



Finance and Capital Committee

Information Item III-A

March 11, 2021

**Series 2021A Dedicated
Revenue Bond Issuance**

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

☐ Action ☒ Information

MEAD Number:
202254

Resolution:
☐ Yes ☒ No

TITLE:

Series 2021A Dedicated Revenue Bond Issuance

PRESENTATION SUMMARY:

Staff to update the Committee on the proposed terms of increasing the Series 2021A bonds in the amount of \$874 million and authorizing the issuance through a negotiated sale.

PURPOSE:

Staff will provide details to the Committee on issuing up to \$874 million in principal of Series 2021A Dedicated Revenue bonds to fund FY2021 and FY2022 capital investments to be sold on a negotiated basis.

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:

- On February 25, 2021, the Board authorized a capital expenditure increase of \$255 million in FY2021, requiring a total FY2021 debt funding requirement of \$360 million.
- The proposed FY2022 Capital Budget includes a debt funding requirement of \$1.027 billion.
- Long-term interest rates are expected to rise in the next 3-12 months and its financially advantageous for Metro to increase the size of the Series 2021A offering to raise at least 50 percent the expected debt funding requirement of the FY2022 capital budget.

Background and History:

On February 11, 2021 the Finance and Capital Committee approved the issuance of bonds in the par amount of \$360 million in support of the FY2021 capital improvement program. On February 25, 2021 the full Board deferred action on this matter until a special Board of Directors meeting on March 11, 2021. Furthermore, the proposed FY2022 Capital Budget includes long-term debt of \$1.027 billion.

Long term municipal interest rates are rising as demonstrated by the increased 10bps in the week ending February 19. Debt-sourced funds in FY2022 Capital Budget are \$1.027 billion. Issuing bonds in June 2021 would allow Metro to diversify its interest rate risk exposure for FY2022 capital program. The additional FY2022 debt requirement would be funded later into FY2022.

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 Dedicated Revenue Series 2021A bonds:

- This is a complex, new credit with no market comparable
- The pledge includes collateral funding streams 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 advisor, Frasca, recommends a negotiated sales strategy for the Series 2021A bonds to facilitate adequate marketing and achieve lowest cost for the following reasons:

- COVID-19's impact on transit agencies remains a significant credit concern for investors regarding pledged revenue
- The pledge encompasses multiple revenue streams with a short history and complex, multi-jurisdictional agreements, contributions and requirements
- There's 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 issuance of bonds to fund capital investments

TIMELINE:

Previous Actions	<p>January/2021 – Staff has identified a Financial Advisor and a Bond and Disclosure Counsel to assist with the proposed bond issuance.</p> <p>February/2021 – The FY2021 amended capital program has been approved by the Board Finance and Capital Committee</p>
Anticipated actions after presentation	<p>March/2021 – Staff to Prepare the Bond offering Documents</p> <p>April/2021 - Staff to Prepare the Bond offering Documents and seek Bond Ratings</p> <p>May/2021 - Seek Board approval for the supplemental bond resolution and additional bond sale documentation</p> <p>June/2021 - Bond sale</p>

RECOMMENDATION:

No recommendation. This is an information item.

Dedicated Revenue Bond Issuance

Finance and Capital Committee

March 11, 2021



Purpose

- Review capital funding needs, debt financing and marketing strategies
- Discuss issuance of Series 2021A bonds to support on-going capital investment projects

Dedicated Revenues 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

Financial Plan by Investment Category

Capital Investment Categories (\$M)	FY2022 Budget	FY2023 Plan	FY2024 Plan	FY2025 Plan	FY2026 Plan	FY2027 Plan	6-Year Total
Railcar and Railcar Facilities	\$342	\$346	\$437	\$530	\$517	\$422	\$2,595
Rail Systems	\$273	\$337	\$308	\$256	\$203	\$213	\$1,591
Track and Structure Rehabilitation	\$343	\$456	\$259	\$236	\$237	\$267	\$1,798
Stations and Passenger Facilities	\$792	\$530	\$354	\$302	\$268	\$272	\$2,519
Bus, Bus Facilities and Paratransit	\$294	\$388	\$467	\$418	\$184	\$196	\$1,947
Business and Operations Support	\$546	\$468	\$239	\$206	\$220	\$207	\$1,887
Total Capital Investments	\$2,591	\$2,526	\$2,064	\$1,949	\$1,628	\$1,578	\$12,336
Revenue Loss from Capital Projects	\$17	\$10	\$10	\$10	\$10	\$10	\$67
Debt Service - Dedicated Funding ¹	\$0	\$91	\$190	\$250	\$311	\$362	\$1,204
Total Capital Program Cost	\$2,608	\$2,627	\$2,264	\$2,208	\$1,950	\$1,951	\$13,607

