



Board Report

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Agenda Number:

**AD HOC CONGESTION, HIGHWAY AND ROADS COMMITTEE
FINANCE, BUDGET AND AUDIT COMMITTEE
APRIL 11, 2018**

SUBJECT: EXPRESSLANES TOLL BOND POOL

ACTION: ESTABLISH AND APPOINT TOLL BOND POOL OF UNDERWRITERS

RECOMMENDATION

ESTABLISH a Toll Bond Pool of underwriters, listed in Attachment A, from which underwriters will be selected for future negotiated debt issues for toll revenue bonds and other toll revenue backed debt issued under the ExpressLanes program through June 30, 2021, with two further 1-year options to extend.

ISSUE

To expand ExpressLanes in Los Angeles County and to construct the Tier 1 and Tier 2 projects identified in the 2017 ExpressLanes Strategic Plan (ELSP), Metro needs to determine how these projects will be funded and whether it is feasible to accelerate them. The ELSP assumes that virtually all the ExpressLanes projects will need to be funded by financing mechanisms.

At the September 2017 meeting, the Board approved the staff recommendation to develop solutions and programs based on a system financing approach and to present these to the Board for approval as they are finalized, as appropriate.

Staff has determined that establishing an underwriting pool for toll revenue bonds and any other toll revenue backed debt is an appropriate step in developing a process for the use of inter-fund borrowing of net toll revenues to support creation of the ExpressLanes network.

DISCUSSION

Establishment of a Toll Bond Pool

To date, no debt has been issued for the ExpressLanes projects now in operation. Almost all of Metro's existing debt has been secured by, and repaid from, three of its four sales tax revenue measures. No debt secured by Measure M sales taxes has been issued yet.

In 2016, an unsolicited proposal was submitted to the Office of Extraordinary Innovation that identified financing strategies that would enable acceleration of ExpressLanes projects consistent with a system financing approach.

Staff recommends the establishment of a Toll Bond Pool of underwriters with expertise in issuing debt for ExpressLanes, supplementary to Metro's current pool of underwriters (which expires in June 2019), because of the unique nature of toll backed debt. Since Metro has never issued toll revenue backed debt and it is relatively uncommon for toll revenue bonds to be issued via competitive sales, it is likely that Metro will utilize negotiated sales for debt issuance as discussed in the Board-approved Debt Policy.

The Toll Bond Pool will be used in future negotiated debt issues for toll revenue bonds and any other toll revenue backed debt issued under the ExpressLanes program. For negotiated sales, staff will select underwriters using a mini-RFP process. Consistent with Metro's Debt Policy, the selection of the underwriting team will assure the participation of Small Business Enterprise (SBE), Disabled Veterans Business Enterprise (DVBE), and Disadvantaged Business Enterprise (DBE) firms, subject to board approval of the financing. The senior manager(s) will be selected from the Toll Bond Pool. The other members of the underwriting team for toll revenue transactions may include members of both the Toll Bond Pool and members of Metro's existing underwriting pool, as appropriate. A complete list of our existing underwriting pool is included in Attachment A. Participation in any transaction will depend on the size of the debt issue, timing and the type of debt issued.

Advantages of a Toll Bond Pool

While Metro is developing potential financing structures for the delivery of Tier 1 and Tier 2 Projects, the Toll Bond Pool will be able to provide market information and insight. The pool will also enable Metro to move quickly in forming financing teams if a negotiated sale is the recommended approach for a bond issue. The ability to select underwriters early in the underwriting process will enable us to benefit from their participation in structuring the debt, bond document development, and preparation for credit presentations.

All proposed debt transactions for the ExpressLanes will be presented to the Board for consideration with relevant financing documents, a proposed underwriting syndicate, and any other required documents consistent with Metro's current financing approval process.

Toll Bond Pool Selection Process

Consistent with our Debt Policy, the Toll Bond Pool is recommended based on a competitive Request for Proposal (RFP) process conducted by Sperry Capital Inc., the ExpressLanes financial advisor. RFPs were distributed on December 11, 2017, to 43 firms and 19 proposals were received. Members of the Congestion Reduction Department, Treasury and the ExpressLanes financial advisor reviewed the proposals, evaluating them based on the criteria listed in the RFP.

The four firms that were ranked the highest by the review team are recommended for inclusion in the Pool. All firms have relevant experience and expertise, specific to the structuring and sale of toll backed debt, including the use of TIFIA loans. Additionally, each firm has a local presence with an investment banking office in Los Angeles County. The Toll Bond Pool will be retained through June 30, 2021 with two further 1-year options. See Attachment A, Summary of Underwriter Selection.

DETERMINATION OF SAFETY IMPACT

Approval of this item will have no impact on safety.

