

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
5	09/10/18	Open	Action	08/29/18

Subject: Line of Credit Renewal with US Bank

ISSUE

Whether to approve Amendment No. 2 to Credit Agreement with US Bank National Association and the Amended and Restated Promissory Note for \$27 Million with a Final Maturity Date of September 28, 2019.

RECOMMENDED ACTION

Adopt Resolution No. 18-09-_____, Approving Amendment No. 2 to Credit Agreement with and Amended and Restated Promissory Note to US Bank National Association for an Extension of the \$27 Million Line of Credit Facility to September 28, 2019.

FISCAL IMPACT

Budgeted:	Yes	Interest Expense \$	375,000
Budget Source:	Operating	Legal Fees \$	20,000
Funding Source:	Fare Revenue	Annualized: \$	395,000
Cost Cntr/GL Acct(s):	GL's 690072/630003 CC 45/45	Total Amount: \$	395,000
Total Budget:	\$ 395,000		

DISCUSSION

After a second year of improved financial results, SacRT was able to secure lowered used and unused interest rates associated with the Line of Credit (LOC). This is a direct result of an improvement to SacRT's financial health and management, as well as a positive relationship with Bank staff. The fees are now at all time low for the relationship with US Bank, additionally, due to the improved liquidity and cash position of SacRT, we are able to reduce our total facility by \$2 million which will generate additional savings in interest expense. This improvement in terms with US Bank and SacRT's improved cash position will assist us when we have our annual review with the credit rating agencies. Table 1 below shows the comparison in interest rates between FY18 and FY19.

Table 1:

Rate Type		FY19	FY18	% Change
Used	LIBOR +	1.25%	1.40%	-11%
Unused	-	0.525%	0.65%	-19%

Approved:

Presented:

Final 09/05/18

General Manager/CEO

VP, Finance/CFO

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Note that even with a reduction in the Used LOC interest rate, SacRT could see an increase in interest expense. The Used LOC rate is LIBOR + 1.25%, therefore, as LIBOR continues to increase so will the Used LOC rate. In FY18, LIBOR increased to 2.13% as of June 2018 in comparison to 1.35% in July 2017.

Having access to an appropriate working capital balance, whether through reserves or an 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 delay in receipts of Federal, State and Local funds, as mentioned below, SacRT relies upon an LOC to ensure all operating and capital payment obligations are met regardless of timing delays in cash flows.

Therefore, Staff recommends entering into the LOC Credit Agreement for 12 months with US Bank with a maximum facility amount of \$27 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:

On November 1, 2013, SacRT and US Bank (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 TRAN Statute. In accordance with that arrangement, SacRT 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, SacRT has worked with Bank to issue four continuing LOC notes, with the latest expiring on September 29, 2018 and issued pursuant to California Public Utilities Code Section 102584 and a Credit Agreement dated as of September 1, 2016. The parties have now agreed to the terms of an amendment to the current Credit Agreement and the issuance of an Amended and Restated Promissory Note that will provide SacRT with a \$27 million LOC with a maturity date of September 28, 2019.

SacRT’s operations are heavily reliant 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 an LOC Promissory 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, SacRT 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 Public Utilities Code (PUC), which provides SacRT with the authority to obtain a LOC 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 its LOC. Both of these changes to the law create an opportunity for SacRT to secure a LOC on more favorable terms and will ultimately result in a reduction in costs associated with borrowing against the LOC. While SacRT could secure a longer term for its LOC, at this time its lender, Bank has offered to provide a one year LOC. However,

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because SacRT has the ability to provide a multiyear pledge, the Bank has eliminated some of the conditions it has historically imposed on SacRT because SacRT was limited to making a single year pledge, exposing the Bank to greater risk.

The LOC primarily serves as temporary gap funding for federal operating money budgeted by SacRT during the current fiscal year, but not received by SacRT until the following fiscal year. For FY 2019, SacRT has budgeted approximately \$31.2M 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 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 LOC.

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 2019, there are three large capital projects for which SacRT anticipates incurring significant expenses. The projects are as follows: Micro-transit vehicle procurement, Streetcar project and Green Line to the Airport.

Terms and Conditions:

The Credit Agreement, as amended, and Amended and Restated Note have similar terms and conditions as the current 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 5 business days upon receipt of Federal Operating Grant Revenues.

Other terms of the LOC are:

- The LOC Note term offered by the Bank is 12 months and a renewal/extension will be reviewed and approved by the Bank prior to the conclusion of the 12 month period.
- Interest rates are fixed at one-month London Interbank Offered Rate (LIBOR) plus 1.25% for the used portion of the LOC and 0.525% for the unused portion of the LOC.
- SacRT 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 \$20,000

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In addition to the terms noted above, the loan is subject to bank limitations. The Amended and Restated Note cannot not exceed the monthly average working capital requirement of \$27 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 Credit Agreement; the Pledged Revenues will be set-aside as set forth in Section 5.20 of the Credit Agreement.

Staff recommends that the SacRT Board of Directors enter into Amendment No. 2 to Credit Agreement and issue an Amended and Restated Promissory Note to US Bank in a principal amount of \$27 million with an effective date on or after September 28, 2018 and a final maturity date of September 28, 2019.

RESOLUTION NO. 18-09-_____

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

September 10, 2018

APPROVING AMENDMENT NO. 2 TO CREDIT AGREEMENT WITH AND AMENDED AND RESTATED PROMISSORY NOTE TO US BANK NATIONAL ASSOCIATION FOR AN EXTENSION OF THE \$27 MILLION LINE OF CREDIT FACILITY TO SEPTEMBER 28, 2019

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 "Original 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, on September 29, 2017, SacRT entered into Amendment No. 1 to Credit Agreement extending the term of the Line of Credit Facility in an amount not to exceed \$29,000,000 to September 29, 2018; and

WHEREAS, US Bank has agreed to extend the term of the Line of Credit Facility in an amount not to exceed \$27,000,000 to September 28, 2019, secured as provided in said Section 102584; and

WHEREAS, the parties will enter into an Amendment No. 2 to Credit Agreement to amend the Original Credit Agreement, as previously amended by Amendment No. 1 to 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 Facility and the Amendment No. 2 to Credit Agreement, is referred to herein as the "Credit Agreement") and SacRT will amend and restated the Original Promissory Note pursuant to an amended and restated promissory note (the "Amended and Restated Promissory Note" and the Original Promissory Note as so amended and restated by the Amended and Restated Promissory Note, is referred to herein as the "Promissory Note"); and

WHEREAS, pursuant to the terms of the 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 Credit Agreement.

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

THAT, the Amendment No. 2 to Credit Agreement between Sacramento Regional Transit District and US Bank and the issuance of the Amended and Restated Promissory Note by Sacramento Regional Transit District to US Bank, wherein US Bank agrees to extend the stated expiration date of the Line of Credit Facility in an amount not to exceed \$27,000,000 to September 28, 2019, as evidenced by the Credit Agreement and the Promissory Note, 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 Amendment No. 2 to Credit Agreement and the Amended and Restated Promissory Note, and any other agreements, documents, forms, or applications necessary to effectuate the transaction or secure advances under the Credit Agreement and the Promissory Note.

PATRICK KENNEDY, Chair

A T T E S T:

HENRY LI, Secretary

By: _____
Cindy Brooks, Assistant Secretary