Finance Committee

Action Item III-A

March 9, 2017

Authorization for Debt Issuance

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

◉ Action ○ Information	MEAD Number: 201853	Resolution: ◉ Yes ○ No

TITLE:

Authorization for Debt Issuance

PRESENTATION SUMMARY:

Staff will provide an overview of Metro's existing debt instruments and seek Board authorization to refund a portion of Metro's outstanding debt and increase Metro's short- and long-term debt capacity in support of Metro's Operating budget and Capital Improvement Program (CIP).

PURPOSE:

The authorization will increase Metro's short and long-term debt capacity to support the capital program and provide cash flow flexibility in managing the operating budget through the following financing actions:

• Refund up to $220.5 million of outstanding 2009A and 2009B bonds to reduce interest cost, subject to market conditions.

• Issue Series 2017 Bonds in an amount not to exceed $575.2 million in principal, 5 percent true interest cost, and up to 25 years final maturity, consistent with the FY2018 Proposed Budget and prior approved budgets.

• Increase existing Lines of Credit (LOCs) from $250 to $350 million to ensure interim funding for accelerated capital costs and operating needs.

DESCRIPTION:

Key Highlights:

Similar to other transit agencies, Metro partially funds its capital improvement program through the use of debt facilities, including LOCs and short- and long-term debt. In addition, periodic changes in market conditions occasionally provide opportunities to refund outstanding debt instruments to lower debt service cost. Accordingly, Metro is proposing:

• Refunding Metro's Series 2009A and/or Series 2009B bonds with combined principal amount of up to $220.5 million, which would lower annual debt services cost to jurisdictions that opted-in to the original debt issuance. The level of debt service savings will be determined by market rates at the time of potential refunding.

As part of any refunding, Metro will work with participating jurisdictions to determine whether potential savings will be used to lower their annual contributions to Metro's debt service or to shorten the duration of existing debt.

• Issuance of New Series 2017 bonds of up to $575.2 million in principal to support the FY2017 approved and FY2018 proposed capital budgets. To align the debt to the asset life cycle and ensure low annual debt service, the proposed issuance would have a 25 years final maturity and 5 percent true interest cost, subject to market conditions.

• Increase the LOC as Metro now expects to deploy most of its annual capital budget. Furthermore, the Federal Transit Administration's (FTA) partial restoration of Metro's Electronic Clearing House Operation (ECHO) privileges and delay in reimbursing legacy capital costs means that Metro requires increased LOC to meet cash flow requirements.

Approval of the issuance of Series 2017 Bonds, refunding of the 2009A and 2009B bonds to reduce interest cost and increasing the Lines of Credit will strengthen Metro's fiscal accountability and ensure adequate funding for operating and capital investments.

Background and History:

Refunding Bonds:

In 2010, Metro and its sponsoring jurisdictions entered into a multiyear capital funding and construction agreement, the Capital Funding Agreement (CFA), which has been extended to June 30, 2017. Under this agreement, Metro is authorized to issue bonds for long-term capital projects financing subject to the sponsoring jurisdictions' rights to prepay their share of the bonds, as was done under the predecessor Metro Matters Agreement of 2004. Pursuant to the authority granted in both of those capital funding documents, Metro issued $297.7 million of Series 2009A and 2009B bonds, with $220.5 million of the bonds available for refunding. Current municipal market interest rate conditions may now enable Metro to reduce its annual debt service cost by refunding these outstanding bonds. Any refunding savings will directly benefit the jurisdictions that opted-into the original debt issuance.

New Money Issue for the Capital Program:

Debt issuance for capital projects is provided for under the WMATA Compact. Pursuant to Section 4(b)(2) of the CFA, all or any portion of the CIP may be funded through short-term or long-term debt financing. Long term debt better aligns costs with the useful life of the projects in the capital program.

Similar to other transit agencies, Metro has historically addressed its capital budget funding gaps through the issuance of bonds. As with the CFA, the level of debt included in each capital plan is determined in consultation with jurisdictional staff. Most recently, Metro issued long-term bonds in 2009 ($297.7 million) and short-term bonds in 2016 ($220 million) to fund capital projects.

Lines of Credit:

Currently, Metro has $250 million in combined LOC capacity with two financial institutions. These LOC's are designed to provide short-term liquidity supporting Metro's annual operating and capital needs by smoothing out cash flow volatility throughout the year.