FINANCIAL IMPACT

There is no cost related to the establishment of a Toll Bond Pool of underwriters. The Toll Bond Pool is not guaranteed any compensation.

ALTERNATIVES CONSIDERED

The selection of an underwriting pool may be deferred or the Board may elect not to establish a pool. These options are not recommended. The Debt Policy identifies that for a negotiated bond sale, the financial advisor will conduct a competitive process to select underwriters, either for a specific bond issue or through the establishment of a pool of underwriters to be used for bond issues over a defined time period. With a pool, it will be faster and easier to move forward with negotiated transactions because a full solicitation process will not have to be completed each time, which could save several months. The time saved would likely translate into construction cost savings by avoiding escalating costs as well as a lower rate in a volatile interest rate environment.

NEXT STEPS

- Notify underwriters of their appointment to the Toll Bond Pool.
- Continue developing solutions and programs to support implementing a system financing.
- Present solutions and programs to the Board for approval.

ATTACHMENTS

Attachment A - Summary of Underwriter Selection

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Phillip A. Washington
Chief Executive Officer

**Summary of Underwriter Selection
for the
ExpressLanes Toll Bond Pool**

Recommended Firms for Toll Bond Pool (in alphabetical order):

Bank of America Merrill Lynch Barclays Citigroup Goldman Sachs

Members of Metro's Existing Underwriting Pool (eligible for participation as Co-Managers)

Bank of America Merrill Lynch
Barclays Capital Inc.
Citigroup Global Markets Inc.
Drexel Hamilton LLC (Disabled veteran owned firm)
J.P. Morgan Securities LLC
Loop Capital Markets LLC (Minority owned firm)
Morgan Stanley
Ramirez & Co., Inc. (Minority owned firm)
RBC Capital Markets, LLC
Siebert Cisneros Shank & Co., L.L.C (formerly Siebert Brandford Shank) (Minority owned firm)
Stifel, Nicolaus & Company, Incorporated
Wells Fargo Bank, N.A.

Evaluation of Proposals:

The Request for Proposals ("RFP") for ExpressLanes Toll Revenue Bond Underwriting Services was sent on December 11, 2017, to 43 firms who had previously expressed interest in serving as an underwriter on Metro's debt issuances or were known as active in the California municipal bond market. All members of Metro's existing bond underwriting pool were sent the RFP. Proposals were due on January 26, 2018. Metro received proposals from the 19 firms listed alphabetically below:

<u>List of Proposers</u>
Bank of America Merrill Lynch Barclays Cabrera Capital Markets Citigroup Fidelity Capital Markets Goldman Sachs Hutchinson Shockey Erley

Janney Montgomery Scott Jefferies J.P. Morgan Loop Capital Markets Morgan Stanley Piper Jaffray Ramirez RBC Capital Markets Siebert Cisneros Shank Stifel Nicolaus UBS Wells Fargo Securities
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Proposals were evaluated in accordance with the guidelines and the following criteria established in the RFP:

- Relevant experience of the firm (15%);
- Relevant experience of the personnel assigned to Metro's ExpressLanes (15%);
- Quality of the proposal (20%);
- Firm's understanding of Metro's ExpressLanes (20%);
- Indicative cost (10%); and
- Capabilities of the firm of underwriting and distributing toll revenue debt (especially for express lanes) (20%).

The RFP requested proposers to describe the relevant experience of their firm and personnel including experience as senior managing underwriter for express lanes and toll revenue backed debt, as well as advisory experience with project sponsors of tolled facilities utilizing the U.S. Department of Transportation TIFIA credit program. The RFP requested case studies which highlighted the firm's experience with express lanes and toll revenue backed debt. The RFP also requested references.

Additionally, the RFP included questions to determine the firm's understanding of Metro's ExpressLanes program. Responders were asked to provide specific suggestions related to:

- System financings using interfund borrowing
- The use of Measure M sales tax revenues to accelerate Metro's ExpressLanes network
- Rating agency considerations for express lanes projects
- Relevant debt structuring considerations for express lanes debt financings.

Firms were also asked to provide a detailed debt capacity analysis for Metro's existing ExpressLanes facilities.

The selection committee, made up of Metro Staff and our ExpressLanes financial advisor, Sperry Capital Inc., reviewed all proposals and scored the firms based on the evaluation criteria. Following the proposed evaluation process, the top ranked firms were shortlisted to participate in oral interviews with the selection committee. The seven shortlisted firms are listed alphabetically below:

Shortlist of Proposers
Bank of America Merrill Lynch
Barclays
Citigroup
Goldman Sachs
J.P. Morgan
Morgan Stanley
RBC Capital Markets

The oral interviews overseen by the selection committee consisted of a 15-minute presentation from the proposer followed by a 30-minute question and answer period. The four firms that ranked the highest after the oral interviews are being recommended for inclusion in the Toll Bond Pool.