



Finance and Capital Committee

Information Item III-A

March 12, 2020

**Dedicated Revenue
Financing Program Update**

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
202163

Resolution:
☐ Yes ☒ No

TITLE:

Dedicated Revenue Financing Program

PRESENTATION SUMMARY:

Staff to update the Committee on the proposed terms and recommend a sales strategy for an inaugural \$545 million bond issuance tentatively scheduled for early May 2020 pricing.

PURPOSE:

Staff will provide details and process for the Committee on the inaugural \$545 million in dedicated funding revenue bonds and recommend a negotiated sale with terms and conditions as detailed herein, and in accordance with the Debt Management Policy

DESCRIPTION:

Key Highlights:

- Receipt of dedicated funding requires a new financing credit. The 2020 Dedicated Capital Funding credit is being crafted to pledge only the collateral of the new dedicated funding revenue for the debt issuance
- Debt issuance for capital projects, with the exception of the Virginia Restricted Account, is a permitted use of dedicated funding
- The FY2019-2020 CIP funding levels require long-term debt that was determined in consultation with jurisdictional staff and meet Metro's capital investment needs
- Seeks to maximize capital funds financing and to minimize borrowing cost
- In accordance with the Board approved Debt Management Policy

Background and History:

On September 25, 2003 the Board adopted the Gross Revenue Bond Resolution (2003-53). This resolution pledged WMATA Gross Revenues as collateral for bond issuances for all bonds issued from 2003 through 2017 on behalf of the region. With passage of Dedicated Revenue funding WMATA will establish a new credit on which to borrow to meet its capital investment needs.

Long-term debt aligns capital project costs with the useful life of capital assets. The level of funding in the FY2020 CIP provided by long-term debt was determined in consultation with jurisdictional staff.

Debt issuance for capital projects is authorized by the Compact and is in accordance with Metro's Debt Management Policy the Board adopted on February 27, 2020.

Discussion:

Metro's capital plan for FY2020 included \$397 million in long-term debt to fund planned capital investment in FY2020. Capital investments originally funded by WMATA internal funds and credit lines in FY2019 require an additional \$148 million to be added to the FY2020 long-term debt funding source.

Dedicated Revenue funding directs a dedicated revenue stream to Metro on which to leverage debt financing with dedicated funding pledged as collateral.

Staff recommends this inaugural Dedicated Revenue Capital Funding Bonds Series 2020A issue be sold through the negotiated method to take advantage of the favorable attributes a negotiated sale provides on an inaugural credit issue. Negotiated bond sales are commonly used for complex issues, large fixed rate transactions and revenue bond transactions.

The Series 2020A Bonds include:

- A complex, new credit with no market comparables;
- Multiple jurisdictions with multiple types of revenue streams; and
- Timing differences in revenue streams and limited history of certain of those streams

The 2020 bond issuance is under review by the various rating agencies and no rating is available at this time; however, the bonds are projected to settle under the following assumptions subject to market and other conditions:

Series 2020A Proposed Terms	
Maturity	25 Years
Par Issue Size (Not to Exceed)	\$545 million
Serial Bonds	
All-in True Interest Cost (estimate)	2.65%

FUNDING IMPACT:

Define current or potential funding impact, including source of reimbursable funds.	
Project Manager:	Robert Haas

Project Department/Office:	CFO/TRES
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TIMELINE:

Previous Actions	<p>February 27, 2020: Debt Management Policy adopted by Board</p> <p>March 2020: Presentations delivered to rating agencies, Fitch and S&P, seeking indicative ratings on the dedicated revenue bonds</p>
Anticipated actions after presentation	<p>April 2: Seek Committee approval for bond resolution for bond sale</p> <p>April 23: Seek Board approval for bond resolution for bond sale</p> <p>May 3: Anticipated bond pricing</p>

RECOMMENDATION:

No recommendation. This is an information item only.

