Metropolitan Transportation Commission
Administration Committee

November 13, 2019 **Agenda Item 3b**

MTC Resolution No. 4265, Revised –
MTC Debt Policy Issuance and Management

Subject: Staff requests that the Committee authorize the referral of MTC Resolution No. 4265, Revised to the Commission for the renewal of the Debt Policy for MTC and all MTC affiliated agencies as well as ABAG which is administered under the Contract for Services. Staff is requesting some minor technical language changes to clarify issuance and regulatory requirements.

Background: The Debt Policy establishes the rules and limitations for all debt issued by MTC or any affiliated entity as well as ABAG. Prior to January 2017 the Debt Policy was primarily a BATA concern. However, in light of MTC now covering ABAG and ABAG FAN debt pursuant to the Contract for Services as well as preparing a federal funding securitization through BAIFA, the Debt Policy was shifted to the MTC Administration Committee.

The criteria listed in Resolution 4265, Revised are quite extensive and specific relating to the authorization to issue debt. The provisions include:

- Issuance only by approved resolution
- Complete detail on total issuance and debt costs
- Complete capital financing plan
- Criteria for the use of credit enhancements
- Credit criteria for use of structured products (Derivatives)
- Analysis of debt capacity
- Refunding requirements of minimum 3% net present value for savings

There are also specific requirements for internal controls, administration and audit. The debt policy complies with state law and all state reporting requirements.

Resolution 4265 Revised, requires review and approval on an annual basis. Part of that review includes our lawyers recommending improvements to language and regulatory requirements. The proposed changes include:

- Issuance resolution to include provision for "forward or delayed issuance and delivery of bonds" added to special circumstances or conditions. (P.2)
- Adding specific California Government Code refinance state compliance requirement (P.3 & P.6)
- Clarifying option to fund additional reserve fund requirements from cash or bonds (P.4)

- Clarifying derivative contract amortization to be the same or in advance of the bond maturity schedule (P.5)
- Clarifying responsibility for filing annual continuing disclosure agreements in accordance with Securities and Exchange regulations (P.6)

These language changes are intended to help investors and rating analysts understand our authority to issue debt and responsibility to administer debt issued in accordance with best practices for administration, reporting and compliance.

Issues: No Issues Identified

Recommendation: Staff recommends that the Administration Committee refer MTC Resolution No. 4265, Revised to the Commission for approval.

Attachments: MTC Resolution No. 4265, Revised, MTC Debt Policy

Therese W. McMillan

Date: January 25, 2017
W.I.:
Referred by: Admin. Committee
Revised: 06/28/17-C
03/28/18-C
03/27/19-C
11/20/19-C

ABSTRACT

MTC Resolution No. 4265, Revised

This resolution authorizes the establishment of a Debt Policy with respect to the issuance and management of debts for the Metropolitan Transportation Commission (MTC) and its affiliated entities, including but not limited to the Bay Area Toll Authority (BATA) and the Bay Area Infrastructure Financing Authority (BAIFA), as delegated to MTC, and for the Association of Bay Area Governments (ABAG), a separate joint powers authority, and its affiliated entities, for which MTC is providing administration of debts and other obligations effective July 1, 2017 pursuant to a contract for services between MTC and ABAG dated May 30, 2017.

This resolution was revised on June 28, 2017 to add ABAG to the MTC Debt Policy.

Attachment A to this Resolution is being submitted for the Commission's annual approval on March 28, 2018 as stipulated in the "Objectives" section of the attachment.

Attachment A to this Resolution is being submitted for the Commission's annual approval on March 27, 2019 as stipulated in the "Objectives" section of the attachment.

This resolution was revised on November 20, 2019 to update language and regulatory requirements.

Further discussion of this amendment is contained in the Deputy Executive Director's memorandum to the Administration Committee dated June 7, 2017, February 28, 2018, February 27, 2019 and the Administration Committee Summary Sheet dated November 13, 2019.

