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Metro

AUGUST 21, 2020

TO: BOARD OF DIRECTORS

THROUGH: PHILLIP A. WASHINGTON
CHIEF EXECUTIVE OFFICER

FROM: NALINI AHUJA
CHIEF FINANCIAL OFFICER

SUBJECT: MEASURE R SERIES 2020-A REFUNDING BONDS (GREEN BONDS) AND METRO'S DEBT PROGRAM

ISSUE

At the April 23, 2020 meeting, the Board authorized the issuance of Measure R bonds by negotiated sale to refinance Metro's four Transportation Infrastructure Finance and Innovation Act ("TIFIA") Loans that helped finance the Crenshaw/LAX project, the Regional Connector project, and the Westside Purple Line Sections 1 and 2 projects. Wells Fargo was selected as the senior manager for the transaction. Standard & Poor's and Fitch rated the bonds 'AA'. On August 11, 2020, $1.356 billion of Series 2020-A fixed rate bonds were sold on a negotiated basis at a true interest cost of 1.514%. The bonds have a 17-year life with a final maturity in June 2037. Net present value savings over the life of the bonds is approximately $250.2 million, or 13.29% of the refunded TIFIA Loans. The entire $1.356 billion were issued as Green Bonds.

Debt Program

With the successful refinancing of the TIFIA Loans, Metro's current long-term debt as of August 31, 2020 will appear as follows.

Issue Type	Principal Outstanding	Moody's	S&P	Fitch	KRBA
Proposition A Senior Bonds	$956,390,000	Aa1	AAA	NR	AAA (Series 2018-A Only)
Proposition C Bonds	$1,649,695,000	Aa1	AAA	AA+	NR
Measure R Senior Bonds	$1,044,670,000	Aa1	AAA	NR	NR
Measure R Junior Subordinate Bonds*	$1,356,095,000	NR	AA	AA	NR
General Revenue	$70,020,000	Aa2	AA+	NR	NR
Total Long-term Debt	**$5,076,870,000**				

*Based on 8/11/2020 pricing data. Final after successful closure on 8/27/2020.

Metro issues debt to deliver capital infrastructure projects and capital equipment such as buses and rail cars. The issuance of debt, and the payment of principal and interest on that debt, reduces future revenue available for operating the system and for other projects. Metro's Debt Policy ensures each issuance is thoroughly vetted and consistent with maintaining the integrity of the program while achieving strong credit ratings on all existing and future Metro debt.

Debt is projected in the short-range and long-range financial forecast based on project needs. In addition, a funding plan for the fiscal year is prepared in correlation with the Fiscal Year Budget which is approved by the Board on an annual basis. The decision to move forward with the issuance of debt depends on the timing of projects, cash available, as well as guidance from the annual funding plan and the forecasts mentioned above.

During recent discussions with the rating agencies and investors we shared the following borrowing forecasts from Metro's short-range financial forecast.

$millions	**FY2021 –FY2025**
Prop A	$544.5
Prop C	$898.7
Measure R	$2,028.0
Measure M	$2,469.5
Total	**$5,940.7**

Based on the Measure R/Measure M project expenditure plans we anticipate borrowing $5.9 billion over the next five years, approximately 72% of the $8.3 billion capacity supported by current revenues. Although interest rates are at very low levels, declining sales tax revenue due to the pandemic has reduced Metro's borrowing capacity by an estimated $1.8 billion. Continued declines in sales tax revenue or lower growth may further reduce borrowing capacity.

Strong Credit Rating

Metro's current debt profile carries strong credit ratings due to the Board-approved Debt Policy and prudent use of debt, allowing the authority to borrow at a low cost of capital. During the rating process for recent transactions, the rating agencies indicated that these policies and our limited use of debt weigh heavily in their rating process and led to their eventual decision to rate Metro's Measure R Junior Subordinate Bonds as 'AA' and Metro's Proposition C Senior Bonds as 'AAA' from S&P and 'Aa1' from Moody's. They also expressly indicated in their reports that changing these policies or veering away from current, prudent, financial practices (e.g. "increased leverage beyond current expectations") could lead to a negative rating action or downgrade.

It is the view of the rating agencies that due to the size, maturity, and centrality to the regional and national economy of Los Angeles County, Metro's sales tax collections will continue to support strong debt service coverage on Metro's debt portfolio, even as the authority issues additional bonds over the next five years. But, as mentioned previously, the ratings agencies also indicated that material deviations from these forecasts could result in rating downgrades.

<u>Summary</u>

The strong coverage assessment on Metro's debt portfolio is bolstered by the limitations established in the Debt Policy and legal provisions in the bond documents. Prudent use of debt earned Metro high ratings despite the weak sales tax environment. However, feedback from both investors and rating agencies indicate the market expects Metro to demonstrate a willingness and ability to reduce expenses and adjust transit service during times of budgetary stress, as well as continue a fiscally responsible approach to using debt. Metro's disciplined approach to issuance and debt management is a necessary tool for delivering the voter approved Measure R/M projects, one of the largest capital infrastructure investment programs in the country.

If you have any questions or comments, please contact Donna Mills at (213) 922-4047.

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