In 2015, Metro increased its LOC capacity from $150 million to $302 million. Combined with the $220 million short-term debt, Metro had a total of $522 million in short-term debt, which was primarily required due to the ECHO restriction imposed by FTA and over $500 million of unreimbursed federal capital costs. As of 2017, Metro has secured FTA reimbursement of over $200 million and is currently seeking reimbursement of the balance. Given the capital program's low investment rate prior to 2016, Metro also reduced the LOC capacity to $250 million to save over $150,000 annually in availability fees.

Since 2016, Metro's capital investment rate has increased substantially, requiring increased liquidity. Recently, the FTA also informed Metro of new guidelines for reimbursement of prior capital costs that would delay the expected timeline to receive these funds. Finally, Metro's FY2017 operating revenue is trending significantly below budget, impeding Metro's short-term capacity to maintain the current accelerated investment pace in the capital program under the current LOC limit.

Discussion:

Metro will have $220.5 million in principal outstanding on the 2009A and 2009B bonds at the time the bonds are subject to optional redemption. These bonds may be reissued by Metro at a lower rate (and potentially shorter duration) due to anticipated favorable market conditions. Savings will be determined by Metro at market rates at the time of potential issuance and will benefit the jurisdictions that opted-in to the original debt issuance.

Metro's capital plan for fiscal years 2017 and 2018 envisioned debt as part of the capital funding plan. Specifically, FY2017 capital budget included $58.3 million of debt financing while the proposed FY2018 capital budget has bond financing in the amount of $441 million. Additionally, the FY2011-2016 CFA included $440 million of long-term debt financing, of which Metro only issued $220 million of short-term debt instead. The combination of lower debt issuance and higher capital investment resulted in a $75.9 million funding gap for capital project expenditures outlined in the 2011-2016 CFA. Rather than provide cash to Metro, jurisdictional staff have agreed to include this amount as part of the proposed debt issuance.

Per the Compact, each jurisdiction has the choice to opt-out of any bond issuance program, and by so doing will reduce the amount of capital funding raised through bonds. In turn, jurisdictions electing to opt-out will prepay their portion of the long-term debt financing in lieu of an annual contribution to pay debt service.

With respect to short-term liquidity needs, Metro is currently projecting higher capital investment and lower operating revenue that will necessitate an increase in Metro's liquidity reserve to six weeks of cash flow rather than the current four weeks of cash flow. Additionally, expected delays in FTA's timeline for reimbursing Metro's prior capital costs will cause further stress on cash flow, furthering the need to increase

Metro’s current LOC to $350 million.

In total, Metro’s outstanding short- and long-term debt is currently $717.9 million. After all of the actions requested under this authorization and repayment of the LOC, Metro’s total outstanding debt will increase by $325 million to fund new capital projects. The attached table shows Metro’s debt structure before and after the issuance of the 2017 long-term bonds.

FUNDING IMPACT:

These series of actions will increase Metro’s short and long-term cash flow and ensure continued support for the capital program.

TIMELINE:

Previous Actions	FY2017 capital budget and proposed FY2018 capital budget have identified bond financing as a funding source to for capital expenditures.
Anticipated actions after presentation	**Timeline $575.2 million Bond Issuance** • March 2017: Approval of Debt Issuance and Line of Credit • April-July 2017: 120-Day Opt-out Period • May 2017: Select underwriting team • June 2017: Confirm financing structure • July 2017: Approval of bond documents, Distribute official statement • September 2017: Close transaction proceeds **Timeline $220.5 million Bond Refunding: TBD** **Timeline $100 million Additional Line of Credit** • March 2017: Approval of Line of Credit • March 2017: Identify lenders for additional LOC • April 2017: Close transaction

RECOMMENDATION:

Approve resolutions authorizing issuance of Series 2017 Bonds, refunding of the Series 2009 bonds to reduce interest cost and increase the Lines of Credit to ensure adequate funding for operating and capital investments

Authorization for Debt Issuance

Finance Committee
March 9, 2017

Purpose

- Seeking Board authorization to increase debt capacity to support Metro's capital program and provide operating budget flexibility through:
  - ✓ Issuance of Series 2017 Bonds not to exceed $575.2 million in principal, 5 percent true interest cost and 30 year final maturity
  - ✓ Refunding 2009A and 2009B bonds ($220.5 million) to reduce interest cost
  - ✓ Increasing existing Lines of Credit (LOCs) capacity to $350 million

