



Finance and Capital Committee

Action Item III-A

October 13, 2022

Bond Financing Program

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

<input checked="" type="radio"/> Action <input type="radio"/> Information	MEAD Number: 203395	Resolution: <input checked="" type="radio"/> Yes <input type="radio"/> No
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TITLE:

Series 2023A Dedicated Revenue Bonds

PRESENTATION SUMMARY:

Staff will review capital funding needs and seek authorization of the negotiated sale method for the Series 2023A Dedicated Revenue Bonds in the amount of \$392 million.

PURPOSE:

Seek board approval for negotiated sale method to issue up to \$392 million in principal of Series 2023A Dedicated Revenue bonds to fund FY2023 capital projects.

DESCRIPTION:

The following is a list of potential participants in the bond sale including underwriters, financial advisors, bond counsel and disclosure counsel:

- Academy Securities
- Backstrom McCarley Berry & Co., Inc
- Bank of America Merrill Lynch
- Barclays
- BB&T Capital Markets
- Blaylock Van, LLC
- Cabrera Capital Markets, LLC
- Citigroup Global Markets, Inc.
- Estrada Hinojosa & Co., Inc.
- Goldman, Sachs & Co.
- J.P. Morgan Securities LLC
- Janney Montgomery Scott, LLC
- Jefferies LLC
- Loop Capital Markets
- Mischler Financial Group
- Morgan Stanley
- Piper Sandler & Co.
- PNC Capital Markets, LLC
- RBC Capital Markets

- Ramirez & Co., Inc.
- Siebert Williams Shank & Co., LLC
- Stern Brothers & Co.
- Tribal Capital Market, LLC
- US Bancorp
- UBS Financial Services Inc.
- United Bank
- Wells Fargo Securities
- Frasca & Associates, LLC
- Phoenix Capital Partners, LLC
- Hogan Lovells US LLP

Key Highlights:

- The proposed FY2023 Capital Budget includes a debt funding requirement of \$837 million.
- \$445 million of capital project funds from the Series 2021A Dedicate Revenue bond issue are available to fund a portion the \$837 million FY2023 capital budget debt requirement.
- Propose a negotiated sale of Dedicated Revenue Bonds up to \$392 million to fund the remainder of the FY2023 capital budget debt requirement

Background and History:

The Government Finance Officers Association recommends a negotiated bond sales strategy when one or more of the following conditions exists. Metro meets all conditions for the Series 2023A Dedicated Revenue Bonds:

- The credit is complex with no market comparable
- The pledge includes collateral from multiple jurisdictions with multiple revenue streams
- The timing differences in revenue streams and limited history of certain of those streams
- Negotiated bond sales are optimal during unstable market periods

Discussion:

Metro's financial advisors, Phoenix Capital Partners and Frasca & Associates, recommend a negotiated sales strategy for the Series 2023A Dedicated Revenue Bonds to facilitate adequate marketing and to achieve lowest cost for the following reasons:

- Greater agility to respond to market volatility and flexibility to optimize the day/week to price bonds
- Optimize structure to maximize investor interest (Coupons, Call Features)

- COVID-19's impact on transit agencies remains a significant concern for investors regarding pledged revenue
- The pledge encompasses multiple revenue streams with a short history and complex, multi-jurisdictional agreements, contributions and requirements
- Negotiated sale provides opportunity to broaden the investor base through more direct interactions with Metro during the marketing process

FUNDING IMPACT:

Project Manager:	Robert Haas
Project Department/Office:	CFO/TRES
	Request for the authorization of negotiated issuance of Series 2023A Dedicated Revenue Bonds to fund capital projects

TIMELINE:

Previous Actions	<p>May/2022 - Staff has identified a Financial Advisor to assist with the proposed bond issuance.</p> <p>Res. 2022-06 and 2022-22 Board approved the FY2023 capital budget and FY 2023-2028 Capital Improvement Program</p>
Anticipated actions after presentation	<p>October/2022 – Staff to Prepare the Bond offering documents and apply for credit ratings</p> <p>December/2022 - Staff to seek Bond Ratings</p> <p>January/2023 - Seek Board approval for the Series 2023A Dedicated Revenue Bond Resolution and additional bond sale documentation</p> <p>February/2023 - Bond sale</p>

