

**Board Report**

File #: 2021-0128, **File Type:** Resolution**Agenda Number:** 5.

**MEASURE R INDEPENDENT TAXPAYERS OVERSIGHT COMMITTEE
APRIL 19, 2021****SUBJECT: MEASURE R BONDS****ACTION: MAKE A FINDING THAT THE BENEFITS OF A DEBT FINANCING EXCEED
ISSUANCE AND INTEREST COSTS****RECOMMENDATION**

Adopt a resolution (Attachment A) which finds, in accordance with Section 8(i)(4) of the Measure R Ordinance, that the benefits from acceleration of projects exceed the issuance and interest costs of the proposed debt financing.

ISSUE

The Measure R Ordinance requires that the Measure R Independent Taxpayers Oversight Committee of LACMTA ("Measure R Oversight Committee") "review all proposed debt financings and make a finding as to whether the benefits of the proposed financing for accelerating project delivery, avoiding future cost escalation, and related factors exceed the issuance and interest costs".

DISCUSSION

The Measure R Ordinance anticipated and in Section 12 authorized the use of debt (bonds, notes, or other obligations) to finance projects in the Measure R expenditure plan. The proposed issue of approximately \$850 million of tax-exempt fixed rate bonds (see Attachment B) is needed to bridge the gap between revenues coming in and funds required to pay expenditures for Measure R capital projects. LACMTA's Board approved Debt Policy (Attachment C) provides guidelines for the issuance and management of debt. New debt issues are permitted for financing capital projects and certain capital equipment where financing over time, with interest, allows us to meet certain public policy goals such as accelerating the completion of projects or improvements.

\$744 million of the bond proceeds will be used for Measure R project construction and to pay the costs of issuance related to the transaction. The \$106 million balance will refinance existing short-term debt that was used to pay for Measure R capital projects. Absent the finding of benefit for the bond issuance we will need to delay capital projects until Measure R cash funds are available and/or accumulate.

NEXT STEPS

- LACMTA Board authorizes the issuance of Bonds
- Obtain credit ratings on the Bonds
- Complete legal documentation and distribute the preliminary official statement to potential investors, initiate the

pre-marketing effort

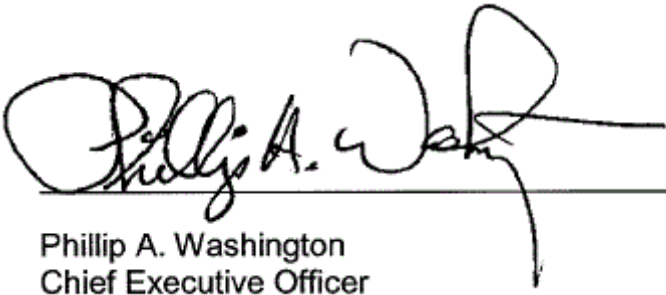
- Negotiate the sale of the Bonds with the underwriters
- Price and deliver the Bonds in the Summer of 2021

ATTACHMENT

- A. Finding of Benefit Resolution
- B. Proposed Use of Measure R Bond Proceeds
- C. LACMTA Debt Policy

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Phillip A. Washington
Chief Executive Officer

RESOLUTION PURSUANT TO MEASURE R ORDINANCE FINDING THAT THE
BENEFITS OF A MEASURE R BOND ISSUANCE EXCEED ISSUANCE AND
INTEREST COSTS

WHEREAS, the Measure R Ordinance provides for the establishment and implementation of a retail transactions and use tax for a period of thirty years and an expenditure plan that describes the Measure R transit capital projects to be constructed with the proceeds of such tax; and

WHEREAS, the accelerated construction of certain Measure R transit capital projects would avoid inflationary cost escalation; and

WHEREAS, the proposed \$850 million debt financing would provide additional funds to meet the cash flow necessary to pay for an accelerated construction program for Measure R transit capital projects; and

NOW, THEREFORE, the Proposition R Independent Taxpayers Oversight Committee of Metro finds that the economic, environmental and transit benefits of the \$850 million debt financing, which would accelerate project delivery and avoid inflationary cost escalation, exceed issuance and interest costs.

Adopted this 19th day of April, 2021.

Signed:

Interim Board Secretary, Los Angeles
County Metropolitan Transportation
Authority

Proposed Use of Measure R Bond Proceeds

Project Description	Expenditures (\$ Millions)
Permanent financing of short-term program	\$106
Capital Project Expenses	\$744
Total	\$850

DEBT POLICY

February 2018

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DEBT POLICY

I. Introduction

The purpose of the Debt Policy is to establish guidelines for the issuance and management of debt issued by the Los Angeles County Metropolitan Transportation Authority (“LACMTA”). This Debt Policy confirms the commitment of the Board, management, staff, advisors and other decision makers to adhere to sound financial management practices, including full and timely repayment of all borrowings, achieving the lowest possible cost of capital within prudent risk parameters and encouraging the use of small business enterprises (“SBE”), service disabled veteran business enterprises (“DVBE”), local and disadvantaged business enterprises (“DBE”) advisors and underwriters when appropriate and in accordance with the LACMTA procurement policy. The Debt Policy goals are as follows:

1. Achieve the lowest cost of capital
2. Maintain a prudent level of financial risk
3. Preserve future financial flexibility
4. Maintain strong credit ratings and good investor relations
5. Ensure that SBE, DVBE, local and DBE investment banking and financial firms will be considered for, and utilized in, lead and senior manager roles in accordance with the LACMTA procurement policy.

II. Scope and Authority

This Debt Policy shall govern, except as otherwise covered by the Investment Policy, Gas Hedging Guidelines, Defeased Lease Policy or Interest Rate Swap Policy, the issuance and management of bonds and other forms of indebtedness of LACMTA, together with any credit, liquidity or other security instruments and agreements that may be executed in connection with the issuance of bonds and other forms of indebtedness (collectively referred to as “Bonds” or “Debt”).”