Dedicated Revenue Financing Program

Finance and Capital Committee

March 12, 2020



Purpose

- Update the Board on WMATA's Dedicated Revenue Financing Program and Process

Dedicated Revenue Financing Process

- November 2019:** GM/CEO Recommended Six-Year Capital Plan including Debt Financing
- March 2020:** Recommend Inaugural Issue Sales Strategy to Finance and Capital Committee
- April 2020:** Seek Committee and Board Approval of Prospective Bond Terms, Conditions and Method of Sale, Bond Resolutions, Bond Purchase Agreement and Offering Statement

Dedicated Revenue Financing Program

- Leverages Dedicated Revenues to issue debt in support of WMATA's Capital Improvement Program
- Requires establishment of a Trust Estate consisting of Dedicated Revenues as security for bond repayment
- Credits liens and credit structures for leveraging Dedicated Revenues in support of capital investments
- Seeks to maximize capital funding and minimize cost to ensure a state of good repair

Dedicated Revenues Profile

- WMATA will receive \$500 million each year; which includes approximately \$30 million of non-bondable funding
- Dedicated revenue receipts are deposited into separate Dedicated Revenue Trust accounts

(\$ in millions)	District of Columbia	Maryland	Virginia	Total
Bondable	\$178.5	\$167.0	\$124.0	\$469.5
Non-Bondable			\$30.5	\$30.5
Total	\$178.5	\$167.0	\$154.5	\$500.0

Debt will provide over \$1.6B through FY2024 to support WMATA's Capital Investments

(\$ in millions)	2019	2020	2021	2022	2023	2024	Total
Capital Need	\$1,544	\$1,876	\$1,821	\$1,865	\$1,563	\$1,493	\$10,163
Federal Funds ¹	\$513	\$500	\$500	\$500	\$500	\$500	\$3,013
Local Funds ²	\$883	\$480	\$480	\$509	\$444	\$456	\$3,252
Dedicated Funding	\$0	\$500	\$500	\$500	\$500	\$500	\$2,500
Less: DF for Debt Svc	\$0	\$0	(\$31)	(\$52)	(\$76)	(\$87)	(\$246)
Total	\$1,396	\$1,480	\$1,449	\$1,457	\$1,368	\$1,369	\$8,519
Debt Requirement	\$148	\$397	\$372	\$409	\$195	\$124	\$1,645

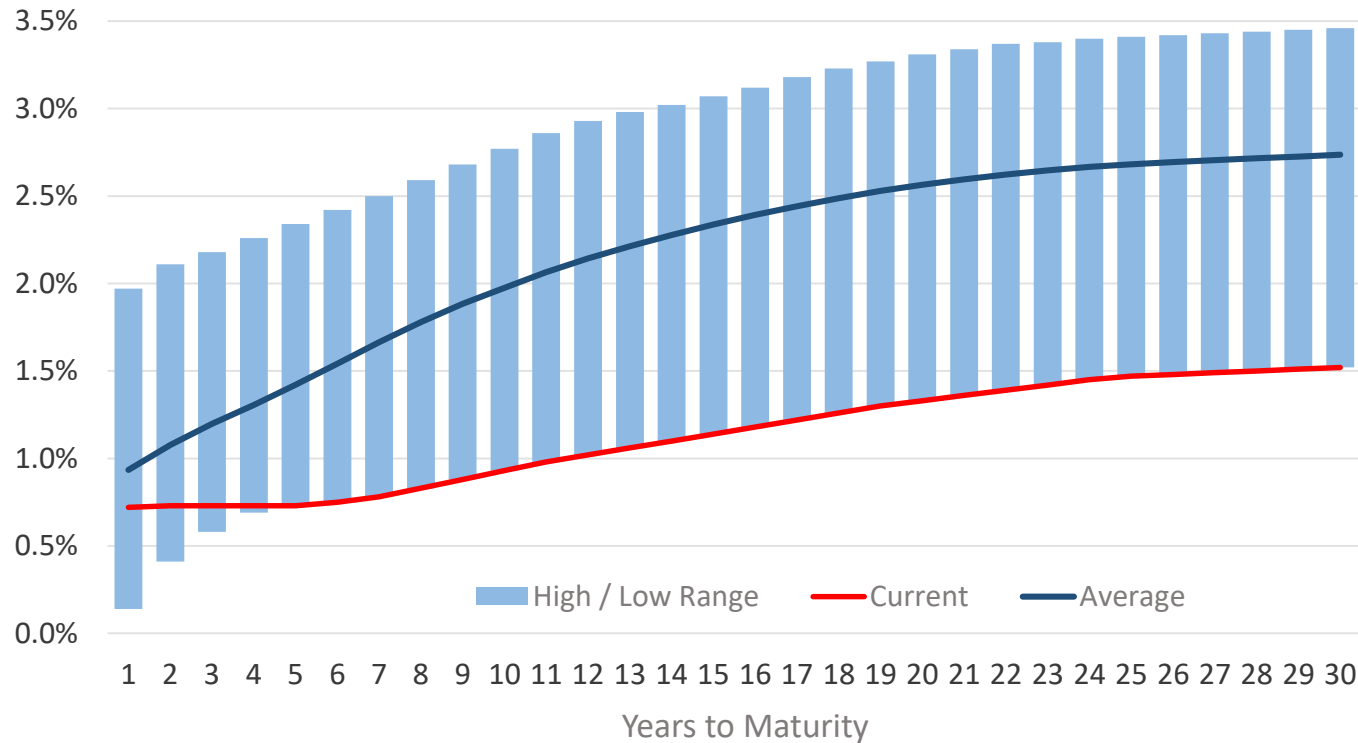
1. Assumes continuation of PRIIA 2. FY2019 includes Series 2018 Gross Revenue Bonds and Virginia Dedicated Funding