RECOMMENDATION:

Authorize negotiated method for Series 2023A Dedicated Revenue Bond sale

Series 2023A Dedicated Revenue Bond Issuance

Finance and Capital Committee
October 13, 2022



Purpose

- Review capital funding needs, debt financing and marketing strategies to support on-going capital investment projects
- Authorize issuance and sale method for Series 2023A Dedicated Revenue Bonds leveraging Dedicated Revenue for Capital Investment

Dedicated Revenue Credit

- WMATA receives \$500 million each year, including approximately \$30 million of non-bondable funding
- Dedicated revenue receipts are deposited in WMATA Trust accounts at a financial institution

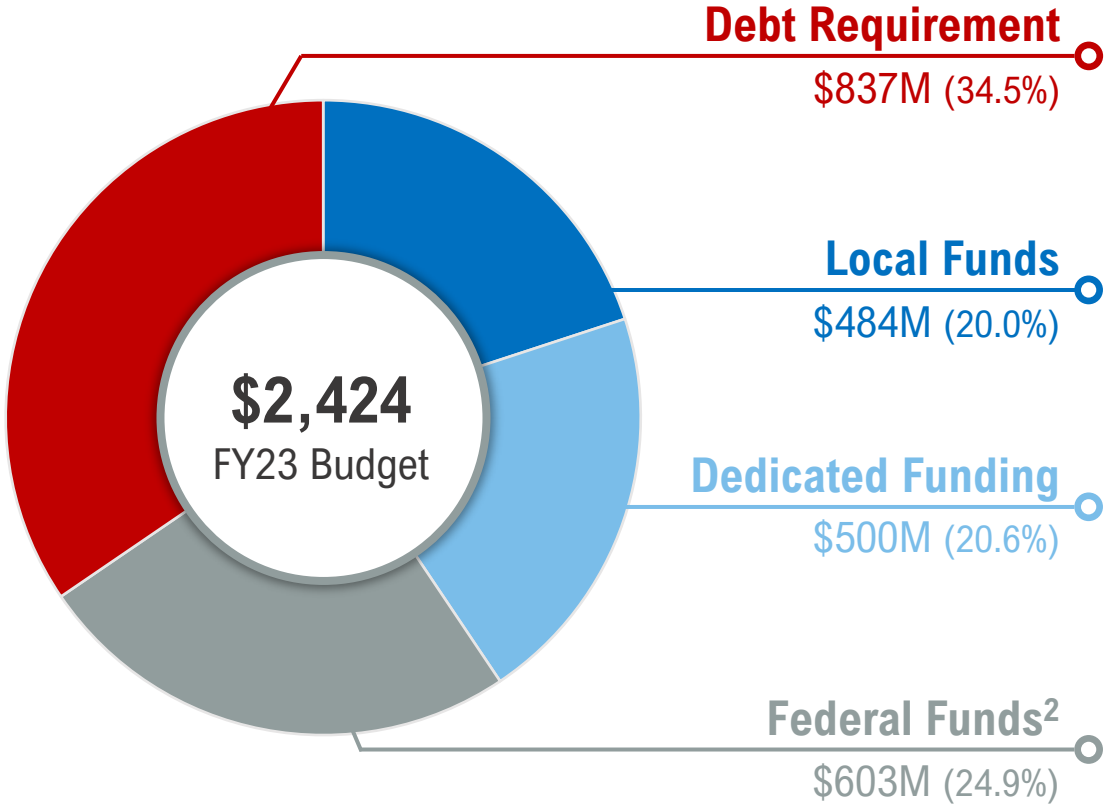
(\$M)	District of Columbia	Maryland	Virginia	Total
Bondable	\$178.5	\$167.0	\$124.5	\$470.0
Non-Bondable			\$30.0	\$30.0
Total	\$178.5	\$167.0	\$154.5	\$500.0