While adherence to this Debt Policy is generally required, it is recognized that changes in the capital markets, our programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Debt Policy and will require modifications or exceptions to best achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained or is authorized in this policy. The Chief Executive Officer, the Chief Financial Officer, the Treasurer, a Deputy Executive Officer, Finance and an Assistant Treasurer, each, an “Authorized Signatory,” are each individually authorized to take all reasonable actions necessary to issue the debt and administer the debt on an ongoing basis. The administration is herein defined as “Administrative Actions.” Administrative Actions may be taken when in the reasonable judgment of an Authorized

Signatory such action will be beneficial and consistent with the original objectives for entering into the transaction. Administrative Actions include both day-to-day administrative activities as well as actions that need to be taken to correct problems, such as with providers of services or financial facilities, agreements, insurance policies or surety policies. Such Administrative Actions may include, but are not limited to, amendment of terms and pricing, replacement of providers, amendment or replacement of agreements and facilities and substitution using different products and providing for the issuance of commercial paper, all to achieve the original purpose of the transaction.

The Debt Policy shall be reviewed at least annually and presented to the Board for approval of any changes as needed excluding changes to position titles. If no changes are needed, the existing approved Debt Policy will remain in effect until the Board approves the recommended update to the Debt Policy. The Treasurer shall have the day-to-day responsibility and authority for structuring, implementing and managing the debt and finance program. The Debt Policy requires that the Board specifically authorize each long-term debt and lease financing. However, as detailed in the following section, the authority is ongoing regarding issuance of commercial paper and other short term borrowings in support of Board authorized capital projects and expenditures, and to remedy matters being addressed as Administrative Actions.

III. Capital Budgeting and Debt Issuance Process

A. Capital Budgeting

1. The Capital Plan

A Capital Plan shall be developed for consideration and adoption by the Board. The Capital Plan should have a planning horizon of at least a 5-year period and shall be updated at least annually. It is our current practice to include the Capital Plan in the Annual Budget for consideration and adoption.

2. Authorization for Issuance of Bonds and Leases

Each bond issue or financial lease shall be presented to the Board for authorization. The Board's adoption of the Annual Budget does not constitute authorization for issuance of bonds or a financing lease.

3. Authorization for Interim Financing Programs

Issuance of commercial paper and similar short-term borrowings such as revolving credit facilities are authorized by the Board approval of short-term borrowing programs. The Authorized Signatories may then take all actions necessary to cause the issuance of such short-term notes or draws on similar short-term borrowing facilities, to fund, refund or reimburse expenditures related to Board approved capital

projects and expenditures, as well as to remedy matters being addressed as Administrative Actions.

B. Types of Debt Financing

1. Use of Long-Term Debt

a) Purpose for Long-Term Debt

Long-term debt is appropriate for financing essential capital projects and certain capital equipment where paying over time, with interest, allows us to meet certain public policy goals. Those goals may include accelerating the completion of improvements to increase mobility, taking advantage of available federal or other funding, and matching the payment for improvements with their use in recognition that future taxpayers can benefit from the capital investment. The use of long-term debt will be evaluated with pay-as-you-go capital investment and will not be used to fund non-capital operational expenditures or operating deficits.

In order to achieve strong credit ratings and the lowest cost of funding, the debt secured by Proposition A, Proposition C, Measure R or Measure M sales tax shall allow for each of the respective bond trust agreements to pledge the entire amount of the sales taxes received, except for the Local Return portion of that sales tax. Debt service attributable to the financing of a project will be charged to one or more ordinance categories in accordance with the applicable ordinance.

b) Lease Financing

Lease obligations are an appropriate means of financing capital equipment where lease financing will be more beneficial, either economically or from a policy perspective. The useful life of the capital equipment, the terms and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. Capital equipment will generally be purchased on a pay-as-you-go basis where feasible. Cash flow sufficiency, capital program requirements, lease program structures and cost, and market factors will be considered in conjunction with a pay-as-you-go strategy in lieu of lease financing. All leases providing tax-exempt financing are subject to this policy, as are all leases, master leases and leasing programs having a cumulative value exceeding \$10 million. All tax-exempt leases shall be implemented and maintained by the Treasury Department.

c) *Alternative Financing Programs*

Federal loans as well as federally subsidized taxable and tax-exempt bond programs may be utilized to provide funding when such loans or bonds provide an attractive funding cost or provide other features deemed desirable for the circumstances, such as deep subordination of the repayment obligation, an unusually long repayment term, or other desirable features. Staff will evaluate these programs for any new risks and costs, and account for such factors in considering their use.

2. Use of Short-Term and Variable Rate Debt

a) *Interim Financing*

Commercial paper, and similar short-term borrowing programs as well as short-term fixed rate bond or grant anticipation notes, which generally have maturities of less than 3 years, are cash management tools that are primarily used to provide interim funding for capital expenditures that will ultimately be funded from another source such as a grant, a long-term bond issue, or a Federal loan program. The Board has previously authorized the ongoing use of the Proposition A, Proposition C and Measure R commercial paper or similar short-term borrowing programs, respectively, to fund Board approved programs and expenditures. The Board may also authorize the ongoing use of interim financing for Measure M programs.

b) *Variable Rate Debt*

In addition to interim financing, which includes commercial paper and similar short-term borrowing programs, it may be appropriate to issue long-term variable rate debt that bears an interest rate that is reset periodically at predetermined intervals, including entering into revolving credit facilities, to diversify the debt portfolio, reduce interest costs, and improve the match of variable rate assets (such as short-term investments and reserves) to liabilities. The amount of unhedged variable rate debt will generally not exceed 20% of all outstanding debt, and the total of hedged and un-hedged variable rate debt will not exceed 50% of all outstanding debt. Under no circumstances will variable rate debt be issued solely for the purpose of earning interest through arbitrage. If unhedged variable rate debt is outstanding, at least annually, it shall be determined whether it is appropriate to convert the debt to fixed interest rates.