Date: January 25, 2017
W.I.:
Referred by: Admin. Committee

Re: Establishment of a Comprehensive MTC Debt Policy

METROPOLITAN TRANSPORTATION COMMISSION
RESOLUTION No. 4265

WHEREAS, the Metropolitan Transportation Commission (MTC) is the Regional Transportation Planning Authority for the San Francisco Bay Area pursuant to Government Code §§ 66500 *et seq*.; and

WHEREAS, the Bay Area Toll Authority (BATA), created pursuant to Streets & Highways Code §§ 30950 *et seq.*and the Bay Area Infrastructure Financing Authority (BAIFA) created pursuant to the joint exercise of powers between MTC and BATA dated August 1, 2006 have requested MTC to assume administrative responsibility for BATA and BAIFA debts; and

WHEREAS, MTC intends to administer all debts for which it is responsible pursuant to a single comprehensive debt policy; now, therefore, be it

RESOLVED, that MTC hereby adopts MTC Resolution No. 4265, as set forth in Attachment A to this Resolution, and incorporated herein as though set forth at length, which establishes MTC's debt policy with respect to the issuance and management of MTC debt.

METROPOLITAN TRANSPORTATION COMMISSION

Dave Cortese, Chair

The above resolution was entered into by the Metropolitan Transportation Commission at a regular meeting of the Commission held in San Francisco, California, on January 25, 2017

METROPOLITAN TRANSPORTATION COMMISSION DEBT POLICY

Introduction

The purpose of the Debt Policy is to establish guidelines for the issuance and financial management of debts for which the Metropolitan Transportation Commission (MTC) is administratively responsible, including those of the Bay Area Toll Authority (BATA), the Bay Area Infrastructure Financing Authority (BAIFA). This Debt Policy is intended to guide decisions related to any debt issued by MTC or its affiliated entities. This Debt Policy is also intended to guide decisions related to any debt issued by the Association of Bay Area Governments (ABAG), a separate joint powers authority, and its affiliated entities for which MTC is administering debts and other obligations, effective July 1, 2017 pursuant to a contract for services between MTC and ABAG dated May 30, 2017. The MTC recognizes that cost-effective access to the capital markets is highly dependent on sound management of the MTC's debt program.

Objectives

The purpose of the Debt Policy is to assist the MTC in meeting the following objectives:

- issue debt in accordance with established guidelines
- complete an approved capital financing plan
- timely repayment of debt
- maintain the highest of ratings that are consistent with the financing plan
- ensure compliance with applicable State and Federal laws
- assure access to credit markets
- preserve financial flexibility

The MTC's Debt Policy shall be reviewed and updated at least annually and presented to the Board for approval. The Debt Policy requires that the MTC's Board specifically authorize each debt financing by resolution approved by the Board.

I. Long Term Debt Financing

A. The MTC will use the following criteria to evaluate pay-as you-go versus long-term debt financing in funding capital projects.

1) Factors that favor pay-as-you-go:

a) Current revenues and adequate fund balances are available

b) Project phasing is feasible

c) Debt levels could adversely affect the MTC's or its affiliated entities' credit rating

d) Market conditions are unstable or present difficulties in marketing long-term debt

2) The MTC will consider the use of long-term debt financing for capital projects under, but not limited to, the following circumstances:

a) When the project's useful life will equal or exceed the term ofthe financing.

b) Revenues available for debt service are considered self sufficient and reliable so that long term financing can be marketed with an appropriate credit rating.

c) The project that is being considered will not adversely affect the MTC's or its affiliated entities ' credit rating.

d) Market conditions present favorable interest rates.

e) High priority projects that result from regional or economical conditions that require use of long term debt.

3) Each debt issuance shall be approved by resolution specifying the following:

a) Total principal-- amount of the bonds.

b) Maximum interest rate, not to exceed 12%.

c) Total expected principal and interest payments

d) All fees associated with the issuance fees may be in the form of a discount rate applied to the bond issue or direct payments of the fees.

e) Bonds are to be fixed or variable.

f) Any other special terms or conditions, including forward or delayed issuance and delivery of bonds.

B. The MTC may use debt in special circumstances for projects other than long-term capital projects. Long-term debt will not be used to fund any ongoing operational costs.

C. The MTC may use lease financing as appropriate means of financing capital facilities, projects and certain equipment. The useful life of the capital equipment, the terms and conditions of the lease and budget flexibility will be evaluated prior to the implementation of the lease obligation. Efforts will be made to fund capital on a pay as you go basis where feasible.