Capital Investments that May Be Funded with Debt include...

(\$ in millions)	FY2020 Forecast
Railcar	\$359
Rail Systems	\$255
Track and Structure Rehabilitation	\$149
Station and Passenger Facilities	\$672
Bus and Paratransit	\$170
Business Support	\$271
Total Capital Programs	\$1,876

Current Tax-Exempt Bond Market

Historical MMD Yield Curve
January 2015 – February 2020



- Continuing volatility in the bond market leading to record low interest rates
- WMATA's Dedicated Revenue Bonds will price at a modest spread off MMD, depending on credit ratings, market conditions and investor demand on day of pricing

MMD assumes pricing to a standard 10-year par call

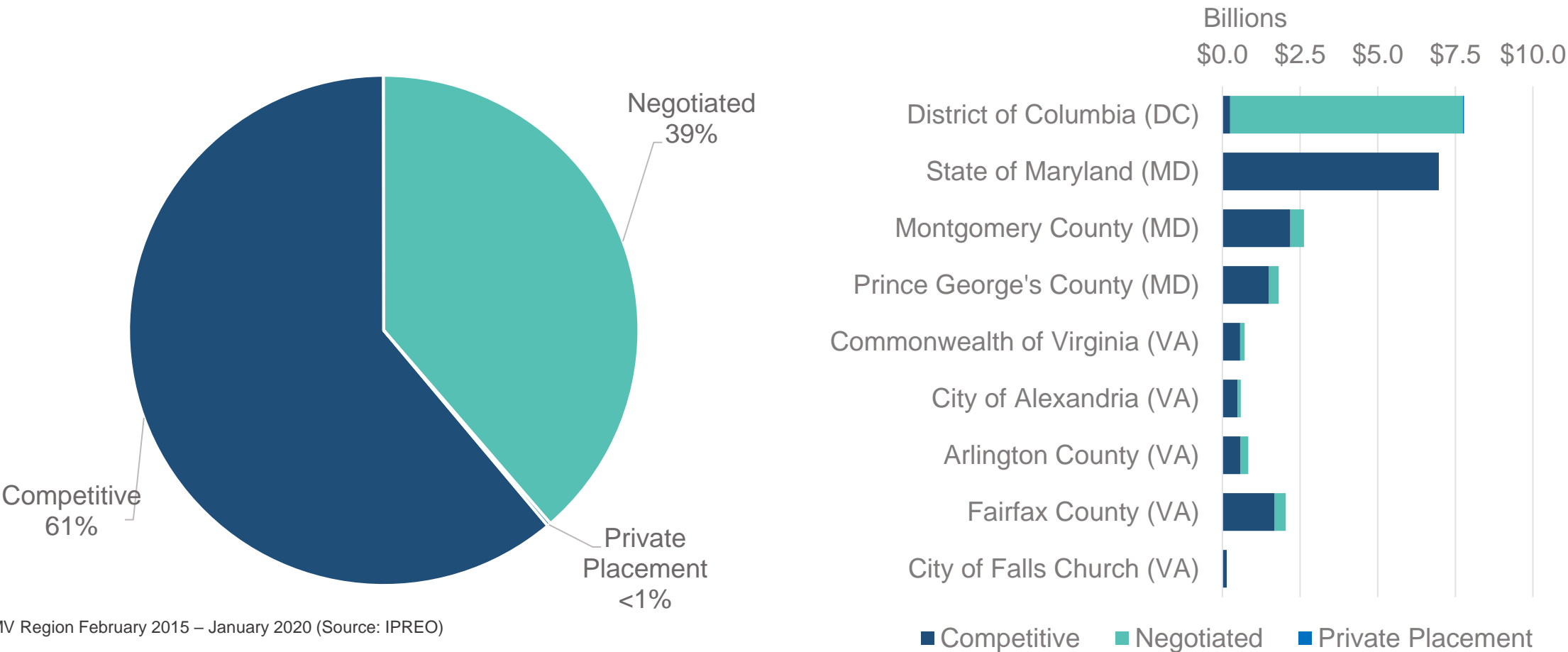
Series 2020 Dedicated Revenue Bonds Anticipated Terms

