

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
10	09/25/17	Open	Action	09/14/17

Subject: Line of Credit Renewal with US Bank

ISSUE

Whether to approve Amendment No. 1 to Credit Agreement with US Bank National Association for a \$29 Million Line of Credit Facility with a Revised Stated Expiration Date of September 29, 2018.

RECOMMENDED ACTION

Adopt Resolution No. 17-09-_____, Approving Amendment No. 1 to Credit Agreement with US Bank National Association for an Extension of the \$29 Million Line of Credit Facility to September 29, 2018.

FISCAL IMPACT

Budgeted:	Yes	Interest Expense \$	415,000
Budget Source:	Operating	Legal Fees \$	25,000
Funding Source:	Fare Revenue		
Cost Cntr/GL Acct(s) or Capital Project #:	690072/630003	Total Amount: \$	440,000
Total Budget:	\$ 440,000		

DISCUSSION

As set out in the Credit Agreement, dated as of September 1, 2016 (Original Credit Agreement), by and between SacRT and U.S. Bank National Association (Bank), SacRT timely requested that the Bank extend the term of the Line of Credit Facility for an additional 12 month period. The Bank agreed to extend the term of the Line of Credit Facility and engage in negotiations with SacRT to agree upon terms for the extended Line of Credit Facility. As a result of negotiations, the Bank agreed to lower its rates for both the used and unused interest rates assessed on the Line of Credit Facility. This is a direct result of an improvement to SacRT's financial results, and the positive partnership with Bank staff. The fees are now close to what SacRT was paying in 2013. Additionally, the Bank has discussed further reductions in fees and potential for a multi-year agreement if SacRT's financial improvements continue. This information will further assist SacRT when it has its annual review with the credit rating agencies.

Having access to an appropriate working capital balance, whether through reserves or a line of credit facility, 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, SacRT heavily relies upon a line of

Approved:

Presented:

Final 9/20/17

General Manager/CEO

VP, Finance/Chief Financial Officer

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credit facility to ensure all operating and capital payment obligations are met regardless of timing delays in cash flows.

Therefore, Staff recommends amending the Original Credit Agreement to extend the Line of Credit Facility for \$29 million for an additional 12 month term 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:

SacRT’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), SacRT’s Board of Directors has authorized the General Manager/CEO to issue a line of credit facility note for operating and capital cash flow purposes. On November 1, 2013, SacRT and the Bank entered into a credit agreement wherein the Bank agreed to provide credit to SacRT on an annual basis pursuant to California Government Code §53850 et seq., otherwise referred to as the Tax and Revenue Anticipation Note (TRAN) Statute. Under the TRAN statute as originally drafted, the line of credit facility note must be repaid within 15 months of issuance, essentially restricting such arrangements to 1 year short term loans. In January 2016, SacRT was granted a bit more flexibility by the State of California when Assembly Bill (AB) 422 went into effect. AB 422 added California Public Utilities Code Section 102584 to the PUC, which provides SacRT with the authority to obtain a line of credit facility with a maturity date of up to 60 months. California PUC Section 102584 also permits SacRT to provide a multiyear pledge of grant funds as collateral for the repayment of a line of credit facility, which differs from the TRAN statute, which restricts the pledge to funds that will be received within the same fiscal year as the year in which the funds are borrowed. Both of these changes to the law created an opportunity for SacRT to secure a line of credit facility on more favorable terms and may ultimately result in a reduction in costs associated with borrowing against a line of credit facility. In 2016, SacRT entered into the Original Credit Agreement and issued a promissory note (Promissory Note) evidencing a revolving line of credit facility for an amount not to exceed \$29 million for an initial term of 12 months (expiring on September 30, 2017) (the “Line of Credit Facility”), with the ability to extend. The current stated expiration date of September 30, 2017 for the Line of Credit Facility under the Original Credit Agreement effectively makes September 30, 2017 the maturity date of the Promissory Note. The Bank has agreed to amend the Original Credit Agreement to extend the term of the Line of Credit Facility by an additional 12 month term, extending the stated expiration date to September 29, 2018 and effectively extending the maturity date of the Promissory Note for the same term. The Original Credit Agreement, as amended by the Amendment No. 1 to Credit Agreement, is referred to herein as the “Credit Agreement.”

