



12

12

BOARD MEETING
AUGUST 15, 2002

SUBJECT: TAX-EXEMPT COMMERCIAL PAPER PROGRAM

Metropolitan
Transportation
Authority

**ACTION: NEGOTIATE AND EXECUTE A CONTRACT FOR A LETTER
OF CREDIT**

One Gateway Plaza
Los Angeles, CA
90012-2952

RECOMMENDATION

Authorize the Chief Executive Officer to negotiate a three-year unit rate contract, Contract No. PS-5210-1278, to provide a \$350 million direct-pay letter of credit (LOC) in support of the tax-exempt commercial paper (TECP) program, with:

- A. The bank team consisting of Bayerische Landesbanke, Westdeutsche Landesbank Girozentrale and Landesbanke Baden-Wurttemberg, the top ranked proposer, for an amount not to exceed \$3,734,750 including legal fees and other related expenses, or:
- B. If MTA has not made significant progress in reaching an agreement satisfactory to both parties by October 25, 2002, the MTA may pursue negotiations with the second ranked proposer, the bank team consisting of Landesbank Hessen-Thuringen (Helaba), JPMorgan Chase Bank, Bank of America, BNP Paribas and the Bank of New York, for an amount not to exceed \$4,512,500 including legal fees and other related expenses, and:
- C. Authorize the Chief Executive Officer to execute the contract and related documentation upon completion of negotiations.

RATIONALE

The TECP program provides a source of flexible, low cost financing, it is beneficial for MTA to continue operation of the program. In order to continue operation of the program, the expiring LOC must be replaced. The LOC is required for the MTA's program. The LOC provides guaranteed liquidity to the investors when their notes mature. Additionally, the LOC provides a safety net for the MTA in the form of a term loan in the unlikely event the notes cannot be remarketed, preventing MTA from being required to immediately repay the entire outstanding amount. As a result of the LOC bank's guaranty of payment to the note holders the MTA's notes enjoy the more favorable short-term credit ratings of the LOC bank, allowing the notes to be rated in the highest category as tier 1 commercial paper.

The current three-year letter of credit contract is with a bank team lead by Landesbank Hessen-Thuringen (Helaba), and will expire in early December 2002. Although, the

second ranked proposer for this procurement is also a bank team lead by Helaba, the proposing bank team has a different composition of banks and the old and new contracts would not be related.

The primary use of the program is to provide interim financing for capital projects until grant reimbursements or other funding are received, or until long-term financing is arranged. 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 longer than the maturity of the notes. As notes mature, new notes are simultaneously issued, i.e., rolled over. The TECP program is backed by a \$350 million direct-pay LOC that is secured by a pledge of 75% of Proposition A sales tax revenues. The TECP program size is \$350 million with a current outstanding balance of approximately \$188 million.

The Chief Executive Officer will negotiate first with the top ranked proposer, the Bayerische Landesbanke team. If agreement cannot be reached, negotiations will be initiated with the second ranked proposer, the Helaba bank team. The major criteria for concluding the transaction are the following:

- 1) Each bank on the selected team shall obtain final credit approval to issue the LOC.
- 2) The MTA and the banks shall successfully negotiate the final terms and conditions of the contract. The terms are to be standard to the municipal LOC market and acceptable to the MTA, County Counsel and the MTA's note counsel.

Should any bank on the selected team not complete any step, either that bank will be replaced within the team, or the entire team will be replaced by the qualified proposer providing the next best value. If negotiations can not be completed with either bank team, staff will return to the Board to seek authorization to temporarily extend the current LOC.

There is only a small risk that there will be a failure in any step. However, given the requirement that the program have an LOC in order to operate and the lack of sufficient time to hold another procurement or return to the Board for further authorizations prior to expiration of the current LOC, it is prudent to establish authorization for the Chief Executive Officer to negotiate with either proposer.

FINANCIAL IMPACT

Funding of \$1,525,000 for this service is included in the FY03 budget in cost center #0521, Treasury Non-Departmental under project # 610310, Prop A Debt Service. Since this is a multi-year contract, the cost center manager and Executive Officer, Finance and Treasurer will be accountable for budgeting the cost in future years. In FY02, \$1,127,000 was expended on this line item.