D. No debt shall be issued without approval of the resolution by the Board.

Capital Financing Plan

A Capital Financing Plan will be prepared for each long term debt financing. Analysis must include, but is not limited to, the following requirements:

a) description and availability of all sources of funds

b) timing and priority of capital projects

c) a financing plan which includes but not limited to:
    1) debt coverage
    2) debt covenants

d) debt service requirements

e) effect of projects on debt capacity

f) measurable objectives or goals

g) conformance with California Government Code Section 58521.1

Debt Service Reserve Fund

A debt service reserve fund (DSRF) will be funded with every tax exempt bond issue. The reserve will be funded through cash on hand, bond proceeds or a DSRF surety policy provided by a rated bond insurer. A DSRF will not be required on taxable financing if there is no negative or additional cost implications to the financing. An analysis and financing plan will be prepared for each debt financing which analyzes the optimal method and level of funding the DSRF and selecting the appropriate bond insurer to achieve project objectives and support debt service.

II. Short Term Financing

Short term borrowing may be utilized for any purpose for which long term debt may be issued. Additionally, short-term borrowing may be utilized as a source of temporary funding of operational cash flow deficits, of anticipated revenues, of inter-fund borrowing or as an interim source of funding in anticipation of long-term borrowing.
Short term debt can be issued as follows, but not limited to:

a) Bond Anticipation Notes (BANs)

b) Tax and Revenue Anticipation Notes (TRANs)

c) Grant Anticipation Notes (GANs)

d) Lines of Credit/Letters of credit

e) Commercial paper (CP)

A financing plan must be submitted prior to the use of short term financing.

III. Variable Rate Debt

The MTC may issue variable rate debt. It is often appropriate to issue variable rate debt to diversify the debt portfolio and improve the match of assets to liabilities. An analysis and budgeting plan will be prepared for each debt financing which analyzes the optimal amount of hedged and unhedged variable rate debt appropriate to achieve project objectives and support debt service.

IV. Credit Enhancements

The MTC may purchase bond insurance, letters of credit or other means of credit enhancement for its borrowing of publicly sold or direct purchase bonds if the credit enhancement improves the credit quality of the bonds and as a result provides MTC with interest cost savings or other substantial market advantages. An analysis of utilizing credit enhancement instruments will be prepared for each debt financing to determine if there is appropriate value to support purchasing the enhancement.

V. Structured Financial Products (Derivatives)

The MTC may utilize derivative products such as floating-to-fixed and fixed-to- floating rate swaps as a tool to manage interest rate risk or reduce interest rate cost in the debt portfolio. Derivative products will be evaluated on a case-by-case basis to determine the value of potential benefits as well as a clear understanding of structured products.

The MTC will consider the following risk when considering structured products:

1) Counterparty risk: The counterparty's ratings, or the ratings of an entity controlling the counterparty, must be the equivalent of "A+" or better from three nationally recognized rating agencies, and the counterparty must have ratings that are equal to or better than MTC's current ratings from any two nationally recognized rating agencies at the time of the execution of the transaction.

1A. <u>Counterparty Limits</u>:

Corporate Rating [a]	Counterparty Security	Portfolio Limit	Single Firm Limit
AAA Collateral	No Limit	No Limit	
AAA Agreement	Over-Collateralized	No Limit	No Limit
AA [b]	Collateral	No Limit	No Limit

A [b]	Collateral	No Limit	25%

[a] – or equivalent
[b] – without graduation

2) Credit risk: Swap agreement will require unilateral posting by the counterparty if it fails to maintain its credit ratings

3) Counterparty exposure risk: The MTC will attempt to use different counterparties to diversify exposure; however, the selection of a counterparty should not be at the expense of pricing or other credit factors.

4) Termination risk: Swap agreement will allow the MTC the unilateral option to terminate the swap at any time with 30 days notice.

5) Rollover risk: All swap transactions will be coterminous with or terminate earlier than the underlying bonds.

6) Amortization risk: The swap will be structured to amortize with or earlier than the maturity of the underlying bonds.

Structured financial derivative products may not be used for speculative purposes. Derivative products shall not be used for the sole purpose of generating operating or capital proceeds. Prior Board approval is required in order to utilize a derivative product.