Capital Plan by Investment Category

Capital Investment Categories (\$M)	FY2023 Budget	FY2024-FY2028 Plan	6-Year Total
Railcar and Railcar Facilities	\$303	\$2,129	\$2,432
Rail Systems	\$203	\$1,448	\$1,651
Track and Structure Rehabilitation	\$459	\$1,299	\$1,758
Stations and Passenger Facilities	\$525	\$2,170	\$2,695
Bus, Bus Facilities and Paratransit	\$441	\$1,819	\$2,260
Business and Operations Support	\$380	\$1,249	\$1,629
Total Capital Investments	\$2,311	\$10,114	\$12,425
Revenue Loss from Capital Projects	\$12	\$50	\$62
Debt Service - Dedicated Funding ¹	\$101	\$1,339	\$1,440
Total Capital Program Cost	\$2,424	\$11,503	\$13,927

Bond Issuance Provides \$837M to Fund Capital



¹Projections subject to change based on actual debt requirements and terms of future debt issuance
²Federal funds include IIJA grant and reduction for OIG funding



Anticipated Bond Issuance Size and Terms

Capital Budget Debt Requirement (\$M)	Proposed Series 2023A Dedicated Revenue Bonds
FY2023 Debt Requirement	\$837
Series 2021A Bonds Available Funds	(\$445)
Total Debt Planned	\$392
Description	Terms
Bond Maturity	25 Years
Par Issuance Size (Not to Exceed)	\$392 million
Average Coupon	5.0%



Negotiated Bond Sale is Recommended

Co-Financial Advisors, Phoenix Capital Partners and Frasca Associates, recommend a negotiated sales strategy to facilitate optimum structuring, marketing and cost:

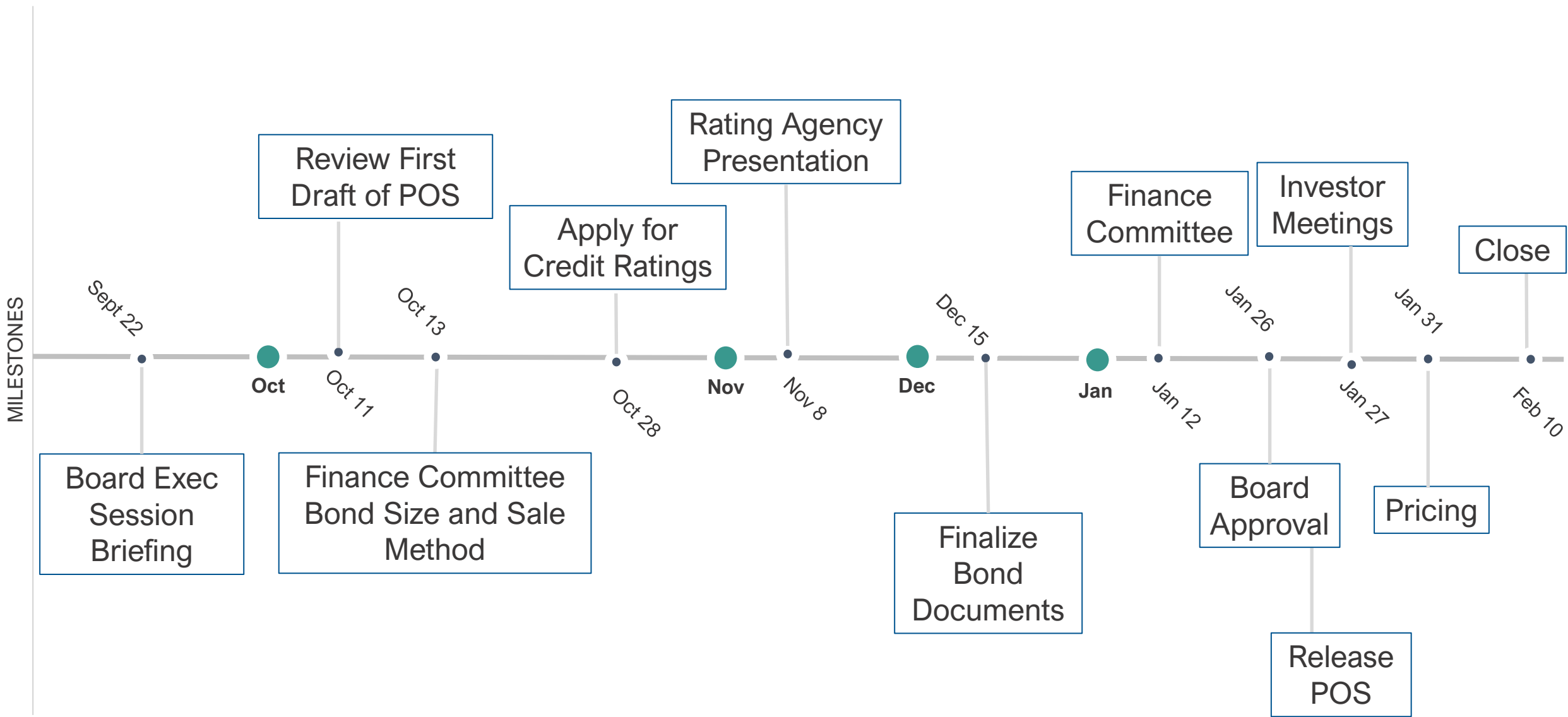
- Greater agility to respond to market volatility and flexibility to optimize the day/week to price bonds
- Optimize structure to maximize investor interest (Coupons, Call Features)
- Covid-19 impact on transit agencies remains a significant credit concern for investors regarding pledged revenue
- Multiple revenue streams with a short history and complex, multi-jurisdictional agreements, contributions and requirements