The proposal price is based on the projected program utilization over the contract period. Costs and fees included in the contract amount are anticipated to be less than \$150,000 over the contract period.

ALTERNATIVE CONSIDERED

MTA could elect to not replace the expiring letter of credit. This action would force the shut down of the program. MTA would be required to retire the \$188 million of outstanding commercial paper notes from unrestricted cash sources or draw on the existing LOC. A draw on the LOC would result in the generation of high cost loans from the bank. This alternative is not recommended.

ATTACHMENTS

A. Procurement Summary

Prepared by: Michael J. Smith, Assistant Treasurer
Manuel Contreras, Jr., Senior Financial Analyst



Terry Matsumoto
Executive Officer, Finance and Treasurer



Roger Snoble
Chief Executive Officer

**BOARD REPORT ATTACHMENT A
PROCUREMENT SUMMARY**

**LETTER OF CREDIT FACILITY PROVIDER
TAX-EXEMPT COMMERCIAL PAPER PROGRAM**

1.	Contract Number:PS-5210-1278		
2.	Recommended Vendor: Bayerische Landesbank, Westdeutsche Landesbank Girozentrale, and Landesbank Baden-Wurttemberg.		
3.	Cost/Price Analysis Information:		
	Proposed Price: See 8a.	Recommended Price: TBD	
	B. Details of Significant Variances are in Attachment A-1.D. No significant variances.		
4.	Contract Type: Letter of Credit Reimbursement Agreement		
5.	Procurement Dates:		
	A. Issued: May 16, 2002		
	B. Advertised: May 19, 2002, May 21 – 23, 2002		
	C. Pre-proposal Conference: May 23, 2002		
	D. Proposals Due: June 6, 2002		
	E. Pre-Qualification Completed: In process		
	F. Conflict of Interest Form Submitted to Ethics: July 10, 2002		
6.	Small Business Participation:		
	A. Bid/Proposal Goal: No goal recommended	Date Small Business Evaluation Completed: April 26, 2002	
	Small Business Commitment: No goal recommended		
7.	Invitation for Bid/Request for Proposal Data:		
	Notifications Sent: 63	Bids/Proposals Picked up: 0	Bids/Proposals Received: 2
8.	Evaluation Information:		
	A. <u>Bidders/Proposers Names:</u> Bayerische Landesbank (BLB) Landesbank Hessen-Thuringen (Helaba)	<u>Bid/Proposal Amount:</u> \$3,195,264 \$4,286,822	<u>Best and Final Offer Amount:</u> N/A
	B. Evaluation Methodology: Best Value. Details are in Attachment A-1.C		
9.	Protest Information:		
	A. Protest Period End Date: August 20, 2002		
	B. Protest Receipt Date: TBD		
	C. Disposition of Protest Date: TBD		
10.	Contract Administrator: Timothy Godfrey	Telephone Number: 922-2839	
11.	Project Manager: Mike Smith	Telephone Number: 922-4042	

**BOARD REPORT ATTACHMENT A-1
PROCUREMENT HISTORY**

**LETTER OF CREDIT FACILITY PROVIDER
TAX-EXEMPT COMMERCIAL PAPER PROGRAM**

A. Background on Contractor

Bayerische Landesbank Girozentrale (BLB)

BLB, acting through its New York Branch, is the Administrative Agent for the bank team that includes: Landesbank Baden-Wuerttemberg (LBBW) and Westdeutsche Landesbank Girozentrale (WestLB). BLB, domiciled in Munich, is the sixth largest bank in Germany. It was formed in 1972 from the merger of Landesbodenkreditanstalt and Bayerische Gemeindebank. BLB is a public sector credit institution with the legal status of a "corporation established under public law", as regulated by the "Bayerische Landesbank Foundation Act" of 27 June 1972. BLB is jointly owned by the Free State of Bavaria and the Association of Bavarian Savings Banks. It offers a comprehensive range of banking products and services through its own branches, representative offices and holdings in the key European markets and in North America and Asia.

