



Finance & Administration Committee

Action Item III-C

July 10, 2014

FY2015 Interim Financing

Washington Metropolitan Area Transit Authority
Board Action/Information Summary

Action Information

MEAD Number:
200916

Resolution:
 Yes No

TITLE:

FY2015 Interim Financing

PRESENTATION SUMMARY:

Request Board authorization to negotiate and execute interim financing in an amount not to exceed \$250 million.

PURPOSE:

Authorize the General Manager, Chief Financial Officer, or Treasurer to negotiate and execute interim financing instruments in an amount not to exceed \$250 million with a term of one year or less, at an interest rate not to exceed 1.50% per annum.

DESCRIPTION:

Key Highlights:

- A short-term debt issuance of not more than \$250 million is expected to be needed during FY2015, with issuance occurring during the first quarter.
- Repayment of the debt issuance will occur in one year
- During the period when the short-term debt is outstanding, WMATA will utilize the additional time to increase the rate of draws on awarded and pending federal grants.

Background and History:

In February 2014, the Board authorized an increase in WMATA's total lines of credit from \$150 million to \$250 million and extended the term of the credit lines to June 30, 2015. In May 2014, the Board authorized an additional \$75 million increase, bringing the maximum allowable borrowing on the lines of credit to \$325 million. WMATA currently has three short-term lines of credit totaling \$302.5 million with Wells Fargo Bank, Bank of America and U.S. Bank. These lines of credit primarily support WMATA's capital programs and are also available to address operating cash flow needs allowing WMATA to utilize its resources efficiently. As of June 30, 2014, WMATA has utilized \$170 million from the lines of credit.

Discussion:

As a result of timing differences between cash inflows and outflows, WMATA's unrestricted cash balances may at times be insufficient to cover cash flow needs. The

current Capital Funding Agreement (CFA) provides for interim funding sources in Section 4(b)(8)(A) as follows: "Interim Funding Authority. – The WMATA Board of Directors is authorized to use Interim Funding Sources, including borrowing, on behalf of WMATA in such amounts and at such times as, in the Board's sole judgment are necessary and appropriate for the purpose of implementing the projects and activities in the Capital Improvement Program and any Annual Work Plan funded through direct capital contributions." Interim borrowing authority is also provided for under Section 21 ("Temporary Borrowing") of the WMATA Compact.

This item requests Board authorization for the General Manager, Chief Financial Officer or Treasurer to negotiate the issuance of short-term debt with the following terms: (a) duration no longer than one year, (b) an aggregate amount not to exceed \$250 million, composed of principal and the cost of issuance (including but not limited to banks' and/or underwriters' fees, financial advisory fees, printing costs, trustee services and legal fees), (c) at an interest rate not to exceed 1.50% per annum; and to obtain the underwriting, Trustee, printing, and other services necessary to issue the debt.

The need for this interim financing is due to (a) the fact that submissions of WMATA's Federal Fiscal Year 2013 grant applications and the draws on available grants has been slower than anticipated, and (b) WMATA's inability to drawdown funds through the traditional electronic application tool as a result of Federal Transit Administration (FTA) restrictions imposed on March 27, 2014, that require WMATA to manually submit comprehensive documentation in support of draws. On June 10, 2014, FTA informed WMATA that it will maintain the drawdown restriction until the FMO report findings are closed and FTA has had sufficient time to ensure WMATA's systems and controls are in place and being appropriately and effectively applied.

These restrictions are having a substantial impact on WMATA's cashflow. As of June 30, 2014, Metro has submitted drawdown request packages to FTA totaling \$11 million since the imposition of the drawdown restrictions. Metro has received \$6 million of that requested amount to date. By comparison, WMATA drew down approximately \$192 million in the fourth quarter (April-June) of FY2013. The internal team responsible for assembling and reviewing the required support to FTA continues to prepare additional reimbursement request packages for submission.

