

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
11	10/27/14	Open	Action	10/24/14

Subject: Delegation of Authority to the General Manager/CEO to Enter into an Amendment of Credit Agreement and Revolving Line of Credit Facility Note for \$29 Million with US Bank

ISSUE

Delegate authority to the General Manager/CEO to execute the First Amendment to the Credit Agreement and the Revolving Line of Credit Facility Note extending the current \$29 million Line of Credit Note with US Bank National Association by 90 days.

RECOMMENDED ACTION

Adopt Resolution No. 14-10-_____, Delegating Authority to the General Manager/CEO to Execute the First Amendment to the Credit Agreement and the Revolving Line of Credit Facility Note with US Bank National Association Extending the Maturity Date of the \$29 Million Note by 90 Days, from October 31, 2014 to January 29, 2015.

FISCAL IMPACT

Below is an estimate of the costs associated with a 90 day extension for a Line of Credit (LOC) secured by the note with US Bank National Association (US Bank):

Annual Fee:	\$	-
Legal Costs:		-
Estimated Interest Expense (90 days):		<u>55,500</u>
Total Fees/Costs*:	\$	55,500

- There will be no annual or temporary extension fee for this 90 day extension.
- US Bank has incurred legal costs associated with the recent negotiations for the 90 day extension. These costs are anticipated to be less than \$25,000.
- The interest rate has two components a used LOC rate and an unused LOC rate. The used LOC rate is current LIBOR plus 1.35%. The unused LOC rate is a fixed rate of 0.575%.

*This amount has been included in the FY15 Operating Budget. The Legal costs incurred will be rolled into the one year LOC extension.

DISCUSSION

On an annual basis, RT's Board of Directors has authorized the General Manager/CEO to issue a Line of Credit (LOC) Note for operating and capital cash flow purposes since FY2004 as part of its cash management program. California Government Code §53854 requires that any LOC note

Approved:

Presented:

Final 10/24/14

General Manager/CEO

Director, Finance and Treasury

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issued pursuant to the authorizing TRAN statute (Cal. Gov't. Code §§53850-53858) must be repaid within 15 months of issuance. Consequently, because RT has come to rely on the issuance of an LOC note to manage its operating cash flow, RT must annually reauthorize by resolution the issuance of a new note of indebtedness for temporary borrowing.

RT's cash flow for both operating and capital expenses is dependent, in large part, on timely receipt of grant payments from State and Local agencies and reimbursement of expenses from the Federal Transit Administration (FTA). While most of RT's operating revenue comes from grants and sales tax revenues, RT's system generated fares (farebox recovery) account for approximately 26% of all operating revenue.

The LOC primarily serves as temporarily borrowed gap funding for federal operating money authorized for payment to RT during the current fiscal year but not received by RT until the following fiscal year. For FY 2015, RT has budgeted approximately \$30M of federal Preventative Maintenance (PM) revenue, 5307 Urbanized Area funding and 5337 State of Good Repair, to pay for their respective expenses incurred during the fiscal year. In accordance with Generally Accepted Accounting Principles (GAAP), this revenue will be recognized evenly throughout the year and the expenses will be recorded as incurred, however from a cash flow prospective, RT will not receive the funds until August of the following fiscal year. This delay in receipt of funding, in addition to delays in the timing of other cash receipts received from state and local governments, is why RT depends on an annual LOC note to keep cash flowing. As most transit agencies experience, the cash payments RT receives from its various funding sources does not always timely coincide with required cash disbursements. As an example, capital project expenses are generally paid when the services are received; however, reimbursement from the local, state or federal funding source may take anywhere from a few days to eight weeks to receive, depending on project funding sources. With that limitation, Staff has modified its internal policies to only pay material capital invoices when funding is received; however, this is not always possible due to contractual obligations with vendors and contractors. During FY 2015, RT anticipates having to spend funds primarily on the three large capital projects: South Line Phase 2, Green Line, and the Downtown/Riverfront Streetcar Starter Line. Each project will have significant cash requirements throughout the year.

Having access to 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.

To issue a note for a LOC, the Board must authorize its issuance through the adoption of a resolution. Pursuant to Cal. Gov't Code §53856, the authorizing resolution must identify the funds that the public agency will pledge to use to repay the LOC. In anticipation of the current Note's upcoming maturity, RT and US Bank began negotiations for the issuance of a new 12 month Note in early September. During the negotiations US Bank's legal counsel raised concerns that the funds RT pledged to repay the LOC, as required by the TRAN Statute were not being set aside

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upon receipt and held for repayment by RT in a segregated account. US Bank’s counsel’s concerns raised additional issues about RT’s cash flow management and what funds were actually pledged to repay the LOC at maturity. The parties have been diligently negotiating the terms of a new 12 month LOC, however, while the parties have agreed in concept on the terms of the new LOC, which addresses the pledged revenues in greater detail, the specific terms and conditions that will be contained in the new LOC Note have not been fully negotiated and drafted. Because RT’s current Note with US Bank reaches maturity on October 31, 2014 and because RT has a continuing need for the Note, US Bank has agreed to extend the maturity date of the current Note by 90 days while the parties finalize the terms of the new Note. The 90 day extension is in keeping with the requirements of the TRAN statute that any Note issued under the TRAN must be repaid within 15 months of issuance. The Note extension will be on the same terms and conditions as the current Note and the same funds pledged under the current Note will be pledged during the 90 day extension period.

