the "Oversight Committee") is required to find that the benefits of any proposed Measure R debt outweigh the costs of financing. After a review of the Ordinance, it was determined by County Counsel that the TIFIA refinancing does not require a finding of benefit by the Oversight Committee. This is due to the prior findings of benefit for each respective loan (Attachment C).

The negotiated sale method is recommended for this sale of Measure R Junior Subordinate Bonds.

This is in accordance with the Debt Policy criteria for determining the method of bond sale, including the relatively large size of the proposed sale on the junior subordinate lien level. Further, recent interest rate volatility in the bond markets due to economic uncertainty and geopolitical events also supports a negotiated sale. If market conditions change suddenly, a negotiated sale puts Metro in the best position to alter the sale date and/or bond structure as needed.

Additionally, a negotiated sale gives us greater ability to target investor groups dedicated to purchasing green bonds. Pending self-certification, the Crenshaw portion of the Refunding Bonds, approximately $600 million, are expected to be refinanced as green bonds. The Crenshaw project has been previously verified by First Environment to meet the requirements under the Climate Bonds Initiative for low carbon assets and infrastructure.

The underwriter's sales force will assist with addressing any investor concerns regarding the issue size and junior subordinate lien. In performing due diligence, Metro met with firms in the investment community that purchase municipal debt. The firms were presented with the proposed details of the refinancing. Each of the firms conveyed a strong interest in Metro-backed debt and confirmed there will be strong market interest in the sale. Underwriters from the board-approved, negotiated pool will pre-market the issue, assist with the rating process and advise on market timing for pricing the bonds.

Consistent with the Metro Debt Policy, in order to select underwriters for this transaction, a competitive Request for Proposal (RFP) process was conducted by Montague DeRose and Associates (MDA), our lead Municipal Advisor. MDA received twenty-seven proposals. Treasury staff and MDA reviewed the proposals, evaluating them based on the criteria listed in the RFP. Of the twenty-seven received, fifteen are recommended for the negotiated underwriting pool. Four of the fifteen recommended firms are DBE/SBE/DVBE.

Staff is recommending a team of underwriters to be led by Wells Fargo Securities, who was ranked first in the selection process to lead the marketing and sales effort for the Refunding Bonds. The additional underwriting team members are Citigroup Global Markets, Bank of America Securities Inc., Barclays Capital, Loop Capital Markets LLC, and Ramirez & Co, Inc. Attachment B sets forth not-to-exceed "take down (commission)" the underwriters will receive as consideration for underwriting the transaction.

DETERMINATION OF SAFETY IMPACT

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

FINANCIAL IMPACT

The costs of issuance for the bonds will be paid from proceeds of the financing and will be budget neutral. The fund source for the bond principal and interest expense will be Measure R 35% Transit Capital. Expenses 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:

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. This is not recommended as market and geopolitical conditions could push interest rates higher, reducing or potentially eliminating the economic benefit of the transaction.

NEXT STEPS

- Obtain ratings on the bonds
- Complete legal documentation and distribute the preliminary official statement to potential investors, 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
Attachment C - Findings of Benefit

Prepared by: Donna R. Mills, Treasurer, (213) 922-4047
Rodney Johnson, Senior Director (213) 922-3417

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

Phillip A. Washington
Chief Executive Officer