IV. Debt Affordability Policy Limits

A. LACMTA Borrowings

The maximum amounts of revenues to be used to pay debt service are listed as percentages of the respective revenue sources. These limits in combination with the Capital Plan and multi-year planning documents ensure that we will be able to continue providing our essential operational services while planning for replacement, rehabilitation and expansion of our capital investments.

Proposition A Sales Tax Revenue Debt Affordability Limits		
Category	Allowable Uses	Debt Policy Maximum
Prop A Rail 35%	<i>Rail Operations & Capital.</i>	87% of Prop A Rail 35%.
Discretionary 40%	<i>Any transit purpose. Current state law directs these funds to bus subsidies and incentives.</i>	No further issuance.
Local Return 25%	<i>Any transit purpose. Distributed to localities based on population.</i>	N/A

Proposition C Sales Tax Revenue Debt Affordability Limits		
Category	Allowable Uses	Debt Policy Maximum
Discretionary 40%	<i>Bus & Rail, Capital & Operating.</i>	40% of Discretionary 40%.
Highway 25%	<i>Streets, Highways and Fixed Guideway Projects on Railroad Right-of-Way.</i>	60% of Highway 25%.
Commuter Rail 10%	<i>Commuter Rail and Park and Ride. Operations or capital.</i>	40% of Commuter Rail 10%.
Security 5%	<i>Transit Security. Operations or capital.</i>	No debt issuance.
Local Return 20%	<i>Any transit purpose and certain roadways heavily used by transit. Distributed to localities based on population.</i>	N/A

Measure R Sales Tax Revenue Debt Affordability Limits		
Category	Allowable Uses	Debt Policy Maximum
Transit Capital 35% – New Rail and/or Bus Rapid Transit	<i>New Rail and/or Bus Rapid Transit.</i>	87% of Transit Capital 35% – New Rail and/or Bus Rapid Transit.
Transit Capital 3% – Metrolink Capital Improvement Projects Within LA County	<i>Operations, Maintenance and Expansion for system improvements, rail yards and rail cars.</i>	87% of Transit Capital 3% – Metrolink Capital Improvements within LA County.
Transit Capital 2% – Metro Rail Capital	<i>System improvements, rail yards and rail cars.</i>	87% of Transit Capital 2% – Metro Rail Capital.
Highway Capital 20%	<i>Carpool lanes, highways, goods movement, grade separations and soundwalls.</i>	60% of Highway Capital 20%.
Operations 5% – Rail Operations	<i>Rail operations for new transit project operations and maintenance.</i>	No debt issuance.
Operations 20% – Bus Operations	<i>Bus operations for countywide bus service and maintenance.</i>	No debt issuance.
Local Return 15%	<i>Major street resurfacing, rehabilitation and reconstruction; pothole repair; left turn signals; bikeways, pedestrian improvements; streetscapes; signal synchronization; and transit. Distributed to localities based on population.</i>	N/A

Measure M Sales Tax Revenue Debt Affordability Limits		
Category	Allowable Uses	Debt Policy Maximum
Transit, First/Last Mile (Capital) 35% - Transit Construction	<i>Includes system connectivity projects-Airports, Union Station, and Countywide BRT.</i>	87% of Transit First/Last Mile (Capital) 35% – Transit Construction.
Transit Operating & Maintenance 20% – Transit Operations	<i>Operations for transit service, maintenance, and expansion.</i>	No debt issuance.

Measure M Sales Tax Revenue Debt Affordability Limits (continued from previous page)

Category	Allowable Uses	Debt Policy Maximum
Highway, Active Transportation, Complete Streets (Capital) 17% – Highway Construction	<i>Includes System Connectivity Projects-Ports, Highway Congestion Programs, Goods Movement.</i>	87% of Highway, Active Transportation, Complete Streets (Capital) 17% – Highway Construction.
Local Return/Regional Rail 16% – Local Return	<i>Streets and roads, traffic control measures, active transportation, public transit services, public transit capital, transit oriented community investments, transportation marketing, congestion management program, transportation administration, and local funding contributions.</i> Distributed to localities based on population.	N/A
Transit Operating & Maintenance 5% – Metro Rail Operations	<i>Operating, regular and preventative maintenance for existing and new Metro Rail Lines, as well as the repair, replacement, and rehabilitation of Metro assets required for its rail transit vehicle fleet, systems and engineering, and stations.</i>	No debt issuance.
Highway, Active Transportation, Complete Streets (Capital) 2% – Metro Active	<i>Bicycle, Pedestrian, Complete Streets.</i>	87% of Highway, Active Transportation, Complete Streets (Capital) 2% – Metro Active Transportation.
Transit, First/Last Mile (Capital) 2% – Metro State of Good Repair	<i>Repair, replacement, and rehabilitation of Metro Rail assets.</i>	87% of Transit, First/Last Mile (Capital) 2% – Metro State of Good Repair. Issuance unlikely in the future.
Transit Operating & Maintenance 2% – ADA Paratransit	<i>ADA Paratransit for the Disabled; Metro Discounts for Seniors and Students.</i>	No debt issuance.
Local Return/Regional Rail 1% – Regional Rail	<i>Regional commuter rail operations and services for L.A. County.</i>	87% of Local Return /Regional Rail 1% – Regional Rail. Issuance unlikely in the future.

Other Revenue Debt Affordability Targets		
Category	Allowable Uses	Debt Policy Maximum
Fare Box Revenue	<i>Any transit purpose.</i>	No further issuance.
Federal Grant Revenues	<i>In accordance with grant.</i>	Limited issuance. ⁽¹⁾
State Grant Revenues	<i>In accordance with grant.</i>	No debt issuance.
TDA	<i>Various transit purposes.</i>	Limited issuance. ⁽¹⁾
Benefit Assessment Levies	<i>Historically to support rail construction.</i>	Limited issuance. ⁽¹⁾
Lease Revenues	<i>Any transit purpose.</i>	Limited issuance. ⁽¹⁾
Toll Revenues	<i>Permitted expenditures within the Corridor, as so determined.</i>	Limited issuance. ⁽¹⁾
Other System Revenues	<i>Any transit purpose.</i>	Limited issuance. ⁽¹⁾

⁽¹⁾ Based on revenue availability and capital program needs.

