

# REGIONAL TRANSIT ISSUE PAPER

| Agenda Item No. | Board Meeting Date | Open/Closed Session | Information/Action Item | Issue Date |
|-----------------|--------------------|---------------------|-------------------------|------------|
| 8               | 6/14/10            | Open                | Action                  | 06/01/10   |

Subject: Line of Credit (LOC) Extension through FY2011

## ISSUE

Whether or not to delegate authority to the General Manager/CEO to authorize the issuance of a note with Wells Fargo Bank for the FY 2011 Line of Credit.

## RECOMMENDED ACTION

Adopt Resolution No. 10-06-\_\_\_\_, Delegating Authority to the General Manager/CEO to Authorize the Issuance of a Note with Wells Fargo Bank in a Principal Amount Not to Exceed \$25.0 Million with an Effective Date on or After July 1, 2010 and a Final Maturity Date of June 30, 2011

## FISCAL IMPACT

Annual cost of the LOC secured by the note with Wells Fargo Bank:

|                             |                   |
|-----------------------------|-------------------|
| Annual Fee:                 | \$ 25,000         |
| Estimated Interest Expense: | <u>185,600</u>    |
| Total FY 2011 Budget:       | <u>\$ 210,000</u> |

- The annual fee of \$25,000 is associated with securing and holding the funds available.
- The interest rate will be a fixed rate (current LIBOR +1.75%) if using a defined payback period within the year or a variable rate (current Prime) if using an undefined payback period within the year.

RT will incur interest expense based on the amount, type (fixed or variable rate) and use of the established LOC and is determined by factors such as interest rates and repayment schedule. The LOC is expected to be used periodically for both operating and capital purposes.

## DISCUSSION

RT staff has requested RT Board approval for the issuance of a note with Wells Fargo Bank for operating cash flow purposes since FY 2004 as part of its cash management program. The California Government Code requires that public agencies annually reauthorize by resolution the issuance of notes of indebtedness for temporary borrowing. This issue paper is RT's request for reauthorization of the issuance of a note for FY2011 in the amount of \$25 Million. As requested by the Board, staff will provide a monthly report to the Board whenever the note is exercised indicating the draw amount, expense and repayment schedule.

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Approved:

Presented:

FINAL 6/3/10

General Manager/CEO

Director of Finance/Treasury

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RT's cash flow for both operating and capital expenses is dependent, in large part, on timely payments from State and Local agencies and reimbursement of expenses from the Federal Transit Administration (FTA). RT's system generated fares (farebox recovery) account for approximately 24.0% of all operating revenue.

In large part, the LOC serves as RT's "working capital" throughout the year because the timing of RT's cash receipts does not always coincide with required cash disbursements. As an example, capital project expenses are paid from operating revenue and then reimbursed, depending on the project funding source, anywhere from a few days to eight weeks after payment. Reserving 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 FY 2011, RT expects to spend funds primarily on three large capital projects, Southline Phase 2, Green Line to the River District, and BMF II (Bus Maintenance Facility). Each project will have significant cash requirements throughout FY 2011. Based on the current respective funding apportionments for these projects, RT anticipates receiving State and Local reimbursement for these projects within 30 days from payment.

Upon Board approval and subject to bank limitations, the note would not exceed the monthly average working capital requirement of \$25.0 million and would be pledged with receipt of current year Federal 5307 formula funds and current year TDA funds, identical to last year's pledge.

Staff recommends renewing its flexible note with Wells Fargo Bank. The note is facilitated by Wells Fargo's Government, Education and Labor Banking Division and is in compliance with public agency temporary borrowing practices as regulated by California Government Code Sections 53850 – 53858.

**Basic terms of the note:**

- The note duration is quoted as a general period of (1) year and will be reviewed and approved by the bank on an annual basis.
- Interest rates on the amount used will vary depending on the payback structure. The interest rate will be a fixed rate (current LIBOR +1.75%), if using a defined payback period within the year, or a variable rate (current Prime) if using an undefined payback period within the year.
- Fees, if not excluded from the note agreement, are identified as Commitment Fees and Unused Fees (the amount charged to reserve the capital) and are anticipated to cost RT approximately \$25,000 for the year.
- Auditing fees will not be applicable, as this is not considered a secured loan

A new feature of the note in FY 2011 will be a covenant requested by Wells Fargo Bank that fare revenues will not decline by more than 20% on a quarter-to-quarter basis. RT has evaluated historical performance and agrees that this covenant can be met. If, for some reason, revenues

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were to decline below the trigger point, RT would be required to engage in discussions with Wells Fargo Bank on the economic conditions causing the decline and RT's planned remedial actions to restore revenues.

Staff recommends that the RT Board of Directors delegate authority to the General Manager/CEO to authorize the issuance of a note with Wells Fargo Bank in a principal amount not to exceed \$25.0 Million with an effective date on or after July 1, 2010 and a final maturity date of June 30, 2011.

RESOLUTION NO. 10-06-\_\_\_\_\_

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

June 14, 2010

**DELEGATING AUTHORITY TO THE GENERAL MANAGER/CEO TO AUTHORIZE THE ISSUANCE OF A NOTE WITH WELLS FARGO BANK IN A PRINCIPAL AMOUNT NOT TO EXCEED \$25.0 MILLION WITH AN EFFECTIVE DATE ON OR AFTER JULY 1, 2010 AND A FINAL MATURITY DATE OF JUNE 30, 2011**

WHEREAS, in accordance with Chapter 4.7 (Temporary Borrowing) of Title 5, Division 2, Part 1 of the California Government Code (Section 53850 and following), Sacramento Regional Transit District ("District") 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 any obligation or indebtedness of the local agency; and

WHEREAS, the District is negotiating a short-term credit note in an amount not to exceed Twenty-Five Million Dollars (\$25,000,000.00) with Wells Fargo Bank to be effective on or after July 1, 2010, with a final maturity date of June 30, 2011; and

WHEREAS, the General Manager/CEO of the District or his authorized representative desires to draw on said short-term Note during its term as necessary and appropriate.

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

THAT, the General Manager/CEO of the District or his authorized representative is hereby authorized on behalf of the District, to bind District to a note with Wells Fargo Bank, a national banking association, whereby the District may borrow an amount not to exceed Twenty-Five Million Dollars (\$25,000,000.00) with an effective date on or after July 1, 2010, and a final maturity date of June 30, 2011. Said funds shall be provided in accordance with the terms, covenants and conditions contained in said Note.

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STEVE MILLER, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

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