¹ Subject to change based on actual debt requirements and terms of future debt issuance

Debt Will Provide Over \$7.3B Through FY2027

Capital Sources (\$M)	FY2021 Budget	FY2022 Budget	FY2023 Plan	FY2024 Plan	FY2025 Plan	FY2026 Plan	FY2027 Plan	Total
Capital Need	\$2,087	\$2,608	\$2,627	\$2,264	\$2,209	\$1,951	\$1,955	\$15,701
Federal Funds ¹	\$491	\$485	\$333	\$332	\$326	\$327	\$326	\$2,620
Local Funds ²	\$545	\$596	\$457	\$446	\$453	\$464	\$514	\$3,475
Dedicated Funding	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$3,500
Less: DF for Debt Svc	\$0	\$0	(\$91)	(\$190)	(\$250)	(\$311)	(\$362)	(\$1,204)
Total Funded Capital	\$1,536	\$1,581	\$1,199	\$1,088	\$1,029	\$980	\$978	\$8,391
Debt Requirement	\$551	\$1,027	\$1,428	\$1,176	\$1,180	\$971	\$977	\$7,310

1. Assumes continuation of PRIIA through FY2022

2. Includes Reimbursable Projects

Proposed Issuance Sizing to Meet Required \$1.39B

(\$M)	Series 2021A Bonds	Series 2022 Bonds	Total
FY2021 Board Proposed Debt ¹	\$ 360	\$ 0	\$ 360
FY2022 Capital Budget Proposal	\$ 514	\$ 513	\$ 1,027
Total Debt Planned	\$ 874	\$ 513	\$ 1,387

¹. FY2021 Debt Issue requirement of \$551M is offset by \$191M from Series 2020A Bonds that is available for FY2021 capital funding

Considerations Related to Sizing and Timing

Single Issuance Considerations

- Lower costs of issuance than multiple series (bond ratings, bond/disclosure counsel, advisors)
- Single transaction management
- Less diversification from “market averaging” under different interest rate environments

