

REGIONAL TRANSIT ISSUE PAPER

| Agenda Item No. | Board Meeting Date | Open/Closed Session | Information/Action Item | Issue Date |
|-----------------|--------------------|---------------------|-------------------------|------------|
| 9 | 09/28/15 | Open | Action | 09/28/15 |

Subject: Line of Credit Renewal

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, 2016.

RECOMMENDED ACTION

Adopt Resolution No. 15-09-_____, 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, 2016.

FISCAL IMPACT

| | | | | |
|---|-----------------|------------------|----|------------|
| Budgeted: | Yes | Interest Expense | \$ | |
| Budget Source: | Operating | Legal Fees | \$ | |
| Funding Source: | Fare Revenue | Total Budget | \$ | 312,000.00 |
| Cost Cntr/GL Acct(s) or Capital Project #: | 690072 & 630003 | | | |

DISCUSSION

On November 1, 2013, RT and US Bank entered into a Credit Agreement wherein the Bank agreed to provide 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. Subsequent to the expiration of that note, RT has worked with US Bank to enter two other continuing LOC notes with the latest expiring on September 30, 2015. The parties have now 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, 2016. Additionally, the parties have agreed to a number of modifications to the Amended and Restated Credit Agreement that RT entered into in January of 2015. The modifications are set out in the Amendment No. 1 to Amended and Restated Credit Agreement. 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

Approved:

Presented:

Final 09/28/15

General Manager/CEO

Director, Finance and Treasury

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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, as of June 30, 2015, RT's system generated fares (farebox recovery) account for approximately 22% of all operating revenue.

The LOC primarily serves as temporarily borrowed gap funding for federal operating grant money authorized for payment to RT during the current fiscal year but not received by RT until the following fiscal year. For FY 2016, RT has budgeted approximately \$29.8M 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 2016, RT anticipates having to spend funds primarily on the three large capital projects: The remaining costs related to South Line Phase 2, Bus procurements, and the Green Line expansion project. Each project will have significant cash requirements throughout the year.

Having access to an appropriate working capital balance, whether through reserves or through 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.

Terms and conditions for the amendment:

The LOC Note before the Board tonight will have some similar terms and conditions as the current Note; however US Bank has requested three new provisions with which RT must comply. Failure to comply with these provisions may trigger the Bank to provide notice to RT that it may be in breach of the terms of the LOC Note and advise RT that it has 60 days to work with the Bank to

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seek to “cure” the deficiency. Curing the deficiency could result in new terms and conditions being placed on RT, but they will be negotiated by both parties during the 60 day period. The new requirements are imposed on RT because of RT’s week cash position and two consecutive fiscal years of declining financial results, resulting from the District having higher expenses than revenues. The bank believes that the financial losses and low cash balances indicate negative financial trends despite the District’s ability to cover the shortfalls with operating reserves.

As a result, three newly proposed financial provisions have been added:

1. Beginning on January 1st 2016, the District will maintain liquidity of at least \$9 Million (either unrestricted cash/investments or a combination of cash and line availability). At a minimum, \$4.5 Million would need to be in unrestricted cash and the remaining could be in line availability. The covenant will be tested quarterly; however the District will represent compliance with each draw.
2. The District must maintain a Fixed Charge Coverage of at least 1.15 times, measure on a fiscal year basis. The Fixed Charge Coverage calculation is similar to a Debt Service calculation in which the balance evaluates RT’s ability to pay its debt obligations. A coverage ratio of 1.00 or greater shows that an organization has enough funds available to meet the debt obligations. US Bank has allowed the District to include any capital grants funds (which are used to pay debt service obligations) in the calculation.
3. The District must maintain a Net Operating Ratio of at least .95 times. This coverage will be based on a rolling 4 quarter basis. The ratio will be increased until a ratio of 1.00 times or greater can be maintained on an ongoing basis. The Net Operating Ratio compares revenues to expense. If revenues are equal to expenses, the ratio is 1.00 times. When expenses are greater than revenues, the ratio is less than 1.00 times.