Comparative Debt Profile

- Factors that impact credit rating are economic fundamentals, debt load, reserves, dedicated funding, management, etc.
- Ratio of long-term debt to Net Capital Assets for major transit agencies are as follows:

(Millions)	Debt	Debt / Net Capital Assets	S&P	Moodys
New York MTA	$ 34,483.0	56%	AA	NR
Mass Bay Transit Authority (MBTA)	$ 5,309.6	60%	AA+	Aa2
Los Angeles MTA	$ 4,533.2	36%	AA+	Aa2
Chicago Tranit Authority	$ 4,136.3	83%	A+	NR
Metropolitan Atlanta Rapid Transit	$ 2,113.9	71%	AA+	Aa2
San Fran Bay Area Rapid Transit	$ 1,334.4	18%	AA+	NR
WMATA (Proposed)	$ 1,043.1	9%	AA-	A2

Source: Bloomberg

Use of Debt

- Provides short and long-term to support capital investment program

- Aligns funding to asset life-cycle and provides near-term funding relief to jurisdictions

- LOC bridges normal cash flow volatility

- Primarily supports Metro’s capital investment activities

Bond Refunding

- Series 2009 A/B bonds have $248 million principal outstanding
- Approximately $220 million can be refunded on/after July 1, 2019, at a lower interest rate
- Market rates will determine refunding savings
- Potential use of savings:
  - ✓ Shorten debt service duration
  - ✓ Lower contributions for opt-in jurisdictions

Increase Line of Credit

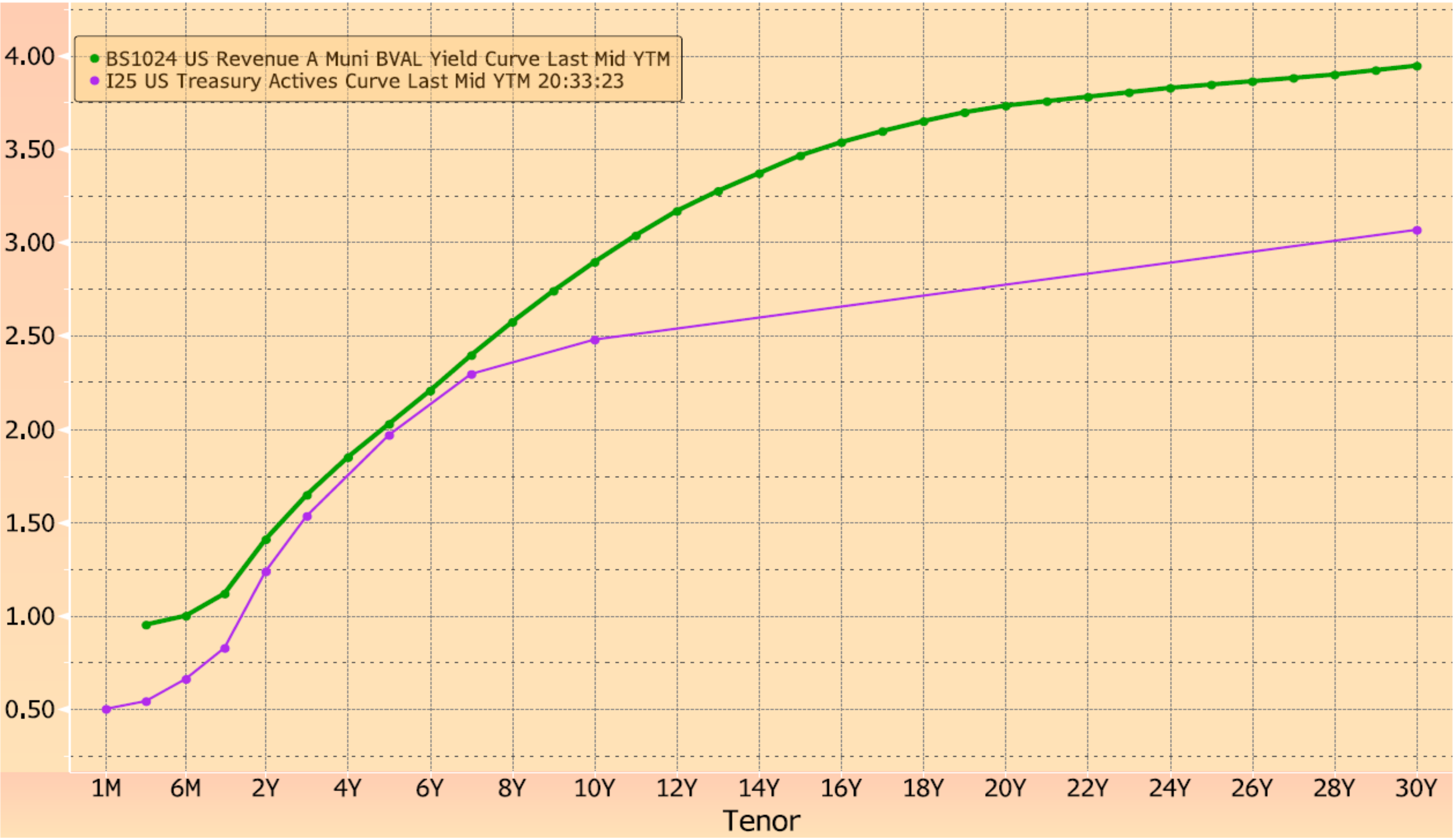
- Metro’s annual capital and operating expenditures total approximately $3 billion
- $250 million LOCs support the capital program and cover backlog of FTA grant reimbursements
- Facing expected delay in FTA reimbursement
- Higher capital investment and current revenue trend require six weeks cash flow availability (instead of four weeks)