In addition, WMATA and other U.S. transit agencies are also facing broader funding concerns with respect to federal funding. The USDOT Secretary wrote to all agencies in June about the approaching insolvency of the Highway Trust Fund and Mass Transit Account and the potential for a significant reduction in the availability of federal reimbursements if Congress does not provide a fix. As a further challenge, FTA has notified agencies that its upcoming computer system change will also impact the availability of drawdowns over the coming months.

Recognizing these constraints, WMATA has taken actions to carefully manage cashflow, including identifying non-safety critical capital projects from the first half of FY2015 that can be deferred to the second half of the year. But even with these actions, the issuance of short-term debt will still be necessary. If interim financing is not secured, substantial additional deferrals and reductions to the FY2015 capital program will be required. These reductions will not impact safety-critical functions but may include cancelling of current contracts and reductions in force and may impact the customer experience.

WMATA's Financial Advisor has issued an RFP for potential debt instruments. WMATA is considering an issuance of Grant Anticipation Notes. These instruments, which require repayment in one year, are secured by undrawn, awarded federal grants, with a subordinate pledge of gross revenues.

FUNDING IMPACT:

If approved, the interim financing will support the existing FY2015 capital budget, requiring no modification to overall capital funding amounts. Costs associated with the borrowing will be funded within the approved FY2015 budget.	
Project Manager:	Raj Srinath
Project Department/Office:	CFO/TRES

TIMELINE:

Previous Actions	February 2014 / May 2014 - Board authorizations increasing line of credit to total of \$325 million.
Anticipated actions after presentation	Summer 2014 - Staff negotiates and executes interim financing.

RECOMMENDATION:

Authorize GM/CEO, CFO, or Treasurer to negotiate and execute interim financing in an amount not to exceed \$250 million, with term of not more than one year and at an interest rate not to exceed 1.50% per annum.



Washington Metropolitan Area Transit Authority

FY2015 Interim Financing

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Purpose

- Request Board authority to negotiate and execute interim financing in an amount not to exceed \$250 million



Background

- Capital Funding Agreement (CFA) and WMATA Compact provide for interim borrowing at the Board's discretion
- Term of debt must be one year or less





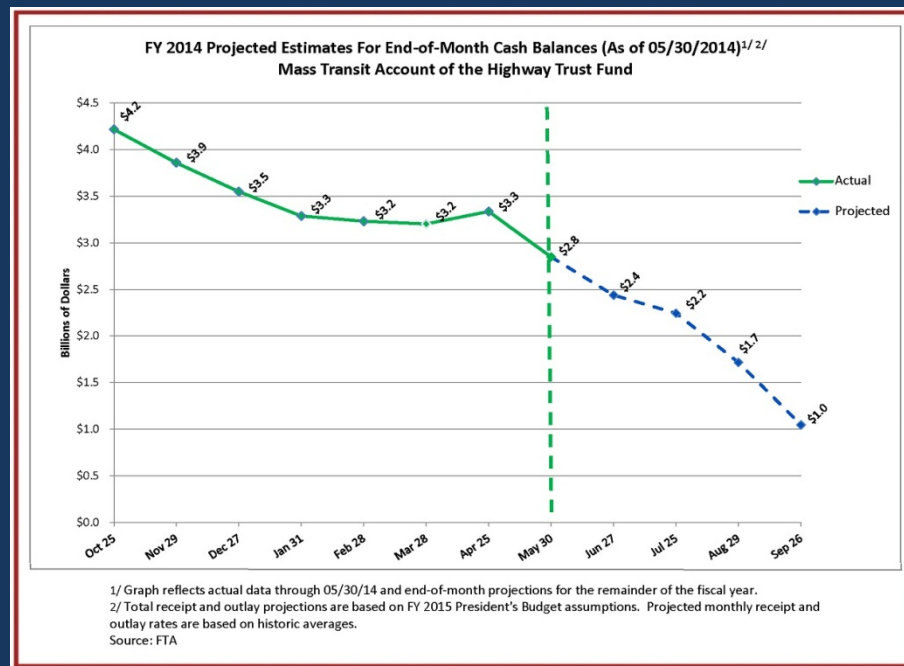
WMATA Funding Limitations

- Existing line of credit is \$302.5 million, of which \$170 million has been utilized
- Drawdown restrictions on federal funds likely to continue through FY2015
- Until frequency/amount of draws increases, financing needed to manage cashflow