Early Issuance Considerations

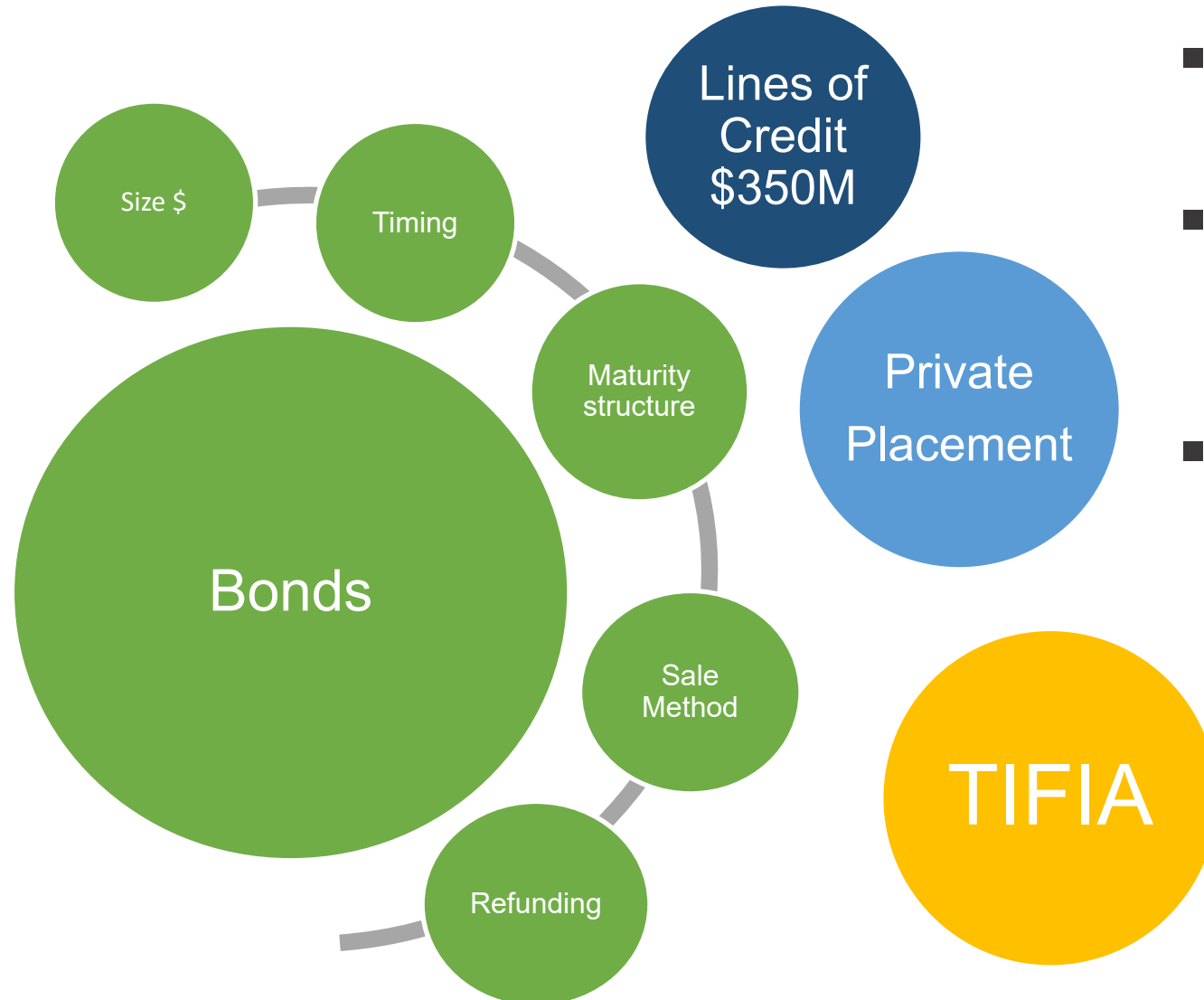
- Reduces risk associated with higher interest rates/widening credit spreads in the future
- Negative arbitrage (carry) between bonds and reinvestment rate of bond proceeds

	Alternative A (Two Issues)	Alternative B (Single Early Issue)	Alternative C (Single Late Issue)
Protections/Best Scenario	Small Changes, Up/Down	Rate Increase	Rate Decrease
Risk/ Worst Scenario	Significant Rate Increase	Rate Decrease	Rate Increase
Savings	Market Interest Rate	Single Issue COI	Single Issue COI
Additional Expenses	Multiple Issues COI	Negative Arbitrage	Liquidity Crunch, Line of Credit