B. Local Return Borrowings

California law prevents LACMTA from borrowing against the Local Return funds. LACMTA provides guidance to recipients of Local Return funds for borrowing against those funds through the Local Return Borrowing Guidelines. The borrowings are generally consistent for all four sales tax measures.

V. Purpose of Financing

A. New Money Financing

New money issues are financings that generate additional funding to be available for expenditure on capital projects. These financings may be long-term financings, or short-term financings for interim funding pending a long-term financing or receipt of funds. These funds will be used for acquisition, construction and major rehabilitation of capital assets. New money bond proceeds may not be used to fund non-capital operational expenditures. The funding requirement by sales tax ordinance category is determined in the context of the Capital Plan and Annual Budget. The financial advisor will recommend the financing structure based on the type of financial products available and in consideration of market conditions at the time of the sale.

B. Refunding Bonds

Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance at a lower interest rate to reduce debt service. Alternatively, some refundings are executed for a reason other than to achieve cost savings, such as to restructure the repayment schedule of the debt, to change the type of debt instruments being used, or to retire an indenture in order to remove restrictive covenants.

In any event, a present value analysis must be prepared that identifies the economic effects of any refunding being proposed to the Board. The target savings amounts listed below are not applicable for refunding transactions that are not solely undertaken to achieve cost savings.

The target savings amount shall be measured using either a call option pricing model or the savings as percentage of the refunded par.

The traditional methodology of measuring the effectiveness of a refunding is to divide the net present value savings as a percentage of the refunded par amount. This policy incorporates the standard rule of thumb that a refunding should generate, at a minimum, net present value savings of at least 3% of the refunded par amount for a current refunding, where the outstanding bonds can be prepaid within 90 days. A higher savings requirement may be appropriate for an advance refunding, where the proceeds are placed in an escrow to call bonds in the future. In addition, the efficiency of the investments in the refunding escrow should be considered in recommending an advance refunding.

Alternatively, the value of the call option (using an option pricing model) can be used to evaluate a refunding whose sole purpose will be to achieve cost savings. The target savings from any particular refunding candidate, by maturity, shall be no less than 80% of the calculated value of the call option, net of all transaction expenses.

While the Treasurer will evaluate refunding savings for each outstanding maturity, these policy minimums recognize that individual maturities, particularly short maturities, may be appropriate to refund even at lower savings thresholds, recognizing that the value of the call option "asset" will be reduced with the passage of time. The Treasurer shall have discretion in making the final determination to include individual refunding candidates that are above or below the target in order to optimize the policy and/or financial objectives.

In the event that an interest rate swap or other derivative product is to be used as part of a refunding, the target savings shall be increased to account for any additional ongoing administrative costs, financial risk beyond that of a traditional fixed rate refunding, and loss of future financial flexibility.

VI. Types of Products

A. Current Coupon Bonds

Current coupon bonds are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Bond features may be adjusted to accommodate the market

conditions at the time of sale, including changing the dollar amounts for annual principal maturities, offering discount and premium bond pricing, modifying the terms of the call provisions, and utilizing bond insurance.

B. Zero Coupon and Capital Appreciation Bonds

Zero coupon bonds and capital appreciation bonds have principal amortization that is much slower than level debt service resulting in increased interest expenditure over the life of the bond and, therefore, shall only be recommended in limited situations.

C. Lease Purchase Financing

Lease purchase financing represents a long-term financing lease that is suitable for financing capital expenditures, including the acquisition and/or construction of land, facilities, equipment and rolling stock.

1. Equipment

We shall have the ability to consider lease purchase transactions, including certificates of participation, long-term vendor leases, and the use of master lease programs. Financing of equipment will be limited to contracts of at least \$20,000 and a useful life that is greater than 3 years. The final maturity of equipment lease financings will be limited to the remaining useful life of the equipment.

2. Real Property

The final maturity of the financing shall not exceed the remaining useful life of the facility. A lease financing generally should not have a final maturity exceeding 30 years. Principal payments related to real property acquisition or construction are to be amortized so that there will be level debt service payments, although a more rapid amortization may be used to accelerate the repayment.

D. Derivative Products

Derivative products will be considered appropriate in the issuance or management of debt only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces risk of fluctuations in expense or revenue, or alternatively, where it is expected to reduce total financing cost. The Board approved Interest Rate Swap Policy sets forth the guidelines for interest rate swaps. For derivatives not addressed in the Interest Rate Swap Policy, an analysis of early termination costs and other conditional terms given certain financing and marketing assumptions will be completed. Such analysis will document the risks and benefits associated with the use of the particular derivative product. Derivative products will only be utilized with prior Board approval except as otherwise specified in the Interest Rate Swap Policy.

VII. Structural Features

A. Maturity of Debt

The final maturity of the debt shall be equal to or less than the remaining useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average life of the assets being financed. In no event shall the final maturity exceed 50 years, per the Public Utilities Code Section 130534.

B. Debt Service Structure

In most cases, combined principal and interest payments for any particular bond issue will be structured to have approximately level annual debt service payments over the life of the bond issue. Nevertheless, the debt service of an individual bond issue can be structured to produce level aggregate debt service for each lien.

C. Lien Levels

Senior and Junior Liens for each revenue source will be utilized in a manner that will maximize the most critical constraint -- typically either cost or capacity -- thus allowing for the most beneficial use of the revenue source securing the bond.

