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October 28, 1996

TO: BOARD OF DIRECTORS

FROM: JOSEPH E. DREW, CHIEF EXECUTIVE OFFICER

SUBJECT: SELECTION OF BANKS TO PROVIDE A REPLACEMENT LETTER OF CREDIT FOR THE TAX-EXEMPT COMMERCIAL PAPER PROGRAM

RECOMMENDATION

- a) Select the following bank team to provide a \$350 million direct-pay letter of credit in support of the tax-exempt commercial paper program for a 3 year term, plus two one year options.
- 1) National Westminster Bank
 - 2) Canadian Imperial Bank of Commerce
 - 3) Bayerische Vereinsbank AG
- b) Authorize the Chief Executive Officer and the Treasurer to execute the Letter of Credit, the Reimbursement Agreement and any other required documents, and to select the providers of any additional services, such as counsel to MTA.

ORGANIZATIONAL IMPACT

The letter of credit is required to provide liquidity for the commercial paper program. The tax-exempt commercial paper program is an important component of the MTA's overall capital structure. By providing a flexible, low-cost source of interim funding for the MTA's capital projects the program facilitates the timely and cost effective acquisition of equipment and construction of facilities in support of MTA's objectives.

BUDGET IMPACT

The lower cost of the replacement letter of credit will result in a budgetary savings compared to the currently budgeted cost of the existing letter of credit. The cost of the new letter of credit is estimated to be \$1.9 million over three years, producing savings of \$1.7 million over that period.

ALTERNATIVES CONSIDERED

The MTA considered extending the existing agreement with improved pricing, which was offered by the current provider. However, after further analysis staff determined more competitive pricing was available, thus a request for proposals was issued.

BACKGROUND/DISCUSSION

The existing LOC agreement provides for a 3 year term plus option years. The initial three year term will expire January 11, 1997. A replacement LOC is required to be in

force no later than January 3, 1997. The MTA initiated discussions with the existing providers to determine if it would be advantageous to exercise the option to extend the existing contract. After receipt of a proposal from the existing bank team it was determined that a competitive procurement would be necessary to ensure that the MTA achieved more competitive pricing, terms and conditions.

Commercial paper is a short term debt instrument that can be issued for maturities of from 1 to 270 days. Amounts borrowed typically remain outstanding as notes mature and are simultaneously reissued (rolled over). The MTA's program is backed by a \$350 million direct-pay letter of credit which is secured by a pledge of 75% of Proposition A sales tax revenues. The letter of credit is a necessary component of the MTA's program. The LOC provides guaranteed liquidity to the investors when their notes mature. The LOC additionally provides a safety net for the MTA in the form of a term loan in the unlikely event the notes are not able to be remarketed, preventing MTA from being required to immediately repay the entire outstanding amount. Also, as a result of the LOC banks guaranty of payment to the bondholders the MTA's notes enjoy the more favorable short-term credit ratings of the LOC bank(s). The commercial paper program currently has an outstanding balance of \$124 million.

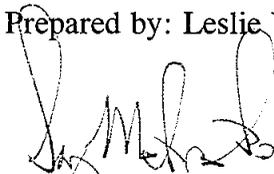
DBE PARTICIPATION

No DBE goal was set for this contract.

ATTACHMENTS

Procurement Summary

Prepared by: Leslie V. Porter, Treasurer



Terry Matsumoto
Executive Officer, Finance

Attachment 1

PROCUREMENT PROCESS

RFP NO. PS-5210-0082

RFP No. PS-5210-0082 was issued and advertised on or about October 2, 1996. Copies of the RFP were sent to 28 firms. A pre-proposal conference was held on October 8, 1996. Proposals to provide a letter of credit were received from the following firms by the October 18, 1996 deadline:

1. Bayerische Landesbank, Landesbank Hessen-Theringen Girozentrale, Westdeutsche Landesbank, and Bank of America
2. National Westminster Bank, Canadian Imperial Bank of Commerce and Bayerische Vereinsbank AG
3. Scotiabank
4. Societe Generale

Proposals were reviewed and evaluated by the Source Selection Committee using the following criteria contained in the RFP:

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| 1. | Experience and References | 15% |
| 2. | Credit Ratings and Financial Soundness | 5% |
| 3. | Pricing | 50% |
| 4. | Acceptability of Terms and Conditions | 30% |

On October 23, 1996, the Source Selection Committee reviewed the proposals. Three proposers were determined to be in the competitive range. One proposer, Scotiabank, was deemed non-responsive.

The three proposers in the competitive range were:

1. Bayerische Landesbank, Landesbank Hessen-Theringen Girozentrale, Westdeutsche Landesbank, and Bank of America
2. National Westminster Bank, Canadian Imperial Bank of Commerce and Bayerische Vereinsbank AG
3. Societe Generale

Best and final offers (BAFOs) were received on October 25, 1996 from each of the three firms in the competitive range. The Source Selection Committee reviewed the proposal submissions, the updates and the BAFOs. The National Westminster team was then rated as the best overall choice to provide the letter of credit, having submitted the best proposal in accordance with the evaluation criteria listed above.