Maryland Transportation Authority	**BOARD POLICY: DEBT MANAGEMENT** **Policy Code: B-MDT-FIND-0005-00** Effective Date: 08-27-2015

I. Purpose and Scope

This policy establishes guidelines for the process by which the Maryland Transportation Authority (MDTA) issues and manages debt, and provides guidance to the MDTA Board and staff to ensure that a sound debt position and strong credit quality is maintained.

II. References

Title 4 of the Transportation Article, Annotated Code of Maryland (Repl. Vol. 2008, as amended);

§5-7B-02 of the State Finance and Procurement Article, Annotated Code of Maryland (Repl. Vol. 2009, as amended);

Second Amended and Restated Trust Agreement between the Maryland Transportation Authority and the Bank of New York Mellon, as Trustee, dated as of September 1, 2007, as amended (2007 Trust Agreement);

Code of Maryland Regulations (COMAR 11.07.09.09, Vehicle Parking Facilities);

Governor's Executive Order 01.01.1998.07;

Securities and Exchange Commission (SEC) Rule 15c2-12;

Federal Tax Code and Regulations;

MDTA Board Policy: Investment Management; and

MDTA Board Policy: Preparation of Financial Forecasts

III. Policy

Purpose and Uses of Debt

Policy Statement 1. In accordance with Title 4 of the Transportation Article of the Annotated Code of Maryland, MDTA may issue revenue bonds, notes, or other evidences of obligation to finance the cost of:

1.1. "Transportation facilities projects" as defined in said Article;

1.2. A vehicle parking facility located in a priority funding area as defined in §5-7B-02 of the State Finance and Procurement Article;

1.3 Any other project for transportation facilities that the MDTA Board authorizes to be acquired or constructed; and

1.4. Any additions, improvements, or enlargements to any of these projects, whenever authorized by the MDTA Board.

Policy Statement 2. Debt will be used only to finance capital projects (including land) and capital equipment that are reasonably necessary for governmental purposes.

Policy Statement 3. The MDTA will finance its projects with a prudent issuance of debt through the sale of revenue bonds, notes, or other evidences of indebtedness within the constraints of the MDTA Financial Forecast Policy.

Policy Statement 4. Capital financing proposals received by MDTA which involve a pledge or extension of credit through sale of securities, loans or leases, shall be referred to the Division of Finance for review.

Policy Statement 5. The MDTA Consolidated Transportation Program (CTP) will be funded through a combination of cash reserves, revenues and appropriate levels of debt in accordance with affordability guidelines.

5.1. To provide adequate liquidity, MDTA will maintain unrestricted cash balances at the end of each fiscal year of at least $350 million.

5.2. Unrestricted cash shall include funds on deposit in the following MDTA trust accounts: Operating (reserve portion), Capital (cash funded), General, and the Maintenance and Operating (M&O) Reserve.

Policy Statement 6. The Chief Financial Officer (CFO), under the direction of the Executive Director, has the responsibility to oversee and coordinate the sale and issuance of MDTA debt.

6.1. The CFO shall make recommendations to the Executive Director and MDTA Board regarding necessary actions related thereto.

6.2. The CFO and Executive Director shall obtain MDTA Board approval thereof as evidenced by an authorizing MDTA Board Resolution(s).

Policy Statement 7. The MDTA shall endeavor to finance the CTP on a partially "pay-as-you-go" basis by funding some program costs from available revenues.

Policy Statement 8. No debt will be issued for funding MDTA capital projects unless it is included in the CTP.

Limitations on Indebtedness

Policy Statement 9. In FY 2015 through FY 2020, the statutory ceiling on the level of outstanding toll revenