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Metro

FINANCE & BUDGET COMMITTEE
MARCH 17, 2005

SUBJECT: TAX-EXEMPT COMMERCIAL PAPER PROGRAM

ACTION: AWARD A CONTRACT FOR A LETTER OF CREDIT

RECOMMENDATION

Award a five-year contract to Dexia Credit Local and BNP Paribas to provide a $350 million direct pay letter of credit (LOC) for an amount not to exceed $3,140,000, including legal fees and other related expenses.

RATIONALE

The current three-year letter of credit contract with the bank syndicate of Bayerische Landesbank, Landesbank Baden-Wurttemberg and WestLB AG will expire in November 2005. The tax-exempt commercial paper (TECP) program provides a source of flexible, low cost financing and it is beneficial to Metro to continue operation of the program. The letter of credit must be replaced in order to continue operation of the program. The use of a 5-year facility is being recommended to lock-in the very attractive pricing currently available in the market and to avoid the need to replace the facility during a period of reduced competition and likely higher prices anticipated over the next several years. The number of competitors providing these letters of credit will be significantly reduced in July 2005, after the German landesbanks lose their current financial backing (guaranty) provided by the German States. With the loss of their financial backing the landesbanks' credit ratings will fall to unacceptably low levels for this purpose.

BACKGROUND

The primary use of the program is to provide interim financing for capital projects until long-term financing is arranged. The TECP program size is $350 million with a current outstanding balance of approximately $321 million.

Commercial paper is a short-term debt instrument that can be issued for maturities of 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 Prop A sales tax revenues. The LOC is a necessary component of the TECP program. The LOC provides guaranteed liquidity to the investors when their notes mature. Additionally, the LOC provides a safety net in the form of a term loan in the unlikely event the notes cannot be remarketed, precluding any requirement to immediately repay the entire outstanding amount from cash. As a result of the LOC bank's guaranty of payment to the note holders, the TECP notes enjoy the more favorable short-term credit ratings of the LOC, allowing the TECP program to maintain the highest short-term ratings of P-1 and A-1 from Moody's and from Standard & Poor's, respectively.

FINANCIAL IMPACT

Funding of $1,449,000 for this service is included in the FY05 budget in cost center #0521, Treasury Non-Departmental under project # 610306, 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 FY04, $1,334,000 was expended on this line item.

The proposal price of approximately $3,140,000 shown in Attachment A is calculated based on the criteria set forth in the RFP to ensure comparability among proposals. The proposed pricing is significantly better than pricing for the existing facility, providing utilized/unutilized rates of 17.5/12.0 basis points compared with the prior pricing of 38.5/18.0 basis points. The recommended amount reflects a not-to-exceed value assuming full utilization at $350 million for the program over the contract period, but does not assume any interest cost from unreimbursed draws or from term loans, as these costs would not normally be incurred. Fee pricing is based on the Prop A senior lien bonds retaining their current long-term credit rating. Any downgrade of the rating would result in an automatic increase in the fee in accordance with the proposed schedule.

ALTERNATIVE CONSIDERED

The Board could elect to not replace the expiring letter of credit. This action would force the shut down of the tax-exempt commercial paper program and would require the retirement of the $321 million of outstanding commercial paper notes. The repayment would need to be paid from unrestricted cash sources or a draw on the existing LOC. Such a draw on the LOC would result in the generation of a high cost loan from the bank. This alternative is not recommended.

ATTACHMENT

A. Summary of Proposals

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Chief Executive Officer

Attachment A

Summary of Proposals

Bank	*5-Year Total*	*5-Yr. Average*
Dexia Credit Local/BNP Paribas	3,140,000	628,200
Landesbank Hessen-Thuringen/JPMorgan Chase Bank	3,813,500	762,700
Bayerische Landesback/Landesbank Baden-Wurttemberg/ West LB AG	4,488,000	897,600
Societe Generale	6,205,000	1,241,000
Lloyds TSB/Scotia Capital	7,760,000	1,552,000

Note - The 5-Year Total assumes the facility will have an average utilization of $350 million and that the current credit rating on the Prop A senior lien bonds will be maintained, and that no interest cost will be incurred for unreimbursed draws or for term loans.