

# REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
7	01/12/15	Open	Action	01/07/15

Subject: Approve an Amended and Restated Credit Agreement and Revolving Line of Credit Facility Note with US Bank for \$29 Million with a Final Maturity Date of September 30, 2015

## ISSUE

Whether to Approve an Amended and Restated Credit Agreement and a Revolving Line of Credit Facility Note with US Bank National Association for \$29 Million with a Final Maturity Date of September 30, 2015

## RECOMMENDED ACTION

Adopt Resolution No. 15-01-\_\_\_\_\_, Approving an Amended and Restated Credit Agreement and a Revolving Line of Credit Facility Note with US Bank National Association for \$29 Million with a Final Maturity Date of September 30, 2015.

## FISCAL IMPACT

Below is an estimate of the costs associated with the issuance of a 9 month Line of Credit (LOC) Facility Note with US Bank National Association (US Bank):

Annual Fee:	\$ -
Estimated Legal Costs:	25,000
Estimated Interest Expense (9 months):	<u>268,000</u>
Total Fees/Costs*:	\$ 293,000

- There will be no annual or temporary extension fee for this 9 month LOC.
- US Bank has incurred legal costs associated with the recent negotiations for the 3 month LOC. These costs will be included in the legal costs for this 9 month LOC.
- The interest rate has two components a used LOC rate and an unused LOC rate. The used LOC rate is current one-month LIBOR plus 1.35%. The unused LOC rate is a fixed rate of 0.575%.

\*This amount has been included in the FY2015 Operating Budget. The Legal costs incurred will be rolled into the one year LOC Note.

## DISCUSSION

On November 1, 2013, RT and US Bank entered into a Credit Agreement wherein the Bank agreed to extend credit to RT on an annual basis pursuant to California Government Code §53850 et seq., otherwise referred to as the TRAN Statute. In accordance with that arrangement, RT issued a Revolving Line of Credit Facility Note (LOC Note) in the amount of \$29 million with a final maturity date of October 31, 2014. As the maturity date approached, RT and US Bank

Approved:

Presented:

Final 01/07/15

General Manager/CEO

Chief Financial Officer, Acting

j/FI/Issue Papers All/2015/01-12-15 Line of Credit Renewal Revised RT Legal and US Bank Edits.doc

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commenced negotiations for the renewal of LOC Note. However, when negotiations commenced, US Bank’s counsel expressed concerns regarding RT’s ability to comply with the TRAN Statute’s requirement that pledged funds be set aside. US Bank’s counsel was also concerned that, because of the timing of receipt of grant funds, RT would be unable to repay the LOC with funds received in the same fiscal year that the LOC Note was issued. Based on those concerns, the negotiations between RT and US Bank stalled since US Bank did not want to approve a new 12 month LOC unless those issues were resolved. To give the parties time to work out those issues, US Bank agreed to grant RT a short term 90 day Line of Credit. On October 27, 2014, RT’s Board of Directors approved Resolution #14-10-0116, which authorized the General Manager/CEO to issue a short term Line of Credit (LOC) Note for operating and capital cash flow purposes with US Bank. The note was issued for a 90 day period, with a final maturity date of January 29, 2015, with the understanding that RT and US Bank would continue to work towards a longer term LOC. RT and US Bank have reached agreement on the remaining terms. Based on negotiations, the Credit Agreement needs to be modified to incorporate provisions that address how RT pledges and sets aside pledged funds, among other minor changes. Rather than amend the November 1, 2013 Credit Agreement, the parties agreed that it would be best to enter into an Amended and Restated Credit Agreement. In addition, the parties have agreed to the terms of a new Revolving Line of Credit Facility Note that will extend a \$29 million LOC to RT with a maturity date of September 30, 2015. Staff seeks Board approval of both agreements.

**Background:**

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 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

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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.

During negotiations, US Bank raised the concern that while the TRAN statute does authorize RT to engage in short term borrowing activities, the pledge requirements and the repayment requirements contained in the TRAN statute do not work well with RT's cash flow reality. Therefore, US Bank insisted that RT agree to pursue a legislative change that would result in RT having borrowing authority pursuant to a vehicle that more consistently works with RT's cash flow. Therefore, the both the Amended and Restated Credit Agreement and the Revolving Line of Credit Facility Note impose an obligation on RT to pursue legislation that will grant RT greater borrowing authority. RT is currently working with its state lobbyist to identify an author who will be willing to introduce legislation on RT's behalf granting it greater borrowing authority.

