



DEBT MANAGEMENT POLICY – JANUARY 2018

Exhibit A
Resolution 18-01-02

Policy Statement

It is the policy of the Tri-County Metropolitan Transportation District of Oregon (“TriMet” or “the District”) to adhere to sound debt issuance practices, including a commitment to long-term capital and financial planning, full and timely repayment of all borrowings; achieve the lowest practical cost of borrowing commensurate with prudent level of risk; and maintain access to capital markets through preserving and enhancing the quality of the District’s bonds and other debt.

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1. SCOPE AND AUTHORITY

This Debt Management Policy governs the issuance and management of all debt and capital lease financings of the District funded from capital markets. TriMet has broad authority to issue debt in different ways:

- ORS 287A.150 gives TriMet authority to issue revenue bonds.
- ORS 267.330 permits TriMet to issue General Obligation bonds secured by property tax levy, with voter approval.
- Other statutes give TriMet authority to issue notes and lease/installment purchase obligations.

All TriMet debt must be authorized pursuant to a resolution of TriMet’s Board of Directors (“Board”). All debt obligations of TriMet will comply with the requirements of State statutes, and any other applicable laws, regulations and bond indentures.

This policy establishes guidelines for the issuance and management of debt of the District, including: General Obligation bonds, Full Faith and Credit bonds, Revenue Bonds secured by Payroll Taxes or Federal, State or Local Grant Revenues, Leases and any other borrowing authorized by the Board.

While adherence to this Debt Management Policy is required under normal circumstances, changes in capital markets, and other unforeseen circumstances may produce situations that are not covered by this policy. Thus, the District may, with Board approval, enter into financing and other related agreements with terms and/or provisions that deviate from this policy but that deviation will be noted in the report to the Board request for approval.

2. OBJECTIVES

The District’s objectives in relation to debt issuance and management are as follows:

- Provide for full and timely repayment of all debt
- Establish guidelines for the amount and type of debt
- Achieve the lowest possible cost of capital while balancing all TriMet’s financial needs
- Comply with all federal and state laws
- Ensure ongoing access to capital markets

3. ADMINISTRATION

3.1 Delegation of Authority

3.1.1 The ultimate responsibility and authority for issuance of debt resides with the Board of Directors. The Board hereby designates the Executive Director of Finance and Administration (“CFO”) to manage debt issuance and the debt portfolio, and to ensure compliance with this policy.

3.1.2 The CFO may designate personnel under his/her supervision to administer the policy, maintain accounting records, and prepare reports. No person

may engage in a debt transaction except as provided under the terms of this policy and the procedures established by the CFO. The CFO shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of personnel under his/her supervision. All participants in the debt management process will seek to act responsibly as custodians of the public trust.

3.2 Policy Review

This Debt Management Policy shall be reviewed and adopted by the Board of Directors no less than every three years.

4. DEBT MANAGEMENT

4.1 Terms and Structure

4.1.1 Terms. TriMet may issue long-term or short-term debt. When debt is issued to finance capital acquisitions, the term of debt should not exceed the estimated useful life of the asset being financed up to a maximum term of 35 years.

4.1.2 Structure. Debt may be structured as fixed rate or variable rate. TriMet may issue tax-exempt or taxable debt.

4.1.3 Commercial Paper. Commercial paper programs are considered variable rate debt. Board authorization is required for the issuance of a commercial paper program, but periodic issuance of commercial paper within approved limits of the program does not require further board action.

4.1.4 Variable Rate Limits. Unless explicitly approved by the Board, the amount of variable rate debt as a percentage of total long term debt shall not exceed the following limits for each category of debt:

| Type | Limit |
|---|---|
| General Obligation Bonds | No variable rate debt |
| Full Faith and Credit Bonds | 20% of total outstanding full faith and credit bonds. |
| Senior Lien Payroll Tax Debt | 20% of total outstanding senior lien payroll tax debt |
| Debt Secured by Federal, State or Local Grants | 35% of total grant secured debt maturing in more than two years. 100% of total grant secured debt maturing within two years. |
| Other Debt | Approved on a case-by-case basis by the Board. |

4.2 Purpose

TriMet may issue debt for the following purposes:

