

**Board Report**

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**REGULAR BOARD MEETING  
JANUARY 28, 2021****Motion by:****DIRECTORS BONIN, HAHN, BUTTS, NAJARIAN, AND SOLIS****Creation of Federal Reserve State & Local Agency Lending Facility**

Metro should seek additional ways of reducing debt interest and fee obligations to free more local tax revenue for transit service and capital projects.

Metro uses debt strategically to fund priority projects and meet the cash flow needs of a complex agency with varying revenue streams and multiple business lines. Metro currently has a total of \$5.67 billion in outstanding debt principal from transit, regional rail, and highway investments that are serving Angelenos today, including the Red and Purple Lines, the Expo Line, and various highway projects. In the original FY21 budget, Metro's debt service totaled \$509.2 million, or about 8% of the total Board-adopted annual budget.

As with any debt, a significant amount of the cost of repayment is interest and fees. In recent years, Metro has taken proactive steps to reduce these payments through several debt refinancing actions, saving millions of taxpayer dollars. However, it is still common for municipal borrowers to pay one dollar in fees and interest to banks and bondholders for every dollar that they borrow. While Metro enjoys consistently low interest rates due to its strong financial management and high bond rating, those interest payments cost Metro nearly \$200 million per year—money that could otherwise go to transit operations or capital project priorities.

After the passage of Measure R, Metro's America Fast Forward campaign won congressional authorization for an eight-fold increase in the TIFIA loan program, increasing Metro's access to low-cost borrowing to finance Measure R capital projects. This innovative partnership with the U.S. Department of Transportation is helping to finance the delivery of three key Metro capital projects: the Crenshaw/LAX Line, Regional Connector, and Purple Line Extension. Metro's recently adopted Federal Legislative Program builds on this success by proposing additional bonding capacity through USDOT with the federal government paying interest costs. Metro would use this new program for additional new capital project financing.

As part of the CARES Act, Congress authorized the Federal Reserve to temporarily expand the

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Municipal Liquidity Facility (MLF) up to \$500 billion to help state and local governments weather cash flow pressures during the pandemic, so that they could continue providing core services to residents and businesses. While the MLF was a short-lived and underutilized program, it offers a clear precedent for a more active federal role in providing low-cost-or even no-cost-borrowing capacity to state and local governments when that borrowing serves a nationally strategic imperative. A longer-term version of the MLF with more favorable terms could support additional local borrowing capacity for strategic investments-particularly for infrastructure-far beyond the capacity of USDOT and at virtually no cost to the federal government. This program could also be used to refinance existing debt under better terms for the agency, freeing up more flexible Proposition A and C funding for operations. Under such a program, more local tax revenue could be invested in critical services and capital projects instead of generating profits for Wall Street banks.

A coalition led by the Action Center on Race and the Economy (ACRE) is campaigning for the Federal Reserve to provide long-term, zero-cost loans to state and local governments to drive down the cost of borrowing. Nationwide, they estimate that this could save state and local taxpayers an estimated \$160 billion per year in borrowing costs. Metro would directly benefit from this effort and should therefore join ACRE and local advocates in support of this campaign.

**SUBJECT: CREATION OF FEDERAL RESERVE STATE & LOCAL AGENCY LENDING FACILITY**

**RECOMMENDATION**

APPROVE Motion by Directors Bonin, Hahn, Butts, Najarian, and Solis that the Board direct the CEO to add the following to Metro's 2021 Federal Legislative Program:

- Support the expansion of the Municipal Liquidity Facility and/or the creation of a new Federal Reserve program to underwrite a permanent low or no-cost loan program for state and local governments, including the issuance of new debt and the refinancing of existing debt.