7) Novation/ Assignment: If counterparty or the entity controlling the counterparty does not maintain ratings conforming to subparagraph (1), the MTC may seek novations and assignments with replacement counterparties to reduce the MTC'S exposure. Replacement counterparties must be rated higher than the counterparty being novated but not less than "A-" or equivalent from two rating agencies. In determining eligible novations/assignments, credit limitations in Section l shall not apply.

8) Conformance with Dodd-Frank: It is the intent of the MTC to conform this policy to the requirements relating to legislation and regulations for over-the-counter derivatives transactions under Title VII of the Wall Street Transparency and Accountability Act of 2010, as supplemented and amended from time to time (herein collectively referred to as "Dodd-Frank"). Pursuant to such intent, it is the policy of the MTC that: (i) each swap advisor engaged or to be engaged by the MTC will function as the designated qualified investment representative of the MTC, sometimes referred to as the "Designated QIR"; (ii) each swap advisor agrees to meet and meets the requirements specified in Commodity Futures Trading Commission Regulation 23.450(b)(1) or any successor regulation thereto (herein referred to as the "Representative Regulation"); (iii) each swap advisor provide a written certification to the MTC to the effect that such swap advisor agrees to meet and meets the requirements specified in the Representative Regulation; (iv) the MTC monitors the performance of each swap advisor consistent with the requirements specified in the Representative Regulation; (v) the MTC exercise independent judgment in consultation with its swap advisor in evaluating all recommendations, if any, presented by any counterparty with respect to transactions authorized pursuant to this Debt Policy; and (vi) the MTC relies on the advice of its swap advisor with respect to transactions authorized pursuant to this Debt Policy and not rely on recommendations, if any, presented by any counterparty with respect to transactions authorized pursuant to this Debt Policy

VI. Debt Capacity

An analysis and financing plan will be prepared for each debt financing which analyzes the optimal amount of debt capacity to achieve project objectives and support debt service. Debt levels will be maintained at a level consistent with project objectives and creditworthiness goals.

VII. Refunding

Debt issues will be monitored, on an ongoing basis, for potential savings via refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net present value economic benefit of 3% resulting from the refunding; and refundings may be non economic and may be undertaken to achieve other project objectives such as, changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile.

VIII. Debt Rollover

An analysis will be prepared discussing the economic merits of the refunding and presented to the Board. Debt that is maturing and will be refunded as a rollover to a new maturity may be refunded or advance refunded as a business practice necessary for the administration of the debt portfolio without consideration of refunding criteria.

IX. Bond Proceeds

Proceeds will be invested in compliance with the provisions of the bond indenture, federal and state tax requirements, and as well as the adopted Investment Policy.

X. Bond Covenants and Laws

The MTC shall comply with all covenants and requirements of the bond resolutions, and State and Federal laws authorizing and governing the issuance and administration of debt obligations.

The MTC shall comply with the reporting requirements of California Government Code Section 8855.

XI. Continuing Disclosure

In addition to annual audit and reporting disclosures, the finance department shall be responsible for complying with all continuing disclosure agreement (CDA) requirements

entered into pursuant to the requirements of Securities and Exchange Commission Rule15(c)2-12 (“The Rule”) which applies to publicly offered securities.
MTC finance will be responsible for ensuring that all filings required under “The Rule” and outstanding CDA’s are filed in a complete and timely manner.

XII. Arbitrage and Rebate Compliance

The finance department shall maintain a system of accounts, record keeping and reporting as required under Generally Accepted Accounting Principles (GAAP) bond covenants and resolutions.

The use of bond proceeds and their investments must be monitored to ensure timely compliance with both current and future federal tax arbitrage restrictions. All rebates, if any, shall be made in a timely manner.

XIII. Internal Control Procedures

The finance department maintains internal control procedures to monitor and ensure that the proceeds of all debt issuance is directed to and utilized for the intended use. Such procedures are tested as part of the annual financial audit.

XIV. Bond Rating Agency

The finance department shall be responsible for maintaining the MTC's relationships with the credit rating agencies. The MTC will maintain a practice of meeting regularly with credit analysts from the bond rating agencies to keep them informed of the MTC's borrowing plans, financial profile, and financial condition.

XV. Investor Relations

The finance department will make all efforts to keep the various investors informed of current events surrounding the MTC. The finance department will make all efforts to respond to questions from fund managers in a most timely and efficient manner.