

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
13	09/26/16	Open	Action	09/19/16

Subject: Line of Credit Renewal with US Bank

ISSUE

Whether to approve the Credit Agreement and Promissory Note with US Bank National Association for \$29 Million with a Final Maturity Date of September 30, 2017.

RECOMMENDED ACTION

Adopt Resolution No. 16-09-_____, Approving the Credit Agreement and Promissory Note with US Bank National Association for \$29 Million with a Final Maturity Date of September 30, 2017.

FISCAL IMPACT

Budgeted:	Yes	Interest Expense	\$	358,000
Budget Source:	Operating	Legal Fees	\$	25,000
Funding Source:	Fare Revenue	Total Budget	\$	383,000
Cost Cntr/GL Acct(s) or Capital Project #:	690072			

DISCUSSION

Summary:

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 (LOC) Facility 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 issue three continuing LOC notes, with the latest expiring on September 30, 2016. The parties have now agreed to the terms of a new Credit Agreement with a Promissory Note that will provide RT with a \$29 million LOC with a maturity date of September 30, 2017.

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. Due to the various delays in receipts of Federal, State and Local funds, as mentioned below, RT heavily relies upon a LOC to ensure all operating and capital payment obligations are met regardless of timing delays in cash flows.

Approved:

Presented:

Final 09/21/16

General Manager/CEO

Acting VP, Business Support Services/Chief Financial Officer
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Therefore, Staff recommends entering into the LOC Note for 12 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 and California Public Utilities Code Section 102584.

Background:

RT's operations are heavily dependent on the timely receipt of cash from the State, Local, and Federal Government agencies. As such, on an annual basis (since FY2004), 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. 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. In January 2016, RT was granted a bit more flexibility by the State when Assembly Bill (AB) 422 (McCarty) went into effect. AB 422 added California Public Utilities Code Section 102584 to the PUC, which provides RT with the authority to obtain a LOC with a maturity date of up to 60 months. California PUC Section 102584 also permits RT to provide a multiyear pledge of grant funds as collateral for its LOC. Both of these changes to the law create an opportunity for RT to secure a LOC on more favorable terms and will ultimately result in a reduction in costs associated with borrowing against the LOC. While RT could secure a longer term for its LOC, at this time its lender, US Bank has offered to provide a one year LOC. However, because RT has the ability to provide a multiyear pledge, the bank has eliminated some of the conditions it has historically imposed on RT because RT was limited to making a single year pledge, exposing the bank to greater risk.

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 2017, RT has budgeted approximately \$30.7M of federal Preventative Maintenance (PM) revenue, 5307 Urbanized Area funding and 5337 State of Good Repair, to cover reimbursable operating 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 may not receive these funds until August of the following fiscal year. This funding delay, in addition to funding delays from other State and Local government agencies, is why RT depends on a LOC note.

As with most transit agencies, the cash receipts from various funding sources do not always timely coincide with the 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 and to follow good cash management practices, Staff has modified its internal policies to pay significant capital invoices when funding is received; however, this is not always possible due to contractual obligations with vendors and contractors. For FY 2017, there are three large capital projects for which RT

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anticipates incurring significant expenses. These projects are as follows: UTDC Light Rail Vehicle Refurbishment, Green Line, and the Downtown/Riverfront Streetcar Starter Line.

Terms and Conditions:

The new Credit Agreement and Note have similar terms and conditions as the current Note, such as: requirements addressing how RT pledges and sets aside pledged funds, notifying the bank within 20 business days of apportionment of Federal Operating Grant Revenues, and notifying the bank 5 business days upon receipt of Federal Operating Grant Revenues.

Other terms of the LOC are:

- The LOC Note term is quoted as a general period of 12 months and will be reviewed and approved by the bank prior to the conclusion of the 12 month period for issuance of a new 12 month note.
- Interest rates are fixed at one-month London Interbank Offered Rate (LIBOR) plus 1.50% for the used portion of the LOC and 0.75% 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

In addition to the terms noted above, the loan is subject to bank limitations. The current Note cannot 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 charge against (i) the first moneys received by the Borrower from the Federal Operating Grants received or accrued during the fiscal year in which the Promissory Note is issued; (ii) the first moneys received by the Borrower from the Local Transportation Fund (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 will be set-aside as set forth in Section 5.20 of the new Credit Agreement.

Staff recommends that the RT Board of Directors enter into the Credit Agreement and a Promissory Note with US Bank in a principal amount of \$29 million with an effective date on or after October 1, 2016 and a final maturity date of September 30, 2017.

RESOLUTION NO. 16-09-_____

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

September 26, 2016

APPROVING A CREDIT AGREEMENT AND A PROMISSORY NOTE WITH US BANK NATIONAL ASSOCIATION FOR \$29 MILLION WITH A FINAL MATURITY DATE OF SEPTEMBER 30, 2017

WHEREAS, in accordance with Section 102584 of the California Public Utilities Code, Sacramento Regional Transit District (“RT”) may seek and obtain a short-term revolving line of credit for operating purposes in anticipation of receipt of federal operating grants; and

WHEREAS, RT has requested and U.S. Bank National Association (“US Bank”) has agreed to provide a new \$29,000,000 revolving line of credit with a maturity date of September 30, 2017 secured as provided in said Section 102584; and

WHEREAS, the parties will enter into a new Credit Agreement to evidence such new revolving line of credit and RT shall issue a Promissory Note to US Bank to evidence RT’s obligations under the Credit Agreement; and

WHEREAS, pursuant to the terms of the Credit Agreement and Promissory Note, RT will agree to pledge and grant a lien on and security interest in the following (collectively, the “Pledged Revenues”): (i) the Federal Operating Grant Revenues; (ii) the LTF Revenues; (iii) the STA Funds; (iv) the Measure A Revenues; (v) the Other Pledged Revenues; and (vi) the Subordinate Farebox Revenues (collectively, the “Available Non-Farebox Revenues”), and (b) a subordinate lien on any and all Farebox Revenues, subject only to the lien thereon securing the Senior Farebox Obligations, all as defined in the Credit Agreement and Promissory Note; and

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

THAT, the Credit Agreement between Sacramento Regional Transit District and US Bank, wherein US Bank agrees to extend a Line of Credit to RT with a maturity date of September 30, 2017 in the principal amount of \$29,000,000, as evidenced by the Promissory Note issued by RT in favor of US Bank, in the forms reviewed by the Board, are hereby approved.

THAT, the Board hereby agrees that the obligations of the Borrower under the Credit Agreement, the Promissory Note and the other Loan Documents, including the obligation to make all payments of the interest on and the principal of all Advances outstanding under the Credit Agreement, shall be payable solely from and shall be secured solely by a pledge of, lien on and security interest in the Pledged Revenues as set forth in the Credit Agreement.

THAT, the Board hereby authorizes and directs the General Manager/CEO to execute the Credit Agreement and Promissory Note, and any other agreements, documents, forms, or applications necessary to effectuate the transaction or secure advances under the Credit Agreement.

JAY SCHENIRER, Chair

A T T E S T:

HENRY LI, Secretary

By: _____
Cindy Brooks, Assistant Secretary