New Debt Issuance

- New debt issuance will support proposed and prior capital projects
- Total authorized amount shall not exceed $575.2 million including:
  - ✓ $ 75.9 million authorized in FY2011-2016 CFA
  - ✓ $ 58.3 million authorized in FY2017
  - ✓ $441.0 million proposed for FY2018
- Proceeds will maintain support for on-going capital projects

Revenue Bond Price History

Current Yield Curves



Jurisdiction Shares

- Principal amount is allocated to jurisdictions based on capital program shares
- Annual debt service to be allocated based on jurisdictional opt-out schedule

Jurisdiction	CFA Reconciliation	FY17 Approved	FY17 Additional	FY18 Proposed	Total
District of Columbia	**$28.8**	**$21.7**	**$55.8**	**$103.1**	**$209.4**
Montgomery County	$13.3	$9.9	$25.5	$52.4	$101.1
Prince George's County	$14.4	$10.3	$26.6	$49.6	$100.9
State of Maryland	**$27.7**	**$20.2**	**$52.1**	**$102.0**	**$202.0**
City of Alexandria	$1.7	$2.6	$6.7	$13.6	$24.6
Arlington County	$6.2	$4.9	$12.5	$25.9	$49.5
City of Fairfax	$0.2	$0.2	$0.4	$0.8	$1.6
Fairfax County	$11.0	$8.5	$22.0	$44.9	$86.4
City of Falls Church	$0.3	$0.2	$0.5	$0.7	$1.7
Commonwealth of Virginia	**$19.4**	**$16.4**	**$42.1**	**$85.9**	**$163.8**
Total	**$75.9**	**$58.3**	**$150.0**	**$291.0**	**$575.2**

* Does not include cost of issuance

Debt Profile

- Increased debt reflects proposed FY2018 capital investment
- New debt profile better aligns with longer-term asset values

	Current Debt Profile			New Debt Profile		
($ in millions)	Short-term	Long-term	Total	Short-term	Long-term	Total
2009 Series A	$0.0	$192.9	$192.9	$0.0	$192.9	$192.9
2009 Series B	$0.0	$55.0	$55.0	$0.0	$55.0	$55.0
2016 Series A	$220.0	$0.0	$220.0	$220.0	$0.0	$220.0
2017 Bonds		$0.0	$0.0		$575.2	$575.2
Line of Credit	$250.0	$0.0	$250.0	$0.0	$0.0	$0.0
Total	$470.0	$247.9	$717.9	$220.0	$823.1	$1,043.1

Timetable

- **March 2017:** Approval of Debt Issuance and Line Of Credit
- **April-July 2017:** 120-Day Opt-out Period
- **May 2017:** Select Underwriting Team
- **June 2017:** Confirm Financing Structure
- **July 2017:** Approval of Bond Documents
Distribute Official Statement
- **September 2017:** Close Transaction Proceeds

Recommendation

- Approve resolutions authorizing:
  - Refund of 2009A and 2009B bonds to reduce interest cost,
  - Issuance of Series 2017 Bonds, and
  - Increase in Lines of Credit capacity to support operating and capital investments