The Note before the Board tonight will be largely on the same terms and conditions as the current Note with modifications to address how RT pledges and sets aside pledged funds, and with an additional requirement to notify the bank within 20 business days of apportionment of Federal Operating Grant Revenues and 5 business days upon receipt of Federal Operating Grant Revenues among other minor modifications.

Upon Board approval and subject to bank limitations, the current Note will not exceed the monthly average working capital requirement of \$29 million and the Bank will continue to have a pledge of a lien on and security interest in, the following (collectively, the "Pledged Revenues"): (a) a first lien and change against (i) the first moneys received by the Borrower from the Federal Operating Grants received or accrued during the fiscal year in which the Revolving Line of Credit Facility Note is issued; (ii) the first moneys received by the Borrower from the LTF Grants received or accrued during the fiscal year in which the LOC Note is issued; (iii) the first moneys received by

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the Borrower from the STA Funds received or accrued during the fiscal year in which the LOC Note is issued; (iv) the first moneys received by the Borrower from the Measure A Revenues received or accrued during the fiscal year in which the LOC Note is issued; (v) the first moneys received by the Borrower from the Other Revenues received or accrued during the fiscal year in which the LOC Note is issued; and (vi) the first moneys received by the Borrower from the Subordinate Farebox Revenues received or accrued during the fiscal year in which the LOC 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 each such term is defined in the LOC Note; the Pledged Revenues shall be set-aside as set forth in Section 5.10 of the Amended and Restated Credit Agreement.

Staff recommends entering into the LOC Note for 9 months 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 LOC Note term is quoted as a general period of 9 months and will be reviewed and approved by the bank prior to the conclusion of the 9 month period for issuance of a new 12 month note.
- Interest rates are fixed at one-month 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, estimated to be \$25,000

Staff recommends that the RT Board of Directors enter into the Amended and Restated Credit Agreement and the Revolving Line of Credit Facility Note US Bank in a principal amount of \$29 million with an effective date on or after January 29, 2015 and a final maturity date of September 30, 2015.

RESOLUTION NO. 15-01-\_\_\_\_\_

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

January 12, 2015

**APPROVING AN AMENDED AND RESTATED CREDIT AGREEMENT AND A REVOLVING LINE OF CREDIT FACILITY NOTE WITH US BANK NATIONAL ASSOCIATION FOR \$29 MILLION WITH A FINAL MATURITY DATE OF SEPTEMBER 30, 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 Facility 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, 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 Amended and Restated 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 a Line of Credit to RT with a maturity date of September 30, 2015 in the principal amount of \$29,000,000, subject to redemption (including the method of giving notice of redemption and the redemption price or prices) as set forth in the form of the Amended and Restated Credit Agreement and Revolving Line of Credit Facility Note reviewed by the Board, dated January 29, 2015 with an extended final maturity date of September 30, 2015, are hereby approved.

THAT, the Board hereby agrees that the principal amount of the Revolving Line of Credit Facility Note and any interest thereon shall continue to be payable from and secured by a pledge of a lien on and security interest in, the following (collectively, the "Pledged Revenues"): (a) a first lien and change against (i) the first moneys received by the Borrower from the Federal Operating Grants received or accrued during the fiscal year in which the Revolving Line of Credit Facility Note is issued; (ii) the first moneys received by the Borrower from the LTF Grants received or accrued during the fiscal year in which the Revolving Line of Credit Facility Note is issued; (iii) the first moneys received by the Borrower from the STA Funds received or accrued during the fiscal year in which the Revolving Line of Credit Facility Note is issued; (iv) the first moneys received by the Borrower from the Measure A Revenues received or accrued during the fiscal year in which the Revolving Line of Credit Facility Note is issued; (v) the first moneys received by the Borrower from the Other Revenues received or accrued during the fiscal year in which the Revolving Line of Credit Facility Note is issued; and (vi) the first moneys received by the Borrower from the Subordinate Farebox Revenues received or accrued 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 each such term is defined in the Revolving Line of Credit Facility Note; the Pledged Revenues shall be set-aside as set forth in Section 5.10 of the Amended and Restated Credit Agreement.

THAT, the Board hereby authorizes and directs the General Manager/CEO to execute the Amended and Restated 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.

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PHILLIP R. SERNA, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

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