

**SOUND TRANSIT
STAFF REPORT**

MOTION NO. M2009-48

Lease-leaseback Financial Advisory Services

Meeting:	Date:	Type of Action:	Staff Contact:	Phone:
Finance Committee	6/4/09	Discussion/Possible Action to Recommend Board Approval	Brian McCartan, Executive Director Finance & Information Technology	(206) 398-5100
Board	6/11/09	Action		

Contract/Agreement Type:	<input checked="" type="checkbox"/>	Requested Action:	<input checked="" type="checkbox"/>
Competitive Procurement		Execute New Contract/Agreement	
Sole Source	<input checked="" type="checkbox"/>	Amend Existing Contract/Agreement	
Agreement with Other Jurisdiction(s)		Budget Amendment	
Real Estate		Property Acquisition	

PROJECT NAME

Financial Advisory Services for Lease-leaseback services.

PROPOSED ACTION

Authorizes the chief executive officer to execute a contract amendment for a one-year contract extension with GSF Advisors to provide financial advisory services for Sound Transit's lease-leaseback transaction for a total authorized contract amount not to exceed \$210,000.

KEY FEATURES of PROPOSED ACTION

- Extends a sole source contract with GSF Advisors to assist in the restructuring of the agency's lease-leaseback transaction. The original sole source contract with GSF Advisors was executed under the authority of the chief executive officer.
- The personnel of GSF Advisors were formally with the firm Capstar which was competitively selected for the original advisory services. Personnel from GSF advisors served as financial advisors to Sound Transit's original transaction and are working with a wide number of public transits nationally on resolving problems with outstanding lease-leaseback transactions.
- GSF Advisors is currently working to restructure the lease transaction by identifying options to reduce Sound Transit's risk and negotiating with the other parties in the transaction to keep Sound Transit in compliance with the lease terms until a restructuring can occur.
- The total \$210,000 contract amount would, at current rates and level of effort, be sufficient to pay the advisor through December 2009.

BUDGET IMPACT SUMMARY

There is no action outside of the Board-adopted budget; there are no contingency funds required, no subarea impacts, or funding required from other parties other than what is already assumed in the financial plan.

BUDGET and FINANCIAL PLAN DISCUSSION

This cost for advisory service is charged to the Finance and Information Technology Department budget. Budget for this item is in the Adopted 2009 Budget, Agency Operations section within line item Consultant / Management on page 199.

BUDGET TABLE

Summary for Board Action (X \$1,000)

Action Item: Financial Advisory Services for Lease-leaseback services: GSF Advisors

	(A)	(B)	(C)	(D)
Current Year Budget	Adopted 2009 Budget	Spent to date in 2009	Contract Expenditures 2009	Remaining 2009 Budget
FIT - Finance and Information Technology	363	77	210	75
Total	363	77	210	75

Budget Shortfall

Level	Shortfall	Resources	Funding Source
N/A	-	-	N/A

Contract Spending Plan	Prior Year(s) Spending	2009 Spending	Future Expenditures	Total
GSF Advisors	-	210	210	210
-	-	-	-	-
Total	-	210	210	210

Contract Budget	Approved Contract Value	Spent to Date	Proposed Action	Proposed Total Contract Value
GSF Advisors	210	-	210	210
Contingency	-	-	-	-
Total Contract	210	-	210	210
Percent Contingency	0%	-	0%	0%

Notes:

Budget for this item is included in the Adopted 2009 Budget for Agency Operations line item Consultant / Management, Page 199.

SMALL BUSINESS PARTICIPATION

GSF has seven employees but is not a registered W/M/DBE firm in Washington State. GSF's workforce demographics are 28% women and 14% minorities.

PROJECT DESCRIPTION AND BACKGROUND FOR PROPOSED ACTION

In 2001, Sound Transit entered into a transaction to lease 22 rail passenger cab and coach cars and 5 locomotives (the "Headlease") to a private investor and simultaneously subleased the vehicles back (the "Sublease"). Under this transaction, Sound Transit received a net upfront payment and maintained the right to continued use and control of the vehicles. At the time of the transaction, the vehicles had a fair market value of \$61.3 million.

On the closing date, Sound Transit received a prepayment of the Headlease obligations totaling \$61.3 million. From those proceeds, \$50.4 million was deposited with AIG-FP Special Finance Ltd (the “Debt Defeasance”) to satisfy the debt portion of the lease payments and \$5.7 million was deposited with AIG Matched Funding Corporation (the “Equity Defeasance”) to satisfy the portion of lease payments due to the lessor. AIG collateralized its obligations under the Equity Defeasance by posting US government securities in a custodial account for the benefit of Sound Transit. The remaining \$4.9 million (net of closing costs) was retained by Sound Transit.