Anticipated Bond Terms	
Maturity	25 Years
Principal Amount (Not to Exceed)	\$545M
All-in True Interest Cost (estimate)	2.65%

New debt will increase WMATA's outstanding long term debt, with increased useful life of assets

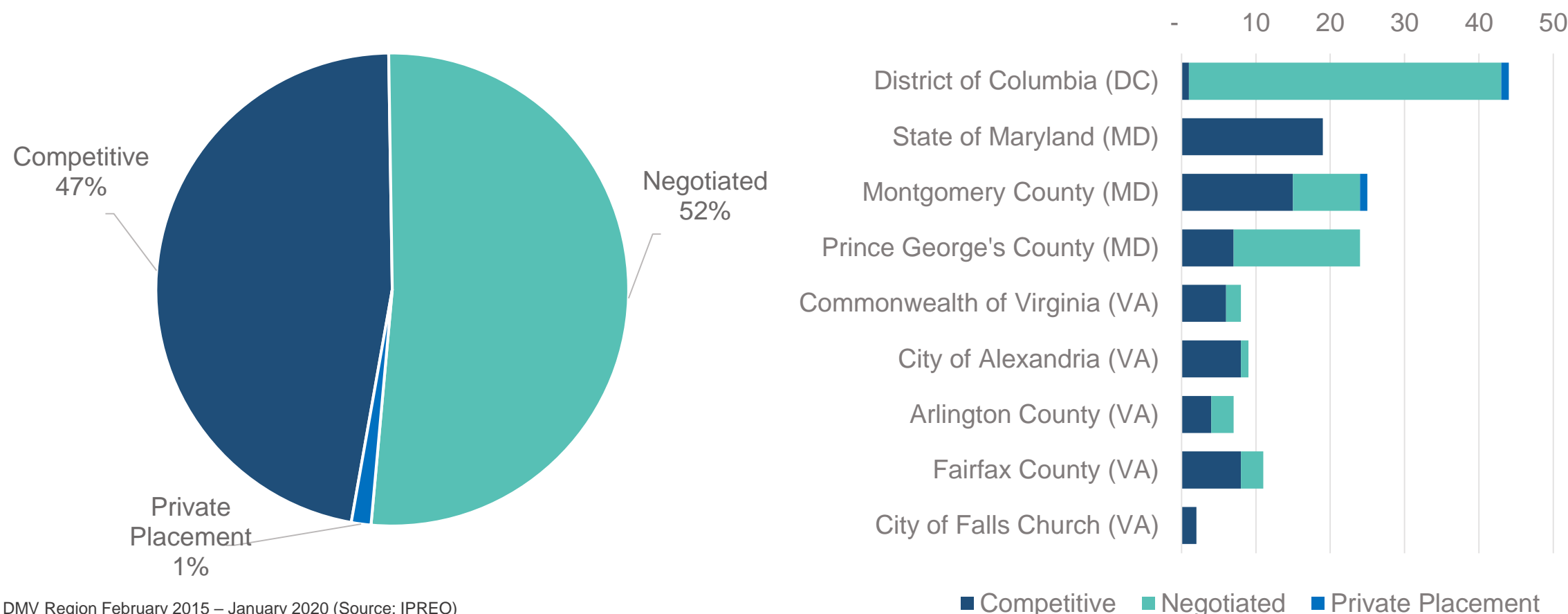
(\$ in millions)	Current Profile	Proposed Profile
Series 2020 Dedicated Revenue Bonds	\$0.0	\$545.0
Series 2018 Gross Revenue Bonds	\$239.9	\$239.9
Series 2017B Gross Revenue Bonds	\$485.5	\$485.5
Series 2017A Gross Revenue Refunding Bonds	\$197.4	\$197.4
Total	\$922.8	\$1,467.8