Broader Funding Concerns

- USDOT Secretary wrote to all agencies in June about looming insolvency of Highway Trust Fund
- FTA system changes over the summer will also delay submissions





Actions Underway

- Actions underway:
 - Defer selected non-safety critical capital projects from first half of FY2015 to second half
 - Continue to prepare reimbursement requests for submission to FTA, with focus on PRIIA
 - Adding temporary and permanent staff to improve volume and accuracy of requests
- Next steps:
 - Obtain FTA approval of unawarded formula grant applications



Financing Options Under Consideration

- Financial Advisor has sent out RFP for potential debt instruments
- Considering issuance of Grant Anticipation Notes
 - Secured by undrawn, awarded federal grants
 - Subordinate pledge of gross revenues
 - Repayment in one year



Recommendation

- Authorize GM/CEO, CFO, or Treasurer to negotiate and execute interim financing in an amount not to exceed \$250 million, with term of not more than one year and interest rate not exceeding 1.5 percent per annum

SUBJECT: APPROVAL TO NEGOTIATE AND EXECUTE INTERIM FINANCING NOT TO EXCEED \$250 MILLION

RESOLUTION
OF THE
BOARD OF DIRECTORS
OF THE
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

WHEREAS, In 2011, the Washington Metropolitan Area Transit Authority (WMATA) and its contributing jurisdictions entered into a multi-year capital funding and construction agreement known as the Capital Funding Agreement; and

WHEREAS, WMATA and its contributing jurisdictions have entered into the Capital Funding Agreement to provide the Plan of Financing for the capital projects and under which the contributing jurisdictions have agreed to that Plan of Financing as contemplated in Compact sections 17 and 18; and

WHEREAS, WMATA's ability to drawdown federal grant funds for reimbursement of eligible capital expenditures is currently restricted by the Federal Transit Administration (FTA) and requires manual submission of comprehensive documentation before drawdown requests can be approved; and

WHEREAS, This drawdown restriction has had a substantial impact on WMATA's cash flow; and

WHEREAS, The FTA has informed WMATA that the drawdown restrictions will remain in place until the Financial Management Oversight report findings are closed and FTA has ensured that new financial processes and controls are in place and are being effectively applied; and

WHEREAS, WMATA, along with other U.S. transit agencies, is facing a potentially significant reduction in the availability of federal funding if Congress does not address the approaching insolvency of the Highway Trust Fund and the Mass Transit Account within the Highway Trust Fund; and

WHEREAS, Compact section 21 and the Capital Funding Agreement permit WMATA to issue various financial instruments necessary for the interim financing of projects under the Agreement; and


WHEREAS, The General Manager and Chief Executive Officer (GM/CEO), the Chief Financial Officer (CFO), and the Treasurer have determined that there is a need to issue such financial instruments to fund various projects covered by the Capital Funding Agreement; now, therefore be it

RESOLVED, That the Board of Directors authorizes the GM/CEO, the CFO, or the Treasurer to negotiate and execute short-term financing instruments with one or more investment and/or commercial banks with the following terms: (a) duration to be no more than one year, (b) an aggregate amount not to exceed \$250 million, including principal, any required debt service reserve, and the costs of issuance, as applicable (including but not limited to underwriters' fees, financial advisory fees, Trustee fees, bank fees, printing costs, and legal fees), and (c) at an interest rate not exceeding 1.50% per annum; and to obtain the underwriting, Trustee, printing, and other services necessary to issue the financing instruments; and be it further

RESOLVED, That the Board of Directors authorizes the GM/CEO, the CFO, or the Treasurer to perform any obligations under the terms of the financing instrument; and be it finally

RESOLVED, That this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,



Kathryn H.S. Pett
General Counsel

WMATA File Structure Nos.:
4.1 Bonds
4.6 Lines of Credit Issued to WMATA