The lease documentation established minimum credit levels that needed to be maintained to protect the Debt and Equity defeasance deposits. At the time these transactions closed, AIG was rated “AAA” by S&P and “Aaa” by Moody’s. However, starting in March 2005, AIG suffered a series of credit rating downgrades to its current level of “A-” by S&P and “A3” by Moody’s.

As a result of the credit downgrades, the documents require Sound Transit to replace both the Debt and Equity Defeasance arrangements as well as replace the AIG letter of credit. Due to the on-going credit crisis, there are currently no financial institutions willing to step into the Debt Defeasance and lender role – both of which need to be replaced simultaneously. In addition, despite being collateralized with government securities, replacement of AIG’s equity defeasance would result in a net cost to Sound Transit.

Since the triggering downgrade, Sound Transit has negotiated a standstill agreement with all transaction participants on the requirement to replace the Debt Defeasance and the lessor has granted a series of extensions to allow Sound Transit more time to address the equity defeasance and AIG letter of credit.

Sound Transit is continuing to monitor progress on the federal efforts to resolve this issue. While there is some uncertainty as to whether there will be any assistance, this option is likely to be much cheaper than any private market restructuring of the transaction.

In the meantime, Sound Transit is also working with GSF Advisors and legal advisors on the most cost effective restructuring solutions that i) minimize the agency’s risk profile, ii) are acceptable to the other transaction participants and iii) can be accomplished at reasonable cost to the agency.

GSF Advisors is currently working to restructure the lease transaction by identifying options to reduce Sound Transit’s risk and negotiating with the other parties in the transaction to keep Sound Transit in compliance with the lease terms until a restructuring can occur.

Analysis of Contracting Out vs. Performing In-House

These services could be required for 1-12 months so it would not be advisable for the agency to hire a permanent position to fill this need. In addition, structure lease transactions are a highly specialized area within financial advisory services and it would be difficult for the agency to hire this type of expertise.

Sole Source Justification

The personnel of GSF Advisors were formally with the firm Capstar, which served as the agency’s lead financial advisor for the original lease transaction. Capstar was competitively selected for the original advisory services. As such, they have a strong understanding of the Sound Transit transaction, counterparties and documentation. In addition, GSF is the leading advisor to public entities on restructuring lease transactions nationwide. Finally, GSF serves as advisor on a number of lease transactions that involve the same counterparties as the Sound Transit transaction, which provides valuable intelligence to Sound Transit on the status of those transactions and the actions of our counterparties.

Prior Board/Committee Actions

Motion/Resolution Number and Date	Summary of Action
M2001-22 3/22/01	Authorizing the Executive Director to execute a lease-to-service contract for 26 Bombardier bi-level commuter rail passenger cars and six EMD-F59PHI locomotives.

CONSEQUENCES of DELAY

If the Board were not to approve this action, agency staff could either (1) not utilize financial advisors for maintaining this transaction, or (2) issue an RFP for these services, which would require that we do not have lease advisory services for a two to three month period.

The Board could delay approval of this action for two weeks without significant consequences to the agency.

PUBLIC INVOLVEMENT

Not applicable to this action.

ENVIRONMENTAL COMPLIANCE

SSK 5-27-09

LEGAL REVIEW

JW 5/28/09

SOUND TRANSIT

MOTION NO. M2009-48

A motion of the Board of the Central Puget Sound Regional Transit Authority authorizing the chief executive officer to execute a contract amendment for a one-year contract extension with GSF Advisors to provide financial advisory services for Sound Transit's lease-leaseback transaction for a total authorized contract amount not to exceed \$210,000.

Background:

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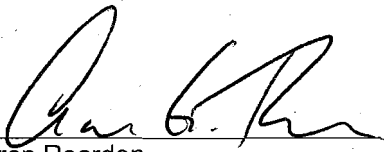
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Motion:

It is hereby moved by the Board of the Central Puget Sound Regional Transit Authority that the chief executive officer is authorized to execute a contract amendment for a one-year contract extension with GSF Advisors to provide financial advisory services for Sound Transit's lease-leaseback transaction for a total authorized contract amount not to exceed \$210,000.

APPROVED by the Board of the Central Puget Sound Regional Transit Authority at a regular meeting thereof held on June 11, 2009.


Aaron Reardon
Board Vice Chair

ATTEST:


Marcia Walker
Board Administrator