Recommendation – Alternative B

**Single bond issuance in June, 2021
including a portion of FY2022 Capital
funding needs**

Evaluating Funding Alternatives, Sizing, and Timing

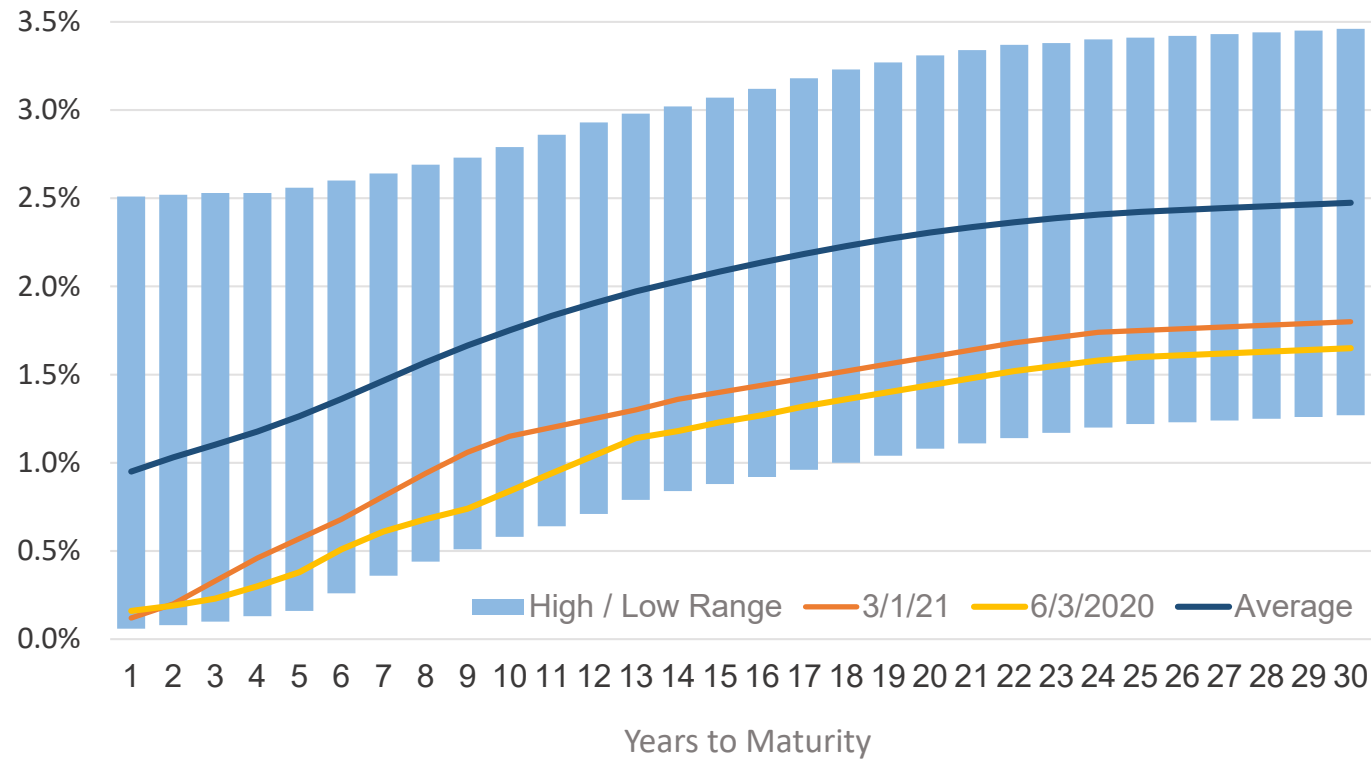


- Evaluating Debt Instruments
- Strategic Decisions on Size & Timing
- Single or Multiple Series to Fund FY2021-2022 Budgets

Current Tax-Exempt Bond Market

Historical MMD Yield Curve *

January 2016 – March 1, 2021



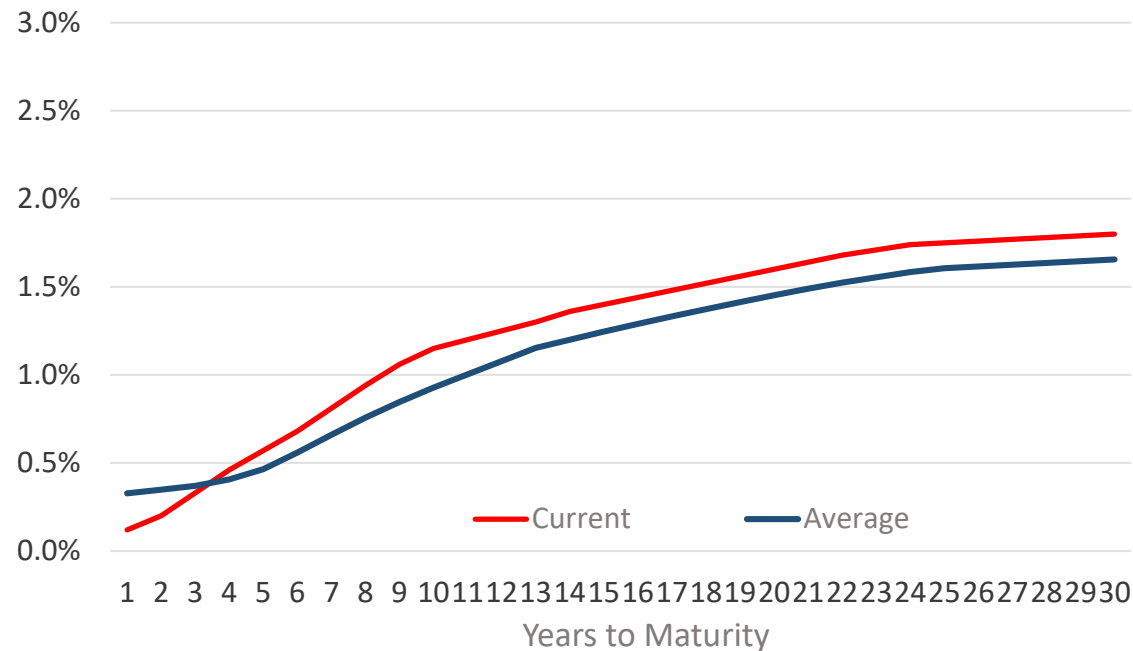
- The municipal market has rallied extensively; leading to record low interest rates
- Dedicated Revenue Bonds are expected to price at a modest spread to MMD