The Line of Credit Facility primarily serves as temporary funding gap for federal operating money budgeted by SacRT during the current fiscal year but not received by SacRT until the following fiscal year. For FY 2018, SacRT has budgeted approximately \$29.2M 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

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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, SacRT 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 SacRT depends on a line of credit facility.

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 2018, there are two large capital projects for which SacRT anticipates incurring significant expenses before funds are actually received from federal, state and local sources. The projects are as follows: Streetcar Project and Green Line to the Airport.

Terms and Conditions:

The Amendment No. 1 to Credit Agreement has similar terms and conditions as the Original Credit Agreement and the Promissory Note, such as: requirements addressing how SacRT pledges and sets aside pledged funds, notifying the Bank within 20 business days of apportionment of Federal Operating Grant Revenues, and notifying the Bank within 5 business days upon receipt of Federal Operating Grant Revenues.

Other terms of the extended Line of Credit Facility are:

- The Line of Credit Facility 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 a determination to extend the term of the Line of Credit Facility for another 12 month term.
- Interest rates are fixed at one-month London Interbank Offered Rate (LIBOR) plus 1.40% for the used portion of the Line of Credit Facility and 0.65% for the unused portion of the Line of Credit Facility.
- SacRT agrees to pay to the Bank on the effective date of the Amendment No. 1 to Credit Agreement, all reasonable costs and expenses of counsel to the Bank in connection with the preparation, execution and delivery of the Amendment No. 1 to Credit Agreement 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 Line of Credit Facility is only available in an amount not to exceed \$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”): (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”),

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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 Credit Agreement; the Pledged Revenues will be set-aside as set forth in Section 5.20 of the Credit Agreement.

Staff recommends that the Board of Directors approve the Amendment No. 1 to Credit Agreement for an extension of the Line of Credit with US Bank for an amount not to exceed \$29 million with an effective date on or after September 29, 2017 and a stated expiration date of September 29, 2018.

RESOLUTION NO. 17-09-_____

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

September 25, 2017

APPROVING AMENDMENT NO. 1 TO CREDIT AGREEMENT WITH US BANK NATIONAL ASSOCIATION FOR AN EXTENSION OF THE \$29 MILLION LINE OF CREDIT FACILITY TO SEPTEMBER 29, 2018

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

WHEREAS, on September 30, 2016, SacRT entered into a Credit Agreement (the "Original Credit Agreement") with and issued a promissory note (the "Promissory Note") to U.S. Bank National Association ("US Bank") for a revolving line of credit in an amount not to exceed \$29,000,000 and with a stated expiration date of September 29, 2017 (the "Line of Credit Facility"); and

WHEREAS, US Bank has agreed to extend the term of the Line of Credit Facility in an amount not to exceed \$29,000,000 to September 29, 2018, secured as provided in said Section 102584; and

WHEREAS, the parties will enter into an Amendment No. 1 to Credit Agreement to amend the Original Credit Agreement to extend the stated expiration date of the Line of Credit Facility (the Original Credit Agreement, as so amended by the Amendment No. 1 to Credit Agreement, is referred to herein as the "Credit Agreement"); and

WHEREAS, pursuant to the terms of the Original Credit Agreement and the Promissory Note, SacRT has pledged and granted 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 Original Credit Agreement.

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

THAT, the Amendment No. 1 to Credit Agreement between Sacramento Regional Transit District and US Bank, wherein US Bank agrees to extend the stated expiration date of the Line of Credit Facility in an amount not to exceed \$29,000,000 to

September 29, 2018, as evidenced by the Promissory Note, in the form reviewed by the Board, is 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 Amendment No. 1 to Credit Agreement, and any other agreements, documents, forms, or applications necessary to effectuate the transaction or secure advances under the Credit Agreement.

ANDREW J. MORIN, Chair

A T T E S T:

HENRY LI, Secretary

By: _____
Cindy Brooks, Assistant Secretary