- 4.2.1 **New Money Financing.** May be issued to provide capital to invest in replacement of assets, rehabilitation of existing capital assets, and the acquisition of new assets consistent with the TriMet Capital Asset Management and Investment Program (CAMIP). Bonds may also be issued to reimburse TriMet for the payment of costs of capital assets/projects initially funded with general revenues.
- 4.2.2 **Refunding Bonds.** May be issued to redeem all or a portion of outstanding bond issues, in order to meet any of the following objectives:
- Reduce borrowing costs through refinancing at a lower interest rate.
 - Repay money borrowed under interim financing.
 - Restructure the debt repayment schedule.
 - Modify unfavorable bond covenants.
- 4.2.3 **Refunding Bonds issued for savings.** TriMet may issue Advance Refunding Bonds for the purpose of reducing borrowing costs when the net present value savings is equal to greater than 3% of the par amount of the refunded bonds or equal to or greater than \$5,000,000. Only fixed rate refundings are authorized by this policy without the prior approval of the Board.
- 4.2.4 **Interim Borrowing.** TriMet may issue debt, commercial paper, or enter into a line of credit to meet interim cash flow funding needs. TriMet may also issue interim borrowing in anticipation of issuance of long term bonds, which will be used to redeem the interim borrowing. TriMet will not use borrowing to finance operating needs except in the case of extreme financial emergency which is beyond its control or reasonable ability to forecast.

4.3 Security

Debt may be secured by the following sources:

- 4.3.1 **General Obligation Bonds.** General Obligation bonds are secured by TriMet's ad valorem taxing power which enables TriMet to assess, levy and collect a tax on all taxable property within the District on an annual basis. General Obligation bonds must be approved by voters in the District.
- 4.3.2 **Full Faith and Credit Bonds.** Full Faith and Credit Bonds are secured by the full faith and credit of the District.
- 4.3.3 **Payroll Tax Bonds.** Payroll Tax Bonds are secured by a pledge of payroll tax revenues (including employer payroll taxes, self-employment payroll

taxes, and payments received from the State of Oregon in lieu of taxes on payroll). TriMet may pledge these revenues on a senior or subordinate basis in support of debt.

4.3.4 **Debt Secured by Federal, State or Local Grants.** Grant Revenue Bonds are secured by a pledge of specific federal, state or local grant funds.

4.3.5 **Other Debt.** Other debt includes leases (which are secured by the specific assets named in the lease) and lines of credit. The issuance of these other forms of debt must be approved by the Board.

5. CREDIT RATINGS AND ENHANCEMENTS

TriMet shall have a rating strategy designed to achieve the best economic results for the District. This will include attaining the appropriate balance between minimizing borrowing costs and maximizing financial flexibility.

TriMet may secure credit enhancement for all or a portion of a bond issue. Credit enhancement may include municipal bond insurance, a letter or line of credit, a liquidity facility, or other similar credit enhancement products.

6. LIMITATIONS

6.1 General Obligation Bonds

All General Obligation Bonds issued by TriMet must be approved by a vote of the electors residing within the TriMet District. ORS 267.330 limits the amount of TriMet's General Obligation Debt to 2.5% of the real market value of all taxable property within TriMet's jurisdictional boundaries.

6.2 Senior Lien Payroll Tax and Full Faith and Credit Bonds

Senior Lien Payroll Tax and Full Faith and Credit Bonds are limited via a comparison of debt service payments as a percentage of projected Continuing Revenues. Projected debt service on TriMet's Senior Lien Payroll Tax Bond, Lease payments and Full Faith and Credit Bonds shall remain below 6.0% of TriMet's projected Continuing Revenues¹. Increases in the debt ceiling of 6.0% will require a Board adopted amendment to this policy. Issuance of Senior Lien Payroll Tax Bonds will be in compliance with all Senior Lien Payroll Tax bond covenants in effect at the time of issuance.

6.3 Subordinate Lien of Payroll Tax or Other Operating Revenues

TriMet may pledge Payroll Tax Revenues, on a subordinate basis to Senior Lien Payroll Tax Bonds, as additional security for borrowings, which are secured by

¹ Continuing Revenue is defined as Total Continuing Revenue less revenues that are restricted by law or contract so they cannot be used to pay debt service on Senior Lien Payroll Tax Bonds. These include legally restricted grant funds and state revenues not available for payroll tax debt service.

other revenue sources. In such cases, anticipated revenues from other revenue sources should be sufficient to repay the debt service of such debt. A subordinate lien on the payroll tax or other operating revenues may only be utilized with prior approval of the TriMet Board on a case by case basis. Prior to Board approval the CFO shall present to the Board an analysis that quantifies the financial benefit of the subordinate lien of operating revenues and the risk of possible use of the pledged operating revenues to pay debt service. This analysis should also consider any limitation or cost impact on issuing additional debt.

