Washington Metropolitan Area Transit Authority

METRO ELECTRONIC ACTION DOCUMENT

DESCRIPTION:

Identification of Parties with an interest in WMATA's LOC Margin Limit Increase and Bank Indemnification are as follows:

• PNC Bank
• Wells Fargo
• Bank of America
• US Bank
• Truist Bank
• RBC Capital Markets
• Barclays Bank
• Capital One Bank
• Bank of New York

WMATA's debt policy caps the interest margin above the one-month LIBOR rate at 1.75 percent on lines of credit. Staff has been consulting with banks since the start of the year; however, current market conditions have changed dramatically in a manner unforeseeable a few months ago. Bank proposals received thus far include higher interest margins; therefore, revising the cap established in the debt policy provides staff with a better negotiation position. Indemnifying the financial institutions now allows agreements to be executed prior to the expiration dates in May 2020 for current lines of credit.

Key Highlights:

• WMATA's debt policy caps the interest margin to the one-month LIBOR rate plus 1.75 percent on short-term debt.
• Interest margins range from 0.27 to 0.45 percent on the current four lines of credit, which in aggregate total $350 million and will expire on May 27, 2020.
• Interest margins on the term sheets received thus far for renewing LOC program range from LIBOR plus 0.72 to 2.50 percent.
• Additionally, bank proposals include tiered performance pricing that have the potential to raise the interest margins to a range of LIBOR plus 3.50 to 4.25 percent.

Background and History:

WMATA's Debt Management Policy was approved at the February 27, 2020 Board meeting. Section 206 establishes parameters for short-term debt, including lines of credit. The maximum interest margin above the one-month LIBOR rate is capped at 1.75 percent. The interest margins on WMATA's current lines of credit, which in aggregate total $350 million and are set to expire on May 27, 2020, range from 0.27 to 0.45 percent.

As expected, the COVID-19 pandemic has caused a run on commercial bank credit facilities as corporate and public entities, including transits and toll roads, have drawn down their existing credit facilities to have access to cash. Banks are reporting a rush of new applications for short term credit facilities. The stress on the banking system has resulted in a rapid increase in spreads, even for highly rated borrowers, with banks prioritizing awarding credit facilities to current customers with whom they have an existing treasury services relationship.

Discussion:

Staff has been consulting with banks for the renewal or replacement of WMATA's lines of credit since the start of the year. Specifically, staff solicited its incumbent banks as well as banks outside the current credit facility, including Barclays, RBC Capital Markets, US Bank and Truist Bank (formerly SunTrust Bank). Current market conditions have changed dramatically in a manner unforeseeable a few months ago; as such, one existing bank declined to renew. However, three agreed with offers totaling $350 million, but at rates significantly higher than the expiring lines, up to 1.75 percent plus LIBOR. Of the external banks, pricing was as high as 2 percent plus LIBOR; there are two offers still pending.

Furthermore, the banks are including in their proposals tiered performance pricing based on credit rating agency downgrades that have the potential to raise the interest margin to a range of 3.50 to 4.25 percent for borrowers with a credit rating of BBB- or Baa3.

FUNDING IMPACT:

The revolving lines of credit provide a bridge to fund temporary cash flow needs until permanent, budgeted capital or operating funding sources can be accessed. The revolving lines of credit are not a permanent funding source and have no funding impact.	
Project Manager:	Robert Haas
Project Department/Office:	CFO/TRES

MEAD AMOUNT: $400,000.00

TIMELINE:

Previous Actions	February/2020 – Debt Management Policy approved March/2020 - Treasury staff requested renewal pricing from incumbent banks
Anticipated actions after presentation	April/2020 – Negotiate new banking line of credit agreements May/2020 - Line of credits renewed

RECOMMENDATION:

To amend Section 206 of the Debt Management Policy to increase the interest margin cap for short-term debt to LIBOR plus 5.00 percent and to provide standard financial institution indemnification to banks in order to allow for the renewal or replacement of WMATA’s line of credit facilities.

SUBJECT: AMENDMENT TO THE DEBT MANAGEMENT POLICY

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

WHEREAS, Resolution 2020-04 adopting the Debt Management Policy establishes parameters for short-term debt, including but not limited to, the maximum interest rate for lines of credit;

WHEREAS, The COVID-19 pandemic has created unforeseen capital market changes making the Debt Management Policy short-term debt interest rate cap at 1.75% over LIBOR or its substitute no longer viable in current market conditions;

NOW, THEREFORE, be it

RESOLVED, That the second bullet of Resolution 2020-04, Section 206 Use of Short-Term Debt is deleted in its entirety and replaced by the following language:

> "The interest rate shall not exceed the then-current one-month LIBOR (or any generally accepted substitute for LIBOR) plus an annual rate of 5.00%;"

and be it finally

RESOLVED, That to provide for timely renewal or replacement of the Authority's lines of credit which expire May 26, 2020 this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,

/s/ Patricia Y. Lee

Patricia Y. Lee
Executive Vice President and General Counsel

WMATA File Structure No.:
4.1.0 Bonds

SUBJECT: APPROVAL TO INDEMNIFY LINES OF CREDIT PROVIDERS

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

WHEREAS, Resolution 2020-04 requires approval by the Board for WMATA to indemnify any new providers of short-term debt; and

WHEREAS, WMATA desires to negotiate the renewal or replacement of lines of credit expiring in May 2020 with new financial institutions including Barclays, RBC Capital Markets, US Bank, and Truist Bank which was formerly Sun Trust Bank.

WHEREAS, Each financial institution will require WMATA to provide a standard indemnification in any line of credit loan documents;

NOW THEREFORE, be it

RESOLVED, That the Board authorizes the GM/CEO or his designee to provide a standard financial institution indemnification in its loan documents in substantially the form as shown in Attachment A upon an agreement with Barclays, RBC Capital Markets, US Bank, and/or Truist Bank to renew or replace lines of credit; and be it finally

RESOLVED, That to provide for timely renewal or replacement of the Authority's lines of credit which expire May 26, 2020, this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,

/s/ Patricia Y. Lee

Patricia Y. Lee
General Counsel

WMATA File Structure No.:
15.2.1 Grants of Indemnification

Attachment A

Debtor shall protect, indemnify and save harmless Bank from and against all losses, liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) (collectively, "Damages") imposed upon, incurred by or asserted against Bank on account of (i) the Loan Documents or any failure or alleged failure of Debtor to comply with any of the terms or representations of this Agreement; (ii) any claim of loss to the Collateral; (iii) any failure or alleged failure of Debtor to comply with any law, rule or regulation applicable to the Collateral; (iv) any Damages whatsoever by reason of any alleged action, obligation or undertaking of Bank relating in any way to or any matter contemplated by the Loan Documents; or (v) any claim for brokerage fees or such other commissions relating to the Collateral or any other Secured Obligations, provided that such indemnity shall be effective only to the extent of any Damages that may be sustained by Bank in excess of any net proceeds received by it from any insurance of Debtor (other than self-insurance) with respect to Damages. Nothing contained herein shall require Debtor to indemnify Bank for any Damages resulting from Bank's gross negligence or its willful misconduct. The indemnity provided for herein shall survive payment of the Secured Obligations and shall extend to the officers, directors, employees and duly authorized agents of Bank. In the event Bank incurs any Damages arising out of or in any way relating to the transaction contemplated by the Loan Documents (including any of the matters referred to in this section), the amounts of such Damages shall be added to the Secured Obligations, shall bear interest, to the extent permitted by law, at the interest rate borne by the Secured Obligations from the date incurred until paid and shall be payable on demand.