SUBJECT: APPROVAL TO NEGOTIATE BONDS IN A PRINCIPAL AMOUNT NOT TO EXCEED $575.2 MILLION

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

WHEREAS, In 2010, the Washington Metropolitan Area Transit Authority (WMATA) and its sponsoring jurisdictions entered into a multiyear capital funding and construction agreement known as the Capital Funding Agreement (CFA) which has been extended to June 30, 2017, and which is proposed to be further extended to June 30, 2018; and

WHEREAS, The CFA permits WMATA to issue bonds necessary for the long-term financing of projects included in the agreement subject to the sponsoring jurisdictions' rights to prepay their share of the necessary bonds; and

WHEREAS, It is the intent of WMATA to reimburse itself for eligible expenses incurred before the issuance of the bonds covered in this resolution to the extent permitted by the Internal Revenue Code of 1986 and regulations issued under such Code; and

WHEREAS, Staff has further determined that the Authority may need to issue the bonds in early Fiscal Year (FY) 2018 and WMATA is required to provide at least 120 days' notice to the sponsoring jurisdictions before the bonds may be issued; and

WHEREAS, The 2016 Series of bonds was originally planned to be for $440 million but was only issued in the amount of $220 million, leaving $75.9 million in CFA expenditures in excess of jurisdictional contributions received by WMATA or bond proceeds; and

WHEREAS, The proposed bond issue will address the FY2017 need of $58.3 million, the FY2018 requirement of $441 million and the $75.9 million not paid through the Series 2016 Bonds or by jurisdictional contributions; and

WHEREAS, The use of long term debt will lower the annual debt service paid by the jurisdictions and provide a stable funding source for the Capital Improvement Plan; now, therefore be it

RESOLVED, That the Board of Directors authorizes the General Manager/Chief Executive Officer (GM/CEO), the Chief Financial Officer (CFO) and the Treasurer, and each of them individually to initiate with the sponsoring jurisdictions the issuance of long-term bonds and to obtain the underwriting, Trustee, printing, and other services necessary to issue the bonds. The long-term bonds, if issued, would have the following terms: duration to be no more than 25 years; an aggregate amount not to exceed $575.2 million in principal, excluding any required debt service reserve and the costs of issuance (including but not limited to underwriters' fees, financial advisory fees, printing costs, legal fees, and such other fees which the GM/CEO or the CFO deem necessary to complete the sale of such bonds) all of such expenses, costs, and fees being authorized by the Board of Directors to be included in the bond issuance in addition to the aggregate principal amount listed above; 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 shall give the sponsoring jurisdictions the option to prepay their share of the bonds before the final amount of the bond issue is established in accordance with the terms of the CFA; and be it further

RESOLVED, That Staff shall bring to the Board of Directors the total amount of the proposed issuance (principal plus anticipated costs) and the terms of the proposed issuance for final review and approval before bonds may be issued; and be it finally

RESOLVED, That in order to provide the required notice to the sponsoring jurisdictions and meet the schedule for bond issuance, this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,

Mark R Pohl

for Patricia Y. Lee
General Counsel

WMATA File Structure No.:
4.1 Bonds

SUBJECT: APPROVAL TO REFUND SERIES 2009 BONDS

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

WHEREAS, In 2010, the Washington Metropolitan Area Transit Authority (WMATA) and its sponsoring jurisdictions entered into a multiyear capital funding and construction agreement known as the Capital Funding Agreement (CFA) which has been extended to June 30, 2017, and which is proposed to be further extended to June 30, 2018; and

WHEREAS, In 2004, WMATA entered into a multiyear capital funding and construction agreement known as the Metro Matters Funding Agreement (Metro Matters Agreement), which expired on July 1, 2010; and

WHEREAS, The CFA permits WMATA to issue bonds necessary for the long-term financing of projects under that agreement subject to the sponsoring jurisdictions' rights to prepay their share of the necessary bonds as did the predecessor Metro Matters Agreement; and

WHEREAS, Pursuant to the authority granted in those documents, WMATA issued the Series 2009A and 2009B bonds; and

WHEREAS, It now may be financially advantageous to refund one or more of those series of bonds; now, therefore be it