6.4 Debt Secured by Federal, State or Local Grants

TriMet may pledge Federal, State or Local Grant Revenues as security on bonds. Debt secured by grant revenues will be issued only when the anticipated receipts are sufficient to meet all debt service requirements.

6.5 Long-term Leases

TriMet is a party to long-term Lease-leasebacks and Sale-leaseback agreements secured by light rail vehicles. These transactions are funded by payment agreements which are not considered legal defeasances, and as such, are subject to some financial risk. In the event that these leases can be terminated early or restructured in a manner that reduces financial risk to the District, The Board authorizes the CFO to execute any agreement necessary to terminate or restructure these lease transactions and directs the CFO to report to the Board the results of the termination or restructuring.

6.6 Equipment Leases

In procuring equipment for the District, an analysis regarding cost effectiveness of leasing vs. purchasing should be performed. The lease or rental rate should be based on the consideration of:

- Rental cost of comparable property, if any,
- Market Conditions in the area,
- The type, life expectancy, condition, and value of the property to be leased,
- Alternatives available, and
- Other provisions of the agreement.

Equipment leases under \$500,000 must be reviewed and approved by the CFO.

7. METHODS OF BOND SALE

TriMet has authority to use the following methods of bond sale:

7.1 Competitive Sale

In a competitive sale, TriMet's debt will be offered for sale on a set date and time. Financial institutions will have the opportunity to purchase the debt through a competitive bid. The award of the debt will be made to the bidder that offers the

lowest cost of borrowing, as defined in the bid documents. Competitive sale is TriMet's preferred method of sale for senior lien payroll tax bonds.

7.2 Negotiated Sale

In a negotiated sale, TriMet's debt will be purchased by an investment bank or syndicate that has been selected by TriMet through a competitive request for proposal process.

7.3 Private Placement

In a private placement, TriMet's debt is sold to commercial banks or a limited group of qualified investors. A sale of debt by private placement will be used only when anticipated to result in cost savings, to provide other advantages when compared to other methods of sale, or if access to the public market is unavailable.

7.4 Determination of Method of Sale

The method of sale will be determined in consultation with TriMet's independent financial advisor, with the objective of providing TriMet with the lowest overall cost of financing and most efficient market access.

8. INDEPENDENT FINANCIAL ADVISOR

TriMet will retain an Independent Financial Advisor to assist with the sale of debt to the public. The Financial Advisor will have expertise in municipal debt issuance and the pricing of municipal securities, and be in good standing with the MSRB Registration system. The Financial Advisor will assist with:

- Analysis of the costs and risks of debt issues
- Development of an underwriter Request for Proposal for negotiated bond sales and evaluation of responses
- Management of the process for debt sold competitively
- Evaluation of the structuring and pricing of the debt issues and underwriting fees for comparable sales by other issuers.
- Recommendations regarding the terms and conditions of debt issues
- Evaluation of legal documentation and terms for debt issuance
- Other assistance as requested in relation to debt issuance

9. INVESTMENT OF BOND PROCEEDS

Bond proceeds will be invested in accordance with the TriMet Investment Policy, applicable laws and bond covenants.

10. COMPLIANCE AND DISCLOSURE

The CFO is responsible for maintaining relationships with rating agencies and investors. In addition, the CFO will ensure that the District complies with disclosure requirements associated with debt.

10.1 Disclosure in Official Statements

The CFO shall oversee the preparation of official statements and other disclosure documents that are used in connection with TriMet’s borrowing. The CFO shall ensure that disclosure documents comply with applicable laws and do not contain material misstatements or omissions.

10.2 Continuing Disclosure Requirements

TriMet is required to provide the Municipal Securities Rulemaking Board (“MSRB”) with annual updates of information in disclosure documents and special notice of certain “material events” in connection with some of its borrowings. The CFO shall monitor the annual disclosure requirements that apply to TriMet and oversee the preparation of annual updates and notice of material events.

10.3 Tax Compliance

The CFO shall oversee the preparation of all documents required for initial debt issuance and ongoing tax compliance related to bonds and leases.