Recommendation

Board authorization to:

- Approve issuance and sale method for Series 2023A Dedicated Revenue Bonds leveraging Dedicated Revenue for Capital Investment

Key Activities and Milestones



SUBJECT: AUTHORIZE NEGOTIATION OF SERIES 2023A DEDICATED REVENUE BONDS

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

WHEREAS, The Debt Management Policy (Res. 2022-06) requires the Board of Directors to authorize the negotiated or competitive sale of bonds; and

WHEREAS, That in order to maintain a balanced capital budget, staff recommends additional funding by the issuance of dedicated funding debt; and

WHEREAS, WMATA intends to reimburse itself from bond proceeds for eligible expenditures incurred before the issuance of the bonds covered in this resolution to the extent permitted by the Internal Revenue Code (IRS) of 1986 and applicable IRS regulations;

NOW, THEREFORE, be it

RESOLVED, That the Board of Directors authorizes the General Manager and Chief Executive Officer and the Chief Financial Officer, and each of them individually, to obtain the underwriting, trustee, printing, and other services necessary to sell the bonds on a negotiated basis and issue the bonds; and be it further

RESOLVED, That long-term bonds, if issued, to have a duration to be no more than 25 years and an aggregate amount not to exceed \$392 million in principal; and be it further

RESOLVED, That in addition to aggregate \$392 million in principal, the Board of Directors authorizes to be included in the long-term bond issuance any required debt service reserve, the costs of issuance (including but not limited to underwriters' fees, financial advisory fees, printing costs, legal fees, and such other fees which the General Manager and Chief Executive Officer or the Chief Financial Officer deem necessary to complete the sale of such bonds), and any premium on the sale of the bonds; and be it further

RESOLVED, That an indicative average interest rate will be established by the Board of Directors prior to final issuance; and be it further

RESOLVED, That staff will provide the Board of Directors the total amount of the proposed issuance (principal, any anticipated premium, plus anticipated costs) and

terms of the proposed issuance for final review and approval before bonds may be issued; and be it finally

RESOLVED, That to prevent interruption of the fiscal year 2023 Capital Program and the timely issuance of the bonds, this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,

/s/
Patricia Y. Lee
Executive Vice President and General Counsel

WMATA File Structure No.:
4.1 Bonds