D. Capitalized Interest

Unless required by a particular financing, interest on debt will not be capitalized out of debt proceeds. This avoids unnecessarily increasing the bond size. Certain types of financings such as lease-secured financings, direct federal loans, and certain revenue bond projects may require that interest on the debt be paid from capitalized interest until we have constructive use of the project and project related revenues are expected to be available to pay debt service.

E. Discount and Premium Bonds

Discount or premium bonds may reduce the interest cost of the bonds by better matching investors' desires in certain markets. We may limit the amount of discount or premium coupons to reduce the negative impact on any subsequent refunding of the bonds for interest savings.

F. Debt Service Reserve Fund

The debt service reserve fund "DSRF," is generally cash funded with bond proceeds. The trustee maintains the DSRF throughout the life of the bonds. A cash funded DSRF is invested pursuant to investment of proceeds guidelines within the respective indenture and interest earnings are generally used to offset debt service payments. In the final year of the bond issue, the cash available in the DSRF is usually used to make the final debt service payment. Since a cash funded DSRF generates interest income, the DSRF

has the potential to be cost neutral if the interest earnings equal or exceed the interest rate of the bonds.

An alternative to having a cash funded DSRF is to use a DSRF surety policy obtained from a highly rated bond insurer. The surety policy requires an up-front fee payment to the insurer and results in a loss of future income to the DSRF. The Treasurer will evaluate and document the DSRF funding decision. Factors to be considered in this evaluation include: arbitrage yield restrictions, current interest rates, availability and cost of a surety policy, foregone interest and capital gains from a cash funded DSRF, the relative size of the reserve requirement compared to the prior reserve requirement (refunding issues only), and opportunities for the use of the funds withdrawn from the DSRF including additional capital projects or investment opportunities.

To the extent a DSRF is not required under the authorizing documents for a bond issue, the financial advisor will be consulted to advise whether a DSRF should be included. The analysis will consider the anticipated net cost of carry for the DSRF, loss of additional bonding capacity, and impacts on ratings and bond pricing.

G. Amortization

Debt will be amortized within each lien to achieve overall level debt service or may utilize more accelerated repayment schedules after giving consideration to bonding capacity constraints. The use of heavily back-loaded principal repayment, bullet and balloon maturities should be avoided, except to achieve wrapped debt service so as to level the aggregate outstanding debt service.

If debt is issued under an alternative structure, such as a direct federal loan, the amortization schedule may be modified in order to meet specific requirements of the financing program or utilize advantageous alternative repayment schedules.

H. Financial and Risk Analysis of Issuance

Net present value cost analysis, assessment of structural risks and complexities, and consideration of restrictions to future financing flexibility will be assessed and documented to determine the most efficient bond type and structuring features. Our long-term pooled investment rate will be used as the discount rate when comparing alternatives.

I. Call Provisions

In general, bonds issued should include a 10 year par-call feature. However, if determined to be financially advantageous, bonds may be issued that have make-whole calls, are non-callable or include a par-call for periods longer or shorter than 10 years. Prior to the use of any such call provision, the option-

adjusted yields on the bonds with and without a non-call provision will be analyzed to determine which is most beneficial.

J. Credit Enhancement

1. Bond Insurance

Bond insurance will be used when it provides an economic advantage to a particular bond maturity or entire issue. Bond insurance may be secured from third-party credit providers to the extent such credit enhancement is available upon competitive and cost effective terms. Selection of credit enhancement providers shall be subject to a competitive bid process. Credit enhancement may be used to improve or establish a credit rating on a debt obligation even if such credit enhancement is not cost effective if the use of such credit enhancement meets the organization's debt financing goals and objectives.

2. Bank Facilities

The issuance of most variable rate debt, including variable rate demand bonds and commercial paper, requires the use of some form of bank facility, to ensure that the investor can sell their bond or note back when the interest rate is reset, in the form of a letter of credit, line of credit or standby bond purchase agreement. Alternatively, banks provide for variable rate direct lending to us such as through a revolving credit facility or direct purchase agreement.

a) Provider Selection

Depending on market conditions, the financial advisor will conduct a competitive process to recommend a bank facility provider. Banks will have short-term ratings of at least P-1/A-1, or equivalent ratings, by any two nationally recognized rating agencies including Moody's Investors Service, S&P Global Ratings, Fitch Ratings and Kroll Bond Rating Agency, Inc., in order to be solicited for bank liquidity or credit enhancement, such as letters of credit or standby bond purchase agreements. Minimum short-term ratings are not required for bank facilities where the bank lends directly to us. Selection criteria for Bank Facilities will include the following:

- i. The bank's acceptance of terms and conditions acceptable to us. A term sheet will be provided along with the request for qualifications and any requested modifications will be highlighted by the bank;
- ii. A review of a representative list of clients for whom the bank has provided Bank Facilities; and
- iii. Evaluation of fees; specifically, cost of credit and/or liquidity facility, draws, bank counsel and other administrative

charges, index (e.g., SIFMA or, LIBOR, or if LIBOR shall no longer be in general use, any successor index determined by the Alternative Reference Rates Committee) and the spread to the index for direct lending, and an estimate of the trading differential for a given bank.

VIII. Documentation of Transactions

The decision processes used in each financing process will be fully documented. The Treasurer and the Deputy Executive Officer, Finance overseeing the debt program will be responsible for maintaining information regarding the selection of the financing team, decisions on product selection and structuring features, selection of vendors providing ancillary services and selection of investment securities or products. This information will be compiled into a post-pricing book "transaction file," which will be retained along with the bond closing transcript for each financing.

Additionally, copies of all material documents related to the capital expenditures financed or refinanced by bond proceeds, copies of all contracts and arrangements involving the use of bond proceeds, copies of all contracts and arrangements involving the use of bond financed or refinanced assets, and copies of all records of investments, investment agreements, arbitrage reports and underlying documents including Trustee statements in connection with any investment agreements, and copies of bidding documents shall be maintained.

The documents shall be maintained for the term of each issue of bonds plus five years in accordance with LACMTA's record keeping policies.

