Action Item (A) 04-29-2020

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

◉ Action ○ Information	MEAD Number: 202168	Resolution: ◉ Yes ○ No

TITLE:

LOC Margin Limit Increase and Bank Indemnification

PRESENTATION SUMMARY:

Staff requests the Board 1) grant an exception to Section 206 of the Debt Management Policy to increase the interest margin cap for short-term debt to LIBOR plus 4.25 percent, including any applicable floor on the then current one-month LIBOR index rate; 2)approve the LOC facilities; and 3) indemnify new financial institutions in order to enable their inclusion in WMATA's line of credit ("LOC") facilities.

PURPOSE:

Instead of the proposal by management last week to amend the Debt Management Policy, the Board of Directors is requested to 1) grant an exception to Section 206 of the Debt Management Policy to increase the interest margin cap for short-term debt to **one -month** LIBOR plus **4.25, including any applicable floor on the then current one-month LIBOR index rate; 2) approve the LOC facilities with Truist Bank (formerly SunTrust Bank), Bank of America, Wells Fargo and Barclays; and 3)** indemnify financial institutions in order to enable their inclusion in WMATA's line of credit facilities.

DESCRIPTION:

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

- Wells Fargo
- Bank of America
- Truist Bank
- Barclays Bank

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 financial institutions since the start of the year; however, current market conditions have changed dramatically in a manner unforeseeable a few months ago. Proposals include higher interest margins **and establish one-month LIBOR floor rates**. **Granting an exception to the debt policy, approving the offered lines of credit proposals and**

indemnifying the new financial institutions allows staff to establish new LOC facilities prior to May 27, 2020, when current LOC facilities expire.

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 on the expiring $350 million line of credit facility range from 0.27 to 0.45 percent.
• **Current LOCs expire on May 27, 2020, requiring WMATA to repay $350 million to credit facility providers by that date absent replacement credit facilities**
• Interest margins on the term sheets received for renewing LOC program range from **one-month** LIBOR **(or applicable LIBOR floor)** plus 0.72 to 2.50 percent.
• Additionally, proposals include tiered performance pricing that have the potential to raise the interest margins to a range of **one-month** LIBOR **(or applicable LIBOR floor)** plus **1.82** to 4.25 percent.
• **The current LOC proposals begin to expire on April 30, 2020**.

Background and History:

Currently, WMATA has four lines of credit in the aggregate amount of $350 million with interest rate margins ranging from 0.27 to 0.45 percent plus one-month LIBOR. The banks in the facility include SunTrust Bank, Bank of America, Wells Fargo and PNC Bank. The current LOC facilities expire on May 27, 2020; requiring WMATA to repay $250 million to credit facility providers by that date absent replacement credit facilities.

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. Financial institutions 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:

Since January 2020, staff has been negotiating with financial institutions for the renewal or replacement of WMATA's lines of credit. Specifically, staff solicited the incumbent banks as well as financial institutions outside the current credit facility, including Barclays, RBC Capital Markets, US Bank and Truist Bank (formerly SunTrust Bank).

With the dramatic change in market conditions, in mid-April, one incumbent institution declined to renew, while three other institutions agreed to renew for a combined $300 million, but at rates more than the expiring rates. **One proposal exceeded the policy cap for maximum interest margin; and, all included tiered performance pricing based on credit ratings that could potentially raise WMATA's borrowing interest margin to a range of LIBOR plus 1.82 to 4.25 percent, which exceeds the current policy interest rate cap.**

Additionally, each financial institution established separate LIBOR floor rates which set minimum index rates below which the one-month LIBOR cannot fall and supplants one-month LIBOR as the baseline index rate.

At the conclusion of the negotiation process, four of the eight financial institutions extended proposals for the FY2020-FY2021 line of credit facility renewal in an aggregate amount of $350 million. These proposals will expire beginning April 30, 2020 without formal acceptance by WMATA.

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

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 1) grant an exception to Section 206 of the Debt Management Policy to increase the interest rate margin cap for short-term debt to one-month LIBOR plus 4.25 percent, including any applicable floor on the then current on-month LIBOR index rate; 2) approve the LOC facilities with Truist Bank (formerly SunTrust Bank), Bank of America, Wells Fargo and Barclays; and 3) indemnify new financial institutions in order to enable their inclusion in WMATA's line of credit facilities.

SUBJECT: APPROVAL OF INTEREST MARGINS AND INDEMNIFICATION FOR LINE OF CREDIT PROVIDERS

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

WHEREAS, In Resolution 2020-04 the Board adopted a Debt Policy that requires Board approval for interest rate margins above LIBOR plus 1.75 percent on short-term debt and for indemnification of any new providers of short-term debt; and

WHEREAS, Staff intends to negotiate the renewal or replacement of lines of credit expiring in May 2020 with banks that have responded favorably to the Authority's request for short-term debt; and

WHEREAS, Current capital market conditions require interest rate margins above the cap established by the Debt Policy; and

WHEREAS, As potential new providers of short-term debt, Barclays Bank and Truist Bank have offered to provide lines of credit and each bank requires a standard financial institution indemnification;

NOW THEREFORE, be it

RESOLVED, That the Board authorizes an exception not to exceed a short-term interest rate of LIBOR (including any applicable floor on LIBOR) plus 4.25% to the Debt Policy cap on short-term interest rate margins during fiscal years (FY) 2020 and 2021 for Barclays Bank; and be it further

RESOLVED, That the Board authorizes an exception not to exceed a short-term interest rate of LIBOR (including any applicable floor on LIBOR) plus 4.25% to the Debt Policy cap on short-term interest rate margins during FY 2020 and 2021 for Wells Fargo Bank; and be it further

RESOLVED, That the Board authorizes an exception not to exceed a short-term interest rate of LIBOR (including any applicable floor on LIBOR) plus 4.25% to the Debt Policy cap on short-term interest rate margins during FY 2020 and 2021 for Bank of America Merrill Lynch; and be it further

RESOLVED, That the Board authorizes an exception not to exceed a short-term interest rate of LIBOR (including any applicable floor on LIBOR) plus 4.25% to the Debt Policy cap on short-term interest rate margins during FY 2020 and 2021 for Truist Bank; and be it further

RESOLVED, That the Board authorizes the General Manager and Chief Executive Officer or his designee to provide a standard financial institution indemnification in the loan documents in substantially the form as shown in Attachment A in any agreement with Barclays Bank and Truist Bank to replace the Authority's 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
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Patricia Y. Lee
General Counsel

WMATA File Structure Nos.:
4.1.0 Bonds
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.