RESOLVED, That the Board of Directors authorizes the General Manager/Chief Executive Officer (GM/CEO), the Chief Financial Officer (CFO) and the Treasurer, and each of them individually to initiate with the sponsoring jurisdictions the issuance of one or more series of bonds to refund any or all the existing series of bonds and to obtain the underwriting, Trustee, printing, and other services necessary to issue the bonds. The refunding bonds, if issued, would have the following terms: duration to be no longer than the remaining time left on the bond series being refunded; an aggregate amount not to exceed the outstanding principal balance on each series of bonds being refunded, excluding any required debt service reserve and the costs of issuance (including but not limited to underwriters' fees, financial advisory fees, printing costs, legal fees, and such other fees which the GM/CEO or the CFO deem necessary to complete the sale of such bonds) all of such expenses, costs, and fees being authorized by the Board of Directors to be included in the bond issuance in addition to the aggregate principal amount described above; and be it further

RESOLVED, That an indicative average interest rate will be established by the Board of Directors prior to final issuance, provided however, staff is directed to seek an indicative rate which does not increase the existing sponsoring jurisdictions' debt service payments for those series of bonds; and be it further

RESOLVED, That Staff shall give those sponsoring jurisdictions who did not prepay the Series 2009A or 2009B bonds the option to prepay their share of the bonds before the final amount of the bond issue is established in accordance with the terms of the CFA; and be it further

RESOLVED, That those sponsoring jurisdictions which did prepay their share of the Series 2009A or 2009B bonds shall have no role or responsibility in the issuance of or debt service on the refunding series of bonds which replaces any of the Series 2009A or 2009B bonds prepaid by them; and be it further

RESOLVED, That Staff shall bring to the Board of Directors the total amount of the proposed issuance (principal plus anticipated costs) and the terms of the proposed issuance for final review and approval before bonds may be issued; and be it finally

RESOLVED, That in order to provide the required notice to the appropriate sponsoring jurisdictions and meet the schedule for bond issuance, this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,

for Patricia Y. Lee
General Counsel

WMATA File Structure No.:
4.1 Bonds

SUBJECT: INCREASE OF LINES OF CREDIT AUTHORIZED BY RESOLUTION 2016-06

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

WHEREAS, Board Resolution 2016-06 authorized the renewal of the Washington Metropolitan Area Transit Authority (WMATA) Lines of Credit ("LOCs") in an aggregate amount of $302.5 million with certain terms and conditions effective on February 25, 2016, and also reduced the lines to an aggregate amount of $250 million on July 1, 2016; and

WHEREAS, As a result of accelerated capital investment beyond the original Fiscal Year (FY) 2017 budget plan, particularly for the delivery of new 7000 Series railcars and the SafeTrack initiative, Board Resolution 2016-48 authorized an increase in the approved FY2017 Capital Budget from $950 million to $1.1 billion, to be financed in FY2017 with LOCs and/or other short-term debt instruments; and

WHEREAS, In the performance of the Capital Improvement Plan, WMATA has spent approximately $291 million for which the Federal Transit Administration (FTA) has deemed to be currently uncollectible; and

WHEREAS, Declining Metrorail and Metrobus ridership due to SafeTrack, customer concerns over service reliability, and external market challenges, WMATA operating revenues to date in FY2017 are significantly below budget; and

WHEREAS, Maintaining the SafeTrack schedule and facilitating the accelerated delivery of the Series 7000 rail cars requires an increase in the LOCs to an amount of $350 million to maintain prudent cash management of WMATA expenditures under the Capital program and to ameliorate any shortfall under the Operating budget; and

WHEREAS, In the current interest rate environment, WMATA may need to pay 0.25% more spread than the current 1.50%, for a total spread of 1.75% over and above the one-month LIBOR rate; now, therefore be it

RESOLVED, That the Board of Directors authorizes the LOC Executives as defined in Board Resolution 2016-06, to negotiate and execute all required documents to increase the LOCs in an amount not to exceed $350 million until such time as elsewise authorized by the Board of Directors; and be it further

RESOLVED, That all other terms and conditions under Board Resolution 2016-06 shall remain in effect, except that the rate paid on the LOCs under this Resolution may not exceed the current one-month LIBOR rate plus an annual rate of 1.75%; and, be it finally

RESOLVED, That in order to negotiate the necessary documents and ensure adequate cash flow prior to the expiration of the current lines of credit, this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,

Patricia Y. Lee
General Counsel

WMATA File Structure No.:
4.6 Lines of Credit Issued to WMATA