IX. Credit Objectives

We will actively seek to:

1. Maintain and improve the credit ratings of our outstanding bonds.
2. Adhere to benchmarks, overall debt ratios and affordability targets.
3. Have frequent communications with the credit rating agencies.

X. Method of Bond Sale

The competitive bond sale process will be utilized when it is expected to provide the lowest interest cost for the bonds. However, there are three methods of sale: competitive, negotiated and private placement. Each type of bond sale has the potential to provide the lowest cost given the right conditions. The conditions under which each type of bond sale is best used are provided below.

A. Competitive Sale

1. Bond prices are stable and/or demand is strong.
2. Market timing and interest rate sensitivity are not critical to the pricing.

3. Participation from DBE / SBE firms is best efforts only and not required for winning bid.
4. Issuer has a strong credit rating.
5. Issuer is well known to investors.

6. There are no complex explanations required during marketing regarding the issuer's projects, media coverage, political structure, political support, funding, or credit quality.
7. The bond type and structural features are conventional.
8. Manageable transaction size.

B. Negotiated Sale

1. Bond prices are volatile.
2. Demand is weak or supply of competing bonds is high.
3. Market timing is important, such as for marginal refundings.
4. Coordination of multiple components of the financing is required.
5. Participation from DBE / SBE firms is enhanced.
6. Issuer has lower or weakening credit rating.
7. Issuer or the particular credit is not well known to investors.
8. Sale and marketing of the bonds will require complex explanations about the issuer's projects, media coverage, political structure, political support, funding, or credit quality.
9. The bond type and/or structural features are non-standard, such as for a forward delivery bond sale, issuance of variable rate bonds, use of derivative products or there is a specific structural feature required or desired which benefits from the negotiated process.
10. Early structuring and market participation by underwriters are desired.
11. The par amount for the transaction is significantly larger and would limit competition.
12. Demand for the bonds by retail investors is expected to be high.

For a negotiated bond sale, the financial advisor will conduct a competitive process to select underwriters, either for a specific bond issue or through the establishment of a pool of underwriters to be used for bond issues over a defined time period. Selection scoring will include the local preference criteria in accordance with the LACMTA procurement policy.

C. Private Placement

Private placement is a sale that is structured specifically for one purchaser such as a bank. A direct purchase agreement or a revolving credit facility are forms of private placement. If a private placement is the preferred method of sale, depending on market conditions, the financial advisor will conduct a competitive process to recommend the purchaser of the obligations. Selection criteria will include the following:

1. A term sheet will be provided along with the request for qualifications

and any requested modifications will be highlighted by the bank. The bank's acceptance of terms and conditions acceptable to us will be a factor in selection;

2. A review of a representative list of clients for whom the bank has provided similar agreements; and
3. Evaluation of fees; specifically, cost of the agreement including index, and spread and other administrative charges. The evaluation of fees, terms and conditions will be compared to other alternative financing methods.

In the event a private placement is utilized, Metro will provide information to the rating agencies currently rating our long term debt and will post on EMMA.

XI. Internal Controls

When issuing debt, in addition to complying with the terms of this Debt Policy, LACMTA shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, tax-exemption, post-issuance compliance, and investment of bond proceeds.

LACMTA will periodically review the requirements of and will remain in compliance with the following:

1. Any continuing disclosure undertakings under SEC Rule 15c2-12 such as filing our annual financial statements and other financial and operating data for the benefit of our bondholders within 195 days of the close of the fiscal year and file material event notices in a timely manner,
2. Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
3. LACMTA investment policies as they relate to the investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee, which will disburse such proceeds to LACMTA upon the submission of one or more written requisitions, or (b) by LACMTA, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by LACMTA.

XII. Investment of Bond Proceeds

A. Purchase and Sale of Investments

Compliance shall be maintained with all applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds as well as restrictions on the time period over which some bond proceeds

may be invested. The Treasurer may direct the investment of bond and lease proceeds in accordance with the permitted investments for any particular bond issue or lease. Providers of structured investment products and professional services required to implement the product or agreement will be recommended based on a competitive process conducted by the financial advisor or investment advisor.

B. Diversification

Investment contracts shall be diversified in order to reduce risk exposure to investment providers, types of investment products and types of securities held.

C. Disclosure

It shall be required that all fees resulting from investment services or sale of products to us be fully disclosed to ensure that there are no conflicts of interest and investments are being purchased at a fair market price. Underwriters of the bonds, but not the financial or investment advisor, may bid on the sale of investment products for the proceeds. The financial or investment advisor shall document the bidding process and results and shall certify in writing that a competitive and fair market price was received.

XIII. Market Relationships

A. Rating Agencies

The Chief Executive Officer, the Chief Financial Officer and the Treasurer shall be primarily responsible for maintaining our relationships with Moody's Investors Service, Standard & Poor's and Fitch Ratings. In addition to general communications, the Chief Executive Officer, the Chief Financial Officer, and the Treasurer, or their appropriate designees, shall communicate with the analysts of each agency providing an underlying rating at least annually, and prior to each competitive or negotiated sale.

B. Investor Relations

An Investor Relations section on or linked to our website shall be maintained and updated on a regular basis with relevant financial and debt information. Timely and accurate information shall be provided in response to inquiries from investors in order to maintain positive ongoing investor relations.

C. Board Communication

As a means of providing feedback from rating agencies and/or investors regarding our financial strengths and weaknesses as perceived by the marketplace, information will be provided to the Board as material information develops.

XIV. Initial Disclosure

For each public offering of long-term bonds, we are generally required to prepare a preliminary official statement (“POS”) and final official statement (“FOS”). Along with our legal counsel and financial advisor, we will review and discuss necessary disclosure information in drafting the official statement (“OS”) and utilize appropriate disclosure procedures in order to comply with Federal Securities Law, including SEC Rule 10b-5. A draft of the POS will be provided to the Board for its review and comment prior to the posting of the POS. In connection with each bond issue, we should retain legal counsel for assistance and advice regarding our disclosure responsibilities with respect to the OS. This legal counsel may be the Bond Counsel for the issue or it may be separately engaged Disclosure Counsel. Disclosure policies and procedures will be maintained to assist in the disclosure process.