Competitive is the Primary Sales Method by Dollars¹



1. DMV Region February 2015 – January 2020 (Source: IPREO)

Negotiated is the Primary Sales Method by Number of Issues¹

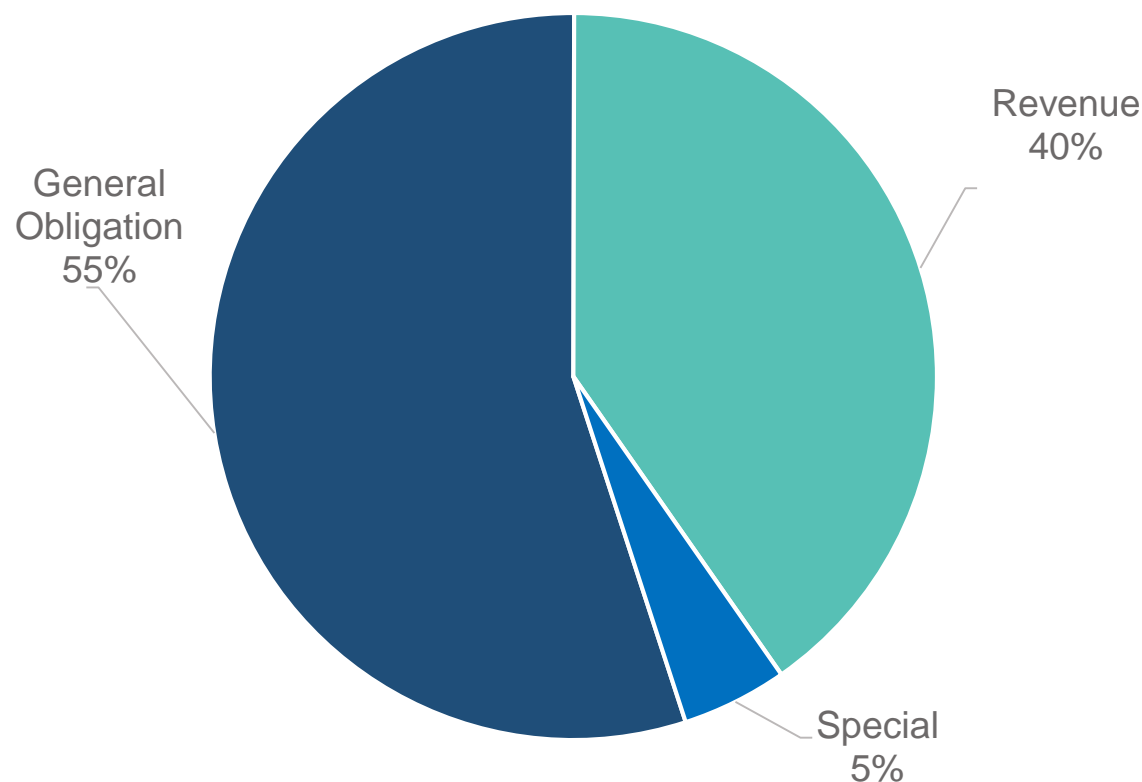


1. DMV Region February 2015 – January 2020 (Source: IPREO)



Overview of Issuances in Jurisdictions by Type¹

(by number of issues)



General Obligation (GO)

Guaranteed pledge by taxing authority

Special (Certificate of Participation)

