Item 16

Measure R
Short-Term Borrowing

Finance, Budget and Audit Committee
May 20, 2015

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Issue

- State and Federal grants require that Metro pay project expenses and request reimbursement of the payments.

- A short-term borrowing program will help bridge the gap between when expenditures are required and when programmed funding is received.

- Without short-term liquidity, we may be faced with delaying or stopping projects until funds can be accumulated to construct projects on a “pay go” basis.

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Estimated Benefits of Short-Term Borrowing to Avoid Project Delays

Example	Estimated Amounts
Estimated expenditures for FY16 for Regional Connector Project	$228.4 million
Estimated cost of one year delay (FY16) for Regional Connector Project (based on estimated project cost escalation and one year of extended overhead)	$94.4 million
Estimated cost of one year short-term borrowing to fund $228.4 million of FY16 Regional Connector Project expenditures	$2.1 million
Estimated savings from short-term borrowing to avoid one year delay in Regional Connector Project, after issuance and interest costs	**$92.3 million**

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Comparison of Short and Long Term Borrowing Costs

	Estimated Annual Interest Cost At $300M
I. Short-Term Borrowing Program[1]	
(Based on bank proposals received)	
Current short-term rates (borrowing rate of 0.83%)	$ 2,488,000
5-year historic average of short-term rates (borrowing rate of 0.85%)	$ 2,548,400
10-year historic average of short-term rates (borrowing rate of 1.92%)	$ 5,745,100
II. Long-Term Borrowing	
TIFIA Loans (Crenshaw rate of 2.43%)[2]	$ 7,290,000
Measure R Bonds (estimated rate of 3.29%)	$ 9,870,000
Savings for one year from short-term borrowing at current rates versus TIFIA	$ 4,802,000
Savings for one year from short-term borrowing at current rates versus Measure R Bonds (at estimated rate of 3.29%)	$ 7,382,000

[1] This analysis assumes the terms of the costliest bank proposal.

[2] TIFIA loan terms differ – this analysis assumes most advantageous TIFIA loan.

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Summary of Proposals and Recommendations

Credit Agreements Supporting $300 Million Measure R Short-Term Borrowing Program

Rank	Bank	Maximum Commitment Amount	Estimated Annual Cost based on Commitment Amount	Estimated Annual Interest Cost Normalized for Comparison Purposes At $300M*
5-Year Revolver Program (Estimated borrowing rate of .49% to .83%)				
1	**Bank of the West**	$50 million	$252,200	$1,513,000
2	**State Street**	$100 million	$488,600	$1,465,700
3	**RBC**	$150 million	$1,018,500	$2,036,900
4	JP Morgan	$300 million	$2,488,000	$2,488,000
3-Year Revolver Program (Estimated borrowing rate of .43% to .63%)				
1	Bank of the West	$50 million	$214,700	$1,288,000
2	State Street	$100 million	$438,600	$1,315,700
3	RBC	$150 million	$703,500	$1,406,900
4	Wells Fargo	$75 million	$397,000	$1,588,000
5	Bank of America	$300 million	$1,813,000	$1,813,000
6	JP Morgan	$300 million	$1,858,000	$1,858,000
7	Barclays	$150 million	$944,000	$1,888,000
3-Year CP Program (Estimated borrowing rate of .64%)				
	Bank of Tokyo - Mitsubishi	$ 300 million	$1,916,900	$1,916,900

Currently recommended proposers are indicated in bold. Terms are locked for time specified in each proposal.

*Costs are calculated on per $300 million basis, although most proposals are for smaller commitment amounts.

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Benefits of Short-Term Borrowing Program

Short-Term Financing:

- Short-term interest rates are very attractive now, including bank fees and marketing costs.

- Relatively fast to issue additional debt when needed.

- No need to borrow more than current project requirements so no extra interest costs or negative arbitrage.

- Can be repaid without any penalty.

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