XV. Consultants

The financial advisors and bond and disclosure counsel will be selected by competitive process through a Request for Proposals (“RFP”). Our contracting policies that are in effect at the time will apply to the contracts with finance professionals. Selection may be based on a best value approach for professional services or the lowest responsive cost effective bid based upon pre-determined criteria, in accordance with LACMTA’s procurement policy.

A. Financial Advisor

At least three financial advisors will be selected to assist in the debt issuance and debt administration processes. Additionally, the financial advisors will conduct competitive processes to recommend providers of financial services and products, including but not limited to: bond underwriters, remarketing agents, trustees, credit providers, investment advisors and managers, investment measurement services, and custody services.

Selection of the financial advisors should, at a minimum, be based on the following:

1. Experience in providing consulting services to complex issuers.
2. Knowledge and experience in structuring and analyzing complex issues.
3. Ability to conduct competitive selection processes to obtain investment products and financial services.
4. Experience and reputation of assigned personnel.
5. Independence of the advisor from the firms and industries that will be affected by the advice the advisor provides to LACMTA. The firm should be free from actual conflict of interest and free from any potential or perceived conflict of interest. For example, an advisor for a bond transaction should not be a bond underwriter or bond broker/dealer.

6. Fees and expenses.
7. Registered with the Municipal Securities Rulemaking Board and in good standing.
8. The financial advisor shall be an Independent Registered Municipal Advisor (IRMA) as defined by the Securities and Exchange Commission.

Financial advisory services provided to us shall include, but shall not be limited to the following:

1. Evaluation of risks and opportunities associated with debt issuance.
2. Monitoring of the debt portfolio and bond proceeds investments to alert us to opportunities to refund or restructure bond issues or modify investments.
3. Evaluation and recommendation regarding proposals submitted by investment banking firms.
4. Structuring and pricing bond issues, financial instruments and investments.
5. Preparation of requests for proposals and selection of providers for bond counsel, underwriters, remarketing agents, letter of credit banks, investment products, financial products and financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, investment management services, custody services etc.).
6. Provide advice, assistance and preparation for presentations with rating agencies and investors.

B. Bond Counsel

Transaction documentation for debt issues shall include a written opinion by legal counsel affirming we are authorized to issue the proposed debt, that we have met all constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. A nationally recognized bond counsel firm with extensive experience in public finance and tax issues will prepare this approving opinion and other documents relating to the issuance of debt. The counsel will be selected from the pool of bond counsel firms.

C. Disclosure Counsel

When undertaking a bond sale, disclosure counsel may be retained to prepare the official statement if additional independence or expertise is needed. Disclosure counsel will be responsible for ensuring that the official statement complies with all applicable rules, regulations and guidelines. Disclosure counsel will be a nationally recognized firm with extensive experience in public finance. The disclosure counsel will typically be selected from the pool of bond counsel firms. Most frequently, the disclosure counsel function will be administered by either bond counsel or underwriter's counsel.

D. Disclosure by Financing Team Members

We expect that all of our financial advisory team will at all times provide us with objective advice and analysis, maintain the confidentiality of our financial plans, and be free from any conflicts of interest. All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties that could compromise any firm's ability to provide independent advice that is solely in our best interests or that could be perceived as a conflict of interest. The extent of disclosure may vary depending on the nature of the transaction.

XVI. Post-Issuance Compliance Procedures

We will establish and document procedures to ensure that LACMTA is in compliance with annual reporting requirements under California Government Code Section 8855(k) and with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied with respect to tax-exempt bonds and other obligations after the bonds are issued so that interest on the bonds is and will remain tax-exempt. Additionally, as part of the post issuance compliance procedures, LACMTA will ensure that proceeds of the debt issuance are directed to the intended use. The Post-Issuance Compliance Procedures will be reviewed at least every three years.

###



Measure R Sales Tax: 2021 Bond Financing

**Measure R Independent Taxpayers
Oversight Committee Meeting
April 19, 2021**



Measure R 2021 Bond Financing

Measure R Ordinance authorized & anticipated debt financing

Measure R Ordinance Section 12

Establishment of Bonding Authority

6 Metro is authorized to issue limited tax bonds, from time to time, payable
7 from and secured by Sales Tax Revenues to finance any program or project in the
8 Expenditure Plan, pursuant to Sections 130500 et sez. Of the Public Utilities Code, and
9 any successor act. ...

Measure R 2021 Bond Financing

Measure R Ordinance authorized & anticipated debt financing

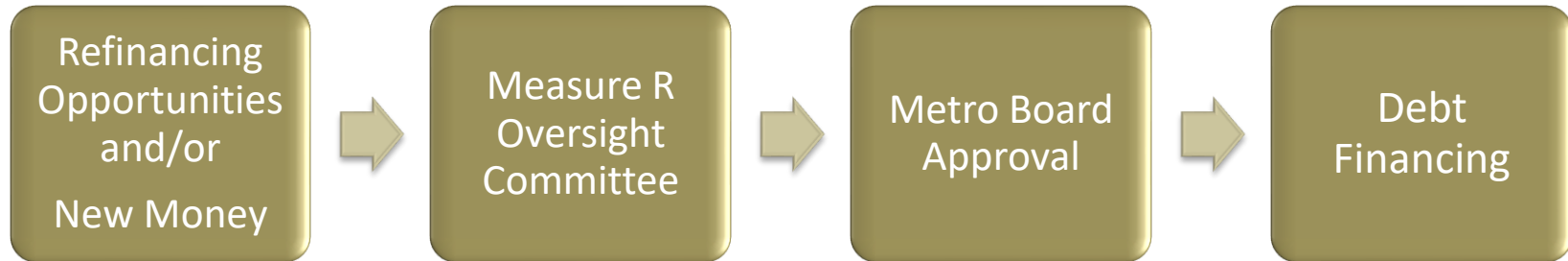
Measure R Ordinance Section 8

The Measure R Oversight Committee shall:

- 18 4. Review all proposed debt financing and make a finding as to
19 whether the benefits of the proposed financing for accelerating project delivery,
20 avoiding future cost escalation, and related factors exceed issuance and interest
21 costs.