Pledge of taxes levied on the community benefiting from bond-funded project

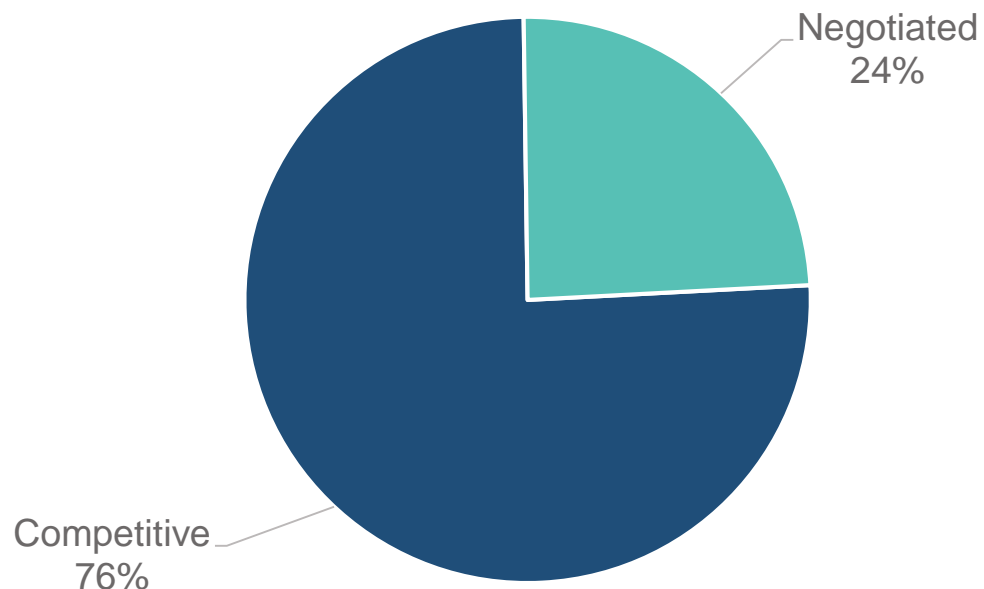
Revenue

Guaranteed by specific revenues generated by the issuer (sales, gas tax, etc.)

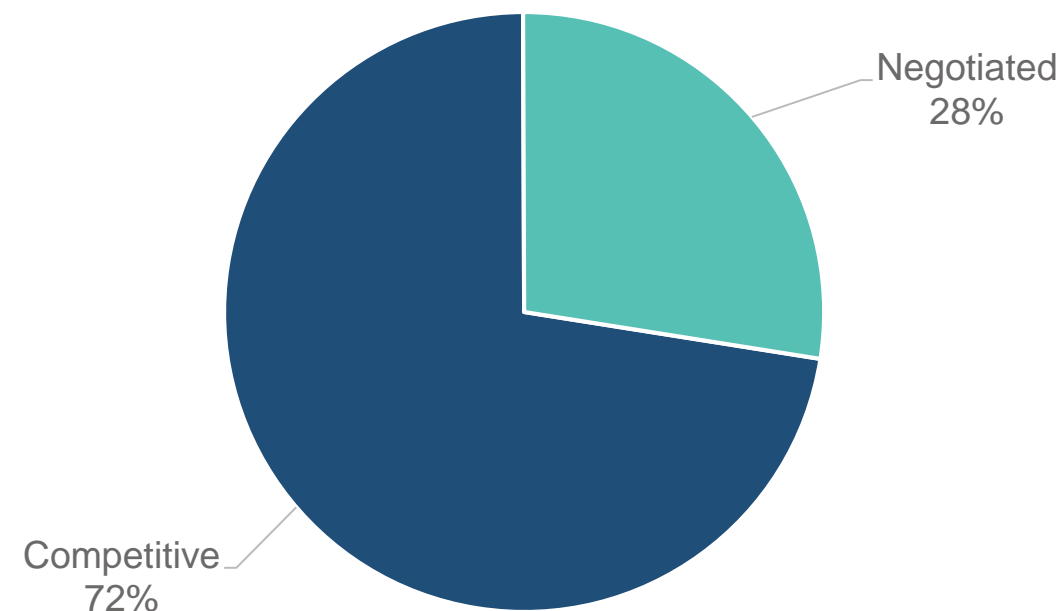
1. DMV Region February 2015 – January 2020 (Source: IPREO)