In addition to the new covenants, the bank has increased its borrowing fees to 75 basis points for the unused portion and LIBOR (London Interbank Offered Rate) plus 150 basis points for utilized draws. In comparison to the prior year, the fees were 57 basis points and LIBOR plus 135 basis points, respectively. US Bank has indicated that if the District is able to show improved financial results, the fees mentioned above could be revisited and potentially reduced, depending on the degree of improvement.

Other terms worth noting:

- The note will continue to have the requirement to maintain a zero balance for a 14 day period during the term of the arrangement.
- On September 28, 2015, Governor Jerry Brown signed AB 422 into law. AB 422 grants RT the authority to provide a multi-year pledge of funds to secure a line of credit. Based on the authority in AB 422, the Bank has demanded that RT provide a multi-year pledge of future grant funds to secure the LOC Note. Thus, the LOC Note will contain language

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pledging grant funds to be received in fiscal years 2016-17, 2017-18, 2018-19, and 2019-20. The pledge will terminate when the LOC Note is paid in full on September 30, 2016.

Upon Board approval and subject to bank limitations, the current LOC 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 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 authorizing the General Manager/CEO to issue the LOC Note for 12 months with US Bank for an amount not to exceed \$29 million, with an effective date on or after September 30, 2015 and a final maturity date of September 30, 2016, which is in compliance with public agency temporary borrowing practices as regulated by California Government Code Sections 53850 – 53858 and to execute the Amendment No. 1 to Amended and Restated Credit Agreement upon completion of negotiations.

RESOLUTION NO. 15-09-_____

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

September 28, 2015

APPROVING AMENDMENT NO. 1 TO THE 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, 2016

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 January 29, 2015, RT and US Bank, N.A. entered into an Amended and Restated Credit Agreement for the issuance of a Revolving Line of Credit Facility Note with a Maturity Date of September 30, 2015; 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 was issued, exclusive of 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, Amendment No. 1 to Amended and Restated Credit Agreement and Revolving Line of Credit Facility Note between Sacramento Regional Transit District and US Bank National Association, wherein Bank agrees to extend a Line of Credit to RT with a maturity date of September 30, 2016 in the principal amount of \$29,000,000, subject to redemption (including the method of giving notice or redemption and the redemption price or prices) as set forth in the form of Amendment No. 1 to Amended and Restated Credit Agreement and Revolving Line of Credit Facility Note reviewed by the Board, dated September 30, 2015 with a final maturity date of September 30, 2016, 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 charge against (i) the first moneys received by RT from the Federal Operating Grant Revenues received or accrued during the fiscal year in which the Line of Credit Facility Note was issued; (ii) the first moneys received by RT from the LTF Revenues received or accrued during the fiscal year in which the Line of Credit Facility Note was issued; (iii) the first moneys received by RT from STA funds received or accrued during the fiscal year in which the Line of Credit Facility Note was issued; and (iv) the first moneys received by RT from the Measure A Revenues received or accrued during the fiscal year in which the Line of Credit Facility Note was issued; (v) the first moneys received by RT from the Other Revenues received or accrued during the fiscal year in which the Line of Credit Facility Note was issued; and (vi) the first moneys received by RT from the Subordinate Farebox Revenues received or accrued during the fiscal year in which the Line of Credit Facility Note was 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 Pledge Revenues shall be set-aside as set forth in Section 5.10 of the Amended and Restated Credit Agreement.

THAT, the Board hereby agrees that beginning January 1, 2016, 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 interests in the Pledged Funds described above and received by RT in Fiscal Years 2016-17, 2017-18, 2018-19, and 2019-20. The pledge will remain in effect until the Revolving Line of Credit Facility Note including interest thereon, is paid in full.

THAT, the Board hereby authorizes and directs the General Manager/CEO to execute Amendment No. 1 to Amended and Restated Credit Agreement and Revolving Line of Credit Facility Note, and any other agreements, documents, forms, or applications necessary to effectuate the transaction or secure advances under the Revolving Line of Credit Facility Note.

JAY SCHENIRER, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: _____
Cindy Brooks, Assistant Secretary