Measure R 2021 Bond Financing

Measure R's debt approval process



- Treasury Staff determines future financing needs for Measure R projects
- Present proposed debt financing recommendations to the Measure R Oversight Committee for a finding of benefit
- Metro Board Approval
- Treasury staff executes and facilitates the debt financing

Debt Strategy

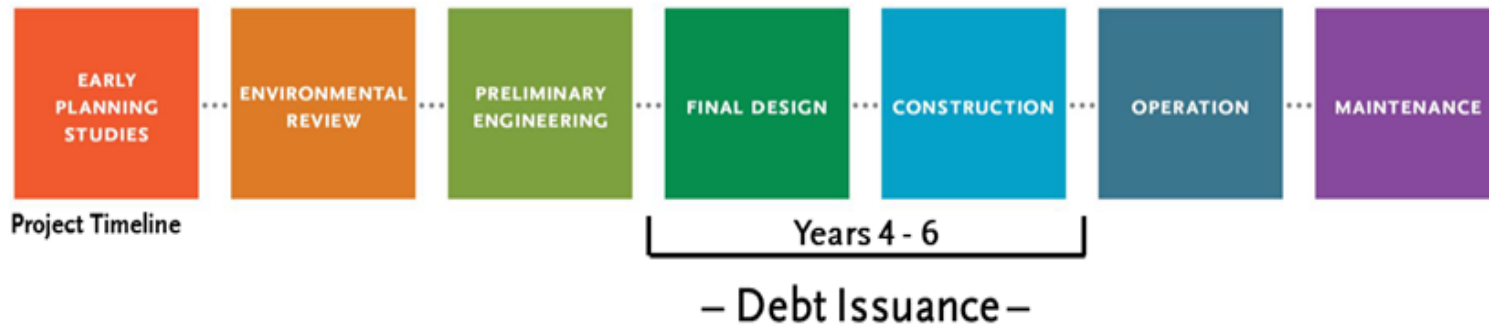
Purpose and Strategy of Metro's Debt Program

- **Debt only used for capital infrastructure and equipment**
- **Debt is primarily limited to transit and highway capital ordinance categories**
- **Debt Policy affordability limits impose responsible use of debt**
 - Revenue Source required to repay the obligation
 - Money needed to operate the system
 - Economy is volatile and revenues may decline
 - Financial flexibility needed to address unforeseen event
- **Long-term debt matches the life of funded capital projects with timing of the payment of debt service**

Debt Strategy

Prudent Debt Management Requires Defined Project Scope, Cost and Budget

Life of a Project



- **Strategic Goal** – Issue debt when the start of physical construction is imminent as this is the period with the largest expenditures
 - Timing debt issuance with construction reduces unnecessary interest costs
 - IRS Tax-exempt rules generally require debt proceeds to be spent within three years

Measure R 2021 Bond Financing

Measure R Debt Program

(in millions)

Debt Type	Current Outstanding (February 1, 2021)	Projects Funded by Debt Proceeds
Measure R Short-Term Notes	\$106.0	Westside Extension Sections 1 and 3, Southwestern Yard, Crenshaw/LAX Transit Corridor, Expo Line 2
Measure R Long-Term Bonds	\$2,400.7	Expo Line 2; Gold Line Foothill Extension; Blue Line; Crenshaw/LAX; Regional Connector; Westside Extension Sections 1, 2 and 3
Grand Total Measure R Debt	\$2,506.7	

Measure R 2021 Bond Financing

We are seeking a Finding a Benefit for a bond issuance to finance capital expenditures and keep Measure R projects moving forward:

- \$850 million bond issue
 - Refinancing outstanding short-term debt: \$106 million
 - New Money for Capital Projects: \$744 million
- Tax-exempt fixed rate bonds
- Final maturity expected to be 2039
- Summer 2021 sale

The bond issue will conform to the guidelines established by Metro's Board approved Debt Policy.

New Money Project Delay Analysis

Using long term debt accelerates project delivery and avoids future cost escalation

	Estimated Amounts
Project Capital Expenditures for WS1 & WS2	\$460 million ⁽¹⁾
Estimated Project Cost End Date	FY 2025 (WS1), FY2026 (WS2)
Estimated total interest cost on \$460 million in bonds	\$205 million ⁽²⁾
Additional Project Cost with a 5-year delay⁽³⁾	\$340 million
Additional Project Cost with a 7-year delay ⁽³⁾	\$440 million
Net benefit of issuing debt 5-year scenario⁽³⁾	\$135 million
Net benefit of issuing debt 7-year scenario ⁽³⁾	\$235 million

¹ Portion of the total \$744 million in project costs.

² Financing costs are based on a 2.80% estimated all in true interest cost.

³ Cost delay analysis is based on assumptions that all specified project expenditures would be delayed and increased at an assumed annual rate of inflation of 3.50%.

Recommendation & Next Steps

- Adopt a Resolution finding that the benefits of a Measure R bond financing accelerating project delivery and avoiding future cost escalation exceeds issuance and interest costs
- Next Steps
 - Metro Board authorizes the issuance of Bonds per the guidelines established in the Debt Policy
 - Obtain ratings on the Bonds
 - Complete legal documentation and distribute the preliminary official statement to potential investors, initiate the pre-marketing effort
 - Negotiate the sale of the Bonds with the underwriters
 - Price and deliver the Bonds in the Summer of 2021

Measure R 2021 Bond Financing