Upon Board approval and subject to bank limitations, the 90 day extension on the current Note will not exceed the monthly average working capital requirement of \$29 million and the Bank will continue to have a first lien and charge against any taxes, income, revenues, cash receipts or other revenue held by RT, including funds deposited in inactive or term deposits, received or accrued, excluding farebox revenues and capital grant revenues, during the fiscal year in which the Note was issued and a subordinate lien on any and all farebox revenues, subject only to the senior lien on the farebox revenues as described in the Note.

Staff recommends extending the LOC Note for 90 days with US Bank for an amount not to exceed \$29 million, which is in compliance with public agency temporary borrowing practices as regulated by California Government Code Sections 53850 – 53858.

Basic terms of the Note:

- The extension period is quoted as a general period of 90 days and will be reviewed and approved by the bank prior to the conclusion of the 90 day period for issuance of a new 12 month note.
- Interest rates are fixed at LIBOR plus 1.35% for the used portion of the LOC and 0.575% for the unused portion of the LOC.
- RT agrees to pay to the Bank on the date of issuance, all reasonable costs and expenses of counsel to the Bank in connection with the preparation, execution and delivery of this Note and other associated documents, not expected to exceed \$25,000

Staff recommends that the RT Board of Directors delegate authority to the General Manager/CEO to execute the First Amendment to the Credit Agreement and the Revolving Line of Credit Facility Note which extends RT’s Note with US Bank for a period of 90 days in a principal amount not to exceed \$29 million with an effective date on or after October 31, 2014 and a final maturity date of January 29, 2015.

RESOLUTION NO. 14-10-_____

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

October 27, 2014

DELEGATING AUTHORITY TO THE GENERAL MANAGER/CEO TO EXECUTE THE FIRST AMENDMENT TO THE CREDIT AGREEMENT AND THE REVOLVING LINE OF CREDIT FACILITY NOTE WITH US BANK NATIONAL ASSOCIATION EXTENDING THE MATURITY DATE OF THE \$29 MILLION NOTE BY 90 DAYS, FROM OCTOBER 31, 2014 TO JANUARY 29, 2015

WHEREAS, in accordance with Article 7.6 (Temporary Borrowing) of Title 5, Division 2, Part 1, Chapter 4 of the California Government Code (Section 53850 and following), and Article 5 of Division 10, Part 14, Chapter 7 of the California Public Utilities Code (Section 102500 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 obligation or indebtedness of the local agency; and

WHEREAS, pursuant to Resolution No. 13-10-0154, the Board awarded a contract to US Bank, N.A. for banking services that included a fee schedule for issuance of a Revolving Line of Credit Note; and

WHEREAS, on November 1, 2013, RT and US Bank, N.A. entered into a Credit Agreement for the issuance of a Revolving Line of Credit Facility Note with a maturity date of October 31, 2014; and

WHEREAS, RT is negotiating a new Revolving Line of Credit Facility Note under its Credit Agreement with US Bank, N.A. for a \$29,000,000 line of credit to be effective upon maturity of RT's current Revolving Line of Credit Facility Note; and

WHEREAS, because RT's Revolving Line of Credit Facility Note is set to mature October 31, 2014 and the parties have not finalized negotiations on the terms and conditions of the new note, the parties wish to extend the current Note's maturity date by 90 days to allow the parties to finalize the terms and conditions of a new Revolving Line of Credit Note in conformity with California Government Code Section 53850 et seq., also referred to as the TRAN Statute; and

WHEREAS, pursuant to the terms of the Revolving Line of Credit Facility Note, RT agreed to pledge to US Bank a first lien and charge against any taxes, income, revenue, cash receipts, and other moneys of RT, including moneys deposited in inactive or term deposits, received or accrued during the fiscal year in which the Revolving Line of Credit Facility Note is issued, exclusive of Farebox Revenues and Capital Grant Revenues; and a subordinate lien on any and all Farebox Revenues, subject only to the lien thereon securing the Senior Farebox Obligations, as defined in the Revolving Line of Credit Facility Note; and

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

THAT, the First Amendment to the Credit Agreement and Revolving Line of Credit Facility Note between Sacramento Regional Transit District and US Bank National Association, wherein US Bank agrees to extend the maturity date by 90 days of the existing Revolving Line of Credit Facility Note in the principal amount of \$29,000,000, subject to redemption as set forth in the form of Credit Agreement and Note reviewed by the Board, dated October 31, 2014 with an extended final maturity date of January 29, 2015, are hereby approved.

THAT, the Board hereby agrees that the principal amount of the Revolving Line of Credit Note and any interest thereon shall continue to be payable from and secured by a pledge of a lien on and security interest in (a) a first lien and charge against any taxes, income, revenues, cash receipts or other moneys of RT, including moneys deposited in inactive or term deposits, received or accrued, excluding Farebox revenues and capital grant revenues, during the fiscal year in which the Revolving Line of Credit Facility Note is issued and; (b) a subordinate lien on any and all Farebox Revenues, subject only to the lien thereon securing the senior farebox obligations as defined in the Revolving Line of Credit Facility Note.

THAT, the Board hereby authorizes and directs the General Manager/CEO to execute the First Amendment to the Credit Agreement and Revolving Line of Credit Facility Note, and any other agreements, documents, or forms necessary to effectuate the transaction or secure advances under the Revolving Line of Credit Facility Note.

PHILLIP R. SERNA, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: _____
Cindy Brooks, Assistant Secretary