

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
11	06/25/12	Open	Action	06/08/12

Subject: Line of Credit Extension for FY2013

## ISSUE

Whether or not to delegate authority to the General Manager/CEO to authorize the issuance of a note with Wells Fargo Bank for the FY2013 Line of Credit (LOC).

## RECOMMENDED ACTION

Adopt Resolution No. 12-06-\_\_\_\_, Delegating Authority to the General Manager/CEO to Authorize the Issuance of a Note with Wells Fargo Bank in a Principal Amount Not to Exceed \$25.0 Million with an Effective Date On or After July 1, 2012 and a Final Maturity Date of June 30, 2013.

## FISCAL IMPACT

Annual cost of the LOC secured by the note with Wells Fargo Bank:

Annual Fee:	\$ -
Estimated Interest Expense:	<u>180,000</u>
Total FY 2013 Budget:	<u>\$ 180,000</u>

- The annual fee of \$25,000 associated with securing and holding the funds available is waived in FY2013 because RT entered into a 5-year banking and investment agreement with Wells Fargo Bank.
- The interest rate will be a fixed rate (current LIBOR plus 1.50%) if using a defined payback period within the year or a variable rate (current Prime minus 0.25%) if using an undefined payback period within the year.

RT will incur interest expenses based on the amount, type of payback terms (fixed or variable rate) and use of the established LOC and is determined by factors such as interest rates and repayment schedule. The LOC is expected to be used periodically for both operating and capital purposes.

## DISCUSSION

RT staff has requested RT Board approval for the issuance of a note with Wells Fargo Bank for operating and capital cash flow purposes since FY 2004 as part of its cash management program. The California Government Code requires that public agencies annually reauthorize by resolution the issuance of notes of indebtedness for temporary borrowing. This issue paper is RT staff's request for reauthorization of the issuance of a note for FY2013 in the amount of \$25 Million.

Approved:

  
General Manager/CEO

Presented:

  
Director, Finance and Treasury



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RT's cash flow for both operating and capital expenses is dependent, in large part, on timely payments from State and Local agencies and reimbursement of expenses from the Federal Transit Administration (FTA). RT's system generated fares (farebox recovery) account for approximately 27.0% of all operating revenue.

In large part, the LOC serves as RT's "working capital" throughout the year because the timing of RT's cash receipts does not always coincide with required cash disbursements. As an example, capital project expenses are paid from operating revenue and then reimbursed, depending on the project funding source, anywhere from a few days to eight weeks after payment. Reserving an appropriate working capital balance, whether through reserves or a LOC, resolves cash flow timing issues. In addition, sound fiscal policy dictates a contingency plan to meet short-term liquidity obligations. RT relies upon the LOC to ensure payment obligations are met regardless of cash flow timing issues.

During FY 2013, RT expects to spend funds primarily on the large capital projects, South Line Phase 2, Green Line and BMF II (Bus Maintenance Facility). Each project will have significant cash requirements throughout FY 2013. Based on the current respective funding apportionments for these projects, RT anticipates receiving State and Local reimbursement for these projects within 30 days from payment.

Upon Board approval and subject to bank limitations, the note would not exceed the monthly average working capital requirement of \$25.0 million and would be pledged with receipt of Borrower's revenue excluding any revenues, up to a maximum of \$2 million, any and all farebox revenues, and Measure A revenues. This pledge is slightly different to last year's pledge in that Measure A revenues have been excluded, as this revenue source is expected to be included as a security interest in RT's anticipated future bond issuance.

Staff recommends renewing its flexible note with Wells Fargo Bank. The note is facilitated by Wells Fargo's Government, Education and Labor Banking Division and is in compliance with public agency temporary borrowing practices as regulated by California Government Code Sections 53850 – 53858.

Basic terms of the note:

- The note duration is quoted as a general period of (1) year and will be reviewed and approved by the bank on an annual basis.
- Interest rates on the amount used will vary depending on the payback structure selected. The interest rate will be a fixed rate (current LIBOR plus 1.50%), if using a defined payback period within the year, or a variable rate (current Prime less 0.25%) if using an undefined payback period within the year.
- Auditing fees will not be applicable, as this is not considered a secured loan
- Fare revenues will not decline by more than 20% on a quarter-to-quarter basis. If, for some reason, revenues were to decline below the trigger point, RT would be required to engage in

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discussions with Wells Fargo Bank on the economic conditions causing the decline and RT's planned remedial actions to restore revenues.

- RT must maintain a zero balance on advances for a period of at least 30 consecutive days during the term of the Line of Credit.

Staff recommends that the RT Board of Directors delegate authority to the General Manager/CEO to authorize the issuance of a note with Wells Fargo Bank in a principal amount not to exceed \$25.0 Million with an effective date on or after July 1, 2012 and a final maturity date of June 30, 2013.



RESOLUTION NO. 12-06-\_\_\_\_\_

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

June 25, 2012

**DELEGATING AUTHORITY TO THE GENERAL MANAGER/CEO TO AUTHORIZE THE ISSUANCE OF A NOTE WITH WELLS FARGO BANK IN A PRINCIPAL AMOUNT NOT TO EXCEED \$25.0 MILLION WITH AN EFFECTIVE DATE ON OR AFTER JULY 1, 2012 AND A FINAL MATURITY DATE OF JUNE 30, 2013**

WHEREAS, in accordance with Chapter 4.7 (Temporary Borrowing) of Title 5, Division 2, Part 1 of the California Government Code (Section 53850 and following), Sacramento Regional Transit District ("RT") may borrow money for any purpose for which the local agency is authorized to use and expend moneys, including but not limited to current expenses, capital expenditures, investment and reinvestment, and the discharge of any obligation or indebtedness of the local agency; and

WHEREAS, pursuant to Resolution No. 11-09-0127, the Board awarded a contract to Wells Fargo Bank, N.A. for banking services that included a fee schedule for issuance of a Revolving Line of Credit Note; and

WHEREAS, RT is negotiating a Revolving Line of Credit Note under its contract with Wells Fargo Bank, N.A. for a \$25,000,000 line of credit to be effective on or after July 1, 2012, with a final maturity date of June 30, 2013; and

WHEREAS, the General Manager/CEO or his authorized representative is hereby authorized to draw on said Revolving Line of Credit Note during its term as necessary and appropriate.

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the General Manager/CEO is hereby authorized and directed to approve the issuance of a Revolving Line of Credit Note between RT and Wells Fargo Bank, N.A., consistent with the fees set out in the Agreement between RT and Wells Fargo Bank N.A., for Banking Services, with a term not to exceed 12 months, commencing on or after July 1, 2012 with a final maturity date of June 30, 2013, and in an amount not to exceed \$25,000,000 upon successful completion of negotiations of the terms, covenants and conditions of the Promissory Note.

THAT, the General Manager/CEO is hereby authorized and directed to execute the foregoing Promissory Note and any associated documents upon completion of the foregoing condition.

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Bonnie Pannell, Chair

ATTEST:

MICHAEL R. WILEY, Secretary

By: \_\_\_\_\_  
Cindy Brooks, Assistant Secretary