Most GO Bonds by Jurisdictions Are Sold on Competitive Basis¹

By Number of Issues



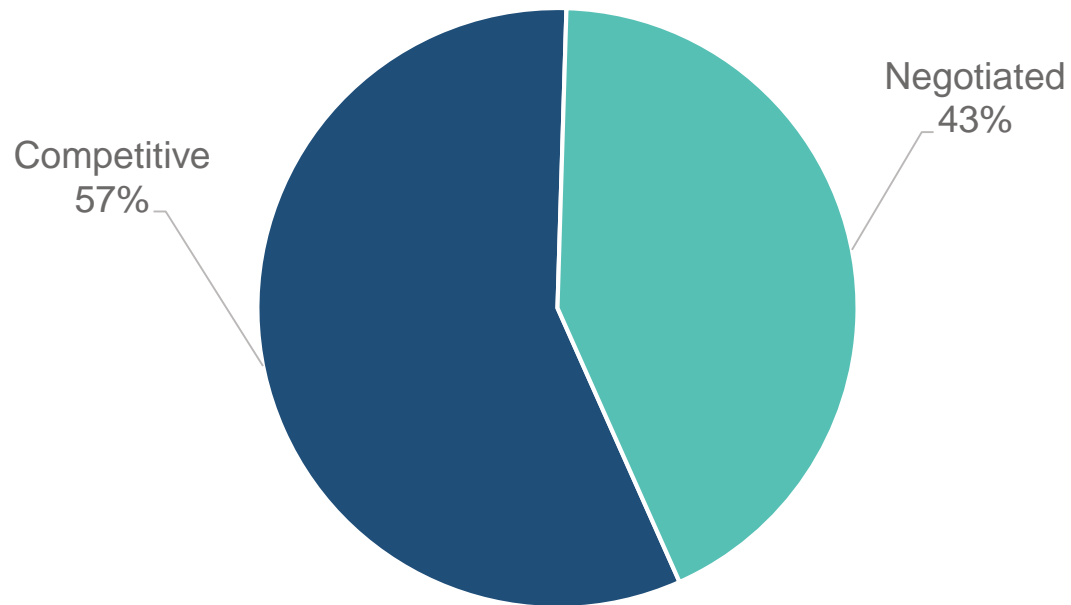
By Volume



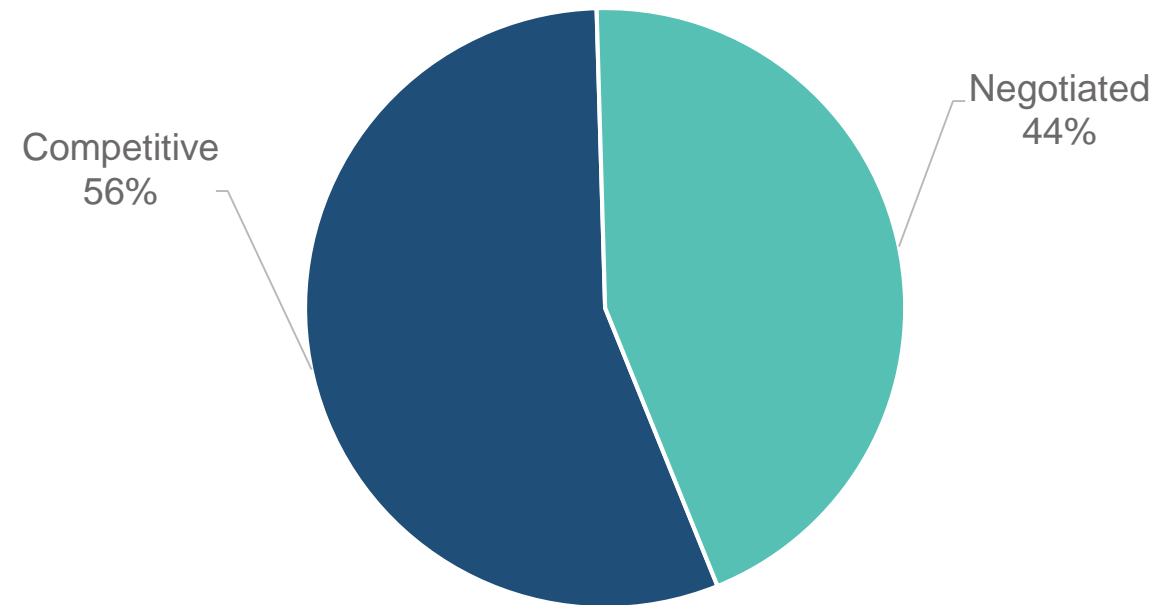
1. DMV Region February 2015 – January 2020 (Source: IPREO)