* MMD assumes pricing to a standard 10-year par call

Municipal Rates Remain *Relatively* Stable Over Past 12-Months

MMD Yield Curve*

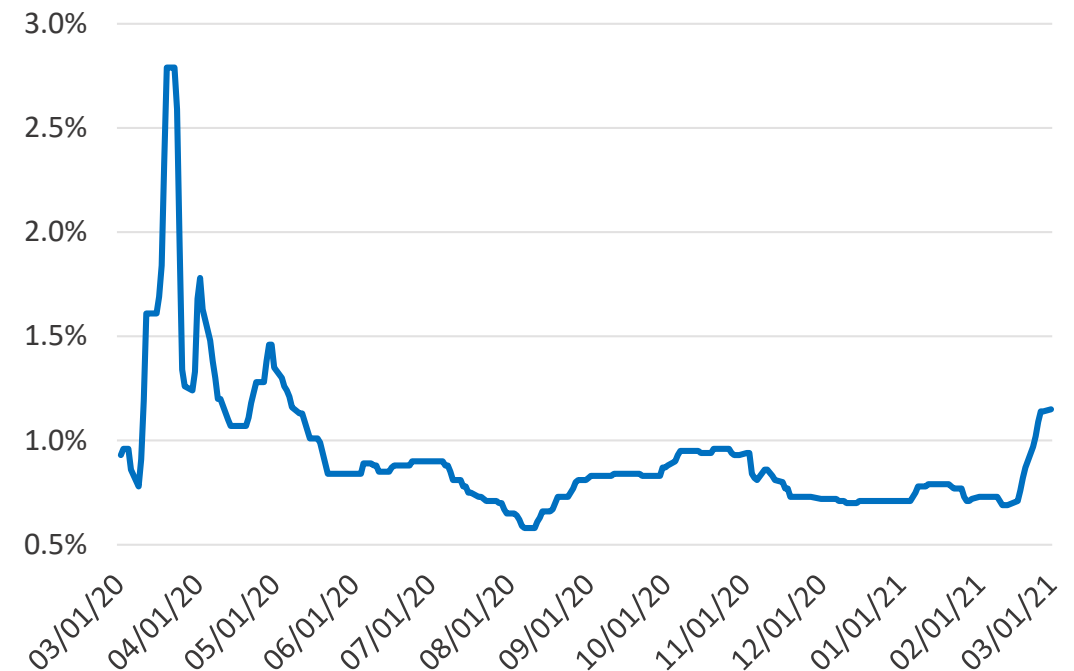
March 2, 2020 – March 1, 2021



* MMD assumes pricing to a standard 10-year par call

10-Year MMD

March 2, 2020 – March 1, 2021



GFOA Recommended Bond Sale Characteristics

Competitive

- Issuer is a regular borrower in 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

Negotiated bond sale also facilitates effective participation by M/WBE firms

Recommending Negotiated Bond Sale

- WMATA's Financial Advisor, Frasca, recommends a negotiated sales strategy to facilitate adequate marketing and lowest cost:
 - COVID19 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
 - Broaden investor base through more direct interactions with WMATA during marketing process

Series 2021A Dedicated Revenue Bonds Anticipated Terms

Anticipated Bond Terms	
Deal Type	Negotiated
Maturity	25 Years
Par Issue Size (Not to Exceed)	\$874 million
All-in True Interest Cost (estimate)	2.85%



Key Activities and Milestones