The banks individually and collectively have a high level of experience and structural expertise in the municipal finance industry. BLB is active in providing credit enhancement and liquidity support for high quality issuers of general obligation debt and revenue bonds throughout the U.S. Notably, BLB has provided credit/liquidity facilities to Los Angeles Department of Water and Power, San Diego County Water Authority and Utah Transit Authority. WestLB has provided liquidity facilities to Dallas Area Rapid Transit, Denver Regional Transportation District, and California Independent System Operator. LBBW has provided liquidity facilities to Metropolitan Washington Airports Authority, Commonwealth of Massachusetts and the Port of Los Angeles.

BLB established a Representative Office in New York in October 1979 and obtained a license from the office of the Comptroller of the Currency in October 1981 to operate through a branch located in the City of New York. The New York Branch engages in a diversified banking business, and is a major wholesale lending participant throughout the United States, offering a full range of domestic and international financial services, including loans, foreign exchange and money market operations.

Landesbank Hessen-Thuringen (Helaba)

Helaba, through its New York Branch, is the Agent for the bank team that includes: JPMorgan Chase Bank, Bank of America, BNP Paribas, and The Bank of New York (collectively and including Landesbank Hessen-Thuringen, "the Banks"). Helaba is headquartered in Frankfurt/Main and Erfurt, Germany. Helaba fulfills the functions of a central bank for the savings bank and those of a state bank for German Federal States of Hesse and Thuringia. The owners and guarantors of Helaba are the states Hesse and Thuringia and the Savings Banks and Giro Association Hesse-Thuringia. The New York Branch of Helaba, licensed under New York, law, provides a full range of wholesale commercial banking services throughout the United States.

The Banks provide a large number of credit and liquidity facilities for public entities including commercial paper issues. Notably, three of the Banks, Helaba, JPMorgan Chase, and Bank of America are currently providing liquidity facilities to the MTA.

Helaba currently provides two Letter of Credit Facilities to the MTA for support of its Proposition C Sales Tax Revenue, Taxable Commercial Paper Notes Series A in the amount of \$150,000,000 and the Commercial Paper. JPMorgan Chase and Bank of America currently provide Credit and Liquidity Support for the Commercial Paper. BNP Paribas provides credit support for the MTA's variable rate bonds. The Bank of New York is committed to Public Finance and offers a depth of experience in the field. John Greenlee, Managing Director for the Bank of New York has provided facilities to the Authority in a prior position.

B. Procurement Background

This is a best value procurement. Proposals were received from BLB bank team described above and the Helaba bank team. Both proposers were considered to be capable and experienced in providing liquidity facilities. The proposal submitted by BLB was determined to be the best value for the MTA, based on price. BLB proposed cost and fees is \$3,195,264, which is \$1,091,558 less than Helaba's proposed cost and fees of \$4,286,822.

The Small Business Diversity Unit (SBD) did not recommend a Small Business Enterprise (SBE) participation goal for this procurement. The Prime is expected to complete the entire scope with its own workforce.

C. Evaluation of Proposals

In accordance with MTA Procurement Policies and Procedures, the Source Selection Committee (SSC) conducted a comprehensive technical evaluation of the proposals. The proposals were first reviewed to determine that the proposer met the minimum qualifications for this Request for Proposal (RFP) as identified in the RFP section entitled evaluation criteria. The SSC determined that the two proposers met the minimum requirements in the RFP. The two proposers were then evaluated on experience, financial condition and approach.

The SSC determined that the proposers had adequately provided the information as required, and then ranked them. When the pricing was factored into the evaluation, it was determined that BLB's proposal offered the best value to the MTA, price and other factors considered.

The recommended contractor must comply with all procurement requirements.

D. Cost/Price Analysis Explanation

The terms and conditions, including price, have not yet been negotiated. However, all requirements of the MTA Policies and Procedures Manual will be met in determining whether price is fair and reasonable prior to execution of contract.

**BOARD REPORT ATTACHMENT A-2
LIST OF SUBCONTRACTORS**

**LETTER OF CREDIT FACILITY PROVIDER
TAX-EXEMPT COMMERCIAL PAPER PROGRAM**

PRIME CONTRACTOR(s): **Bayerische Landesbank**

Small Business Subcontractor

Other Subcontractors

None

None

Total Commitment No goal recommended

PRIME CONTRACTOR(s): **Landesbank Hessen-Thuringen**

Small Business Subcontractor

Other Subcontractors

None

None

Total Commitment No goal recommended