Sale Method for Special Bonds by Jurisdictions is Nearly Equal¹

By Number of Issues



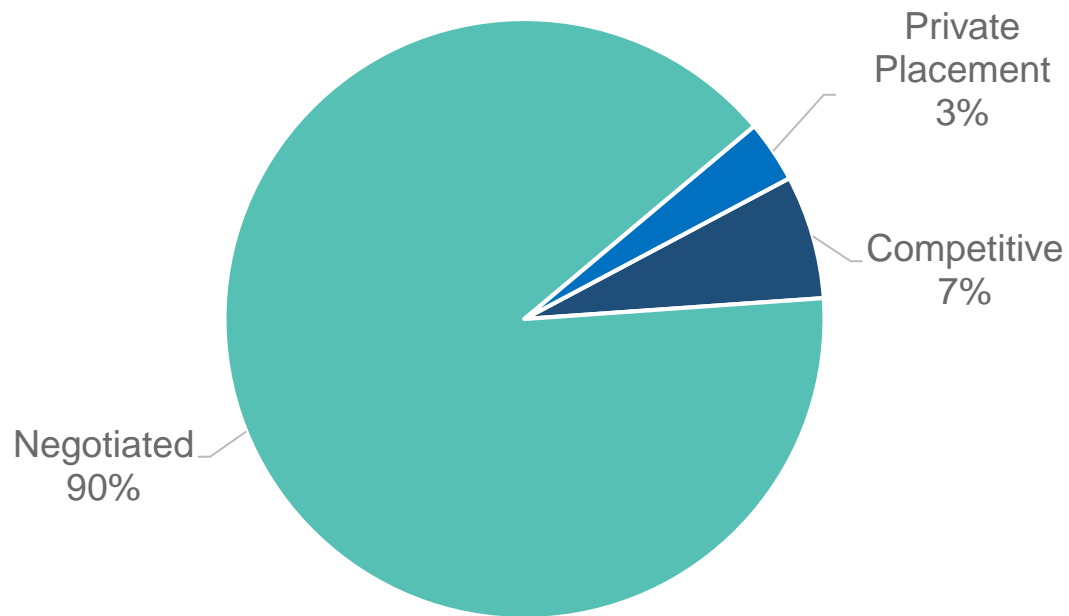
By Volume



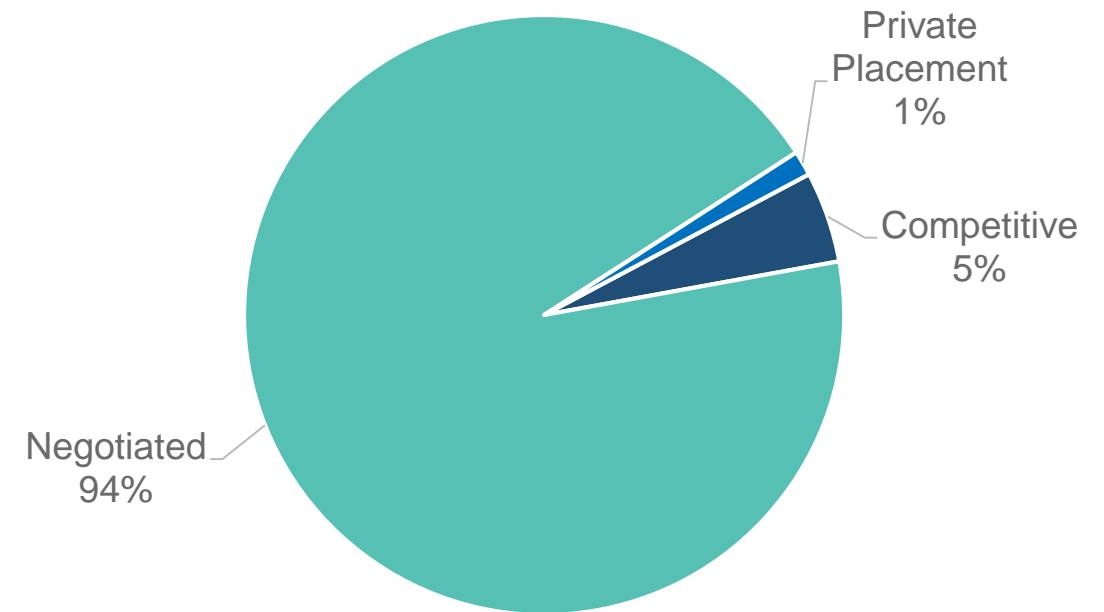
1. DMV Region February 2015 – January 2020 (Source: IPREO)

Vast Majority of the Region's Revenue Bonds are Issued via Negotiated Sale¹

By Number of Issues



By Volume



1. DMV Region February 2015 – January 2020 (Source: IPREO)

Bond Sale Characteristics

Competitive

- The issuer is a regular borrower in the public market with existing investor base
- Broad market awareness of the credit
- General obligation pledge with strictly defined tax revenue source
- Simple credit structure

Negotiated

- A complex, new credit with no market comparable
- Multiple jurisdictions with multiple types of revenue streams
- Timing differences in revenue streams and limited history of certain of those streams
- Optimal during unstable market conditions

Proposed Bond Sale Strategy

- WMATA's Dedicated Revenue Credit is a revenue bond tied to revenues from the District of Columbia, Maryland, and Virginia
 - ✓ New credit
 - ✓ Multiple revenue streams
 - ✓ Complex/multi-jurisdictional agreements, contributions and requirements
- Staff recommend negotiated strategy for this inaugural dedicated revenue financing to fully educate the market and achieve best rate
- Complies with Board-adopted WMATA Debt Management Policy

Key Activities and Milestones

