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Metro

JANUARY 20, 2017

TO: BOARD OF DIRECTORS

THROUGH: PHILLIP A. WASHINGTON
CHIEF EXECUTIVE OFFICER

FROM: NALINI AHUJA
CHIEF FINANCIAL OFFICER

SUBJECT: GRAND CENTRAL SQUARE BONDS

ISSUE

We are notifying the Board that in December 2016 staff finalized transactions paying off the outstanding $16.8 million of principal issued for the Grand Central Square ("GCS") project. Metro is saving $4.8 million of interest expense over the remaining 9 years by paying off the bonds.

DISCUSSION

In September 1993 Metro agreed to cover the debt service on $31.1 million in bonds issued for the GCS project by the Community Redevelopment Agency of the City of Los Angeles ("CRALA"). The initial financing in 1993 included $21.7 million of Qualified Redevelopment Bonds ("QRBs") and $9.4 million of Multifamily Housing Bonds ("MHBs"). Metro obligated Proposition A sales tax revenues to make the debt service payments for the GCS bonds. The QRBs were refunded in April 2002 with the issuance of the Grand Central Square Qualified Redevelopment Bonds, 2002 Refunding Series A ("2002A Bonds") and the MHBs were refunded in June 2007 with the issuance of the Grand Central Square Multifamily Housing Revenue Refunding Bonds 2007 Series B Bonds (LACMTA) ("2007B Bonds"). Both refunding issues were done in order to lower debt service on an annual basis.

At the August 25, 2016 Closed Session, the Board authorized the sale of Metro's secured first and second promissory notes for the GCS project to the Grand Central Square Limited Partnership (the project developer and operator) and the release of Metro's related security interests for $24.8 million. The Board also authorized the use of the sale proceeds to pay off the outstanding GCS bonds serviced by Metro in the amount of $17.1 million, including principal and approximately $320,000 of accrued interest. On September 28, 2016, staff completed the sale and release of the promissory notes in accordance with the Board's authority.

Pursuant to Board authorization provided at the August 25, 2016 Closed Session, staff has completed the process of paying off the bonds. Both the 2002A Bonds and the 2007B Bonds have now been retired.

The bonds were retired using $2.2 million of reserve funds plus $14.9 million from the sale of Metro's promissory notes, leaving approximately $9.9 million for deposit into the Risk Allocation Matrix ("RAM") Internal Savings Account. Now that the bonds have been defeased, Metro will no longer need to set aside approximately $2.2 million of Proposition A revenues annually through FY2027 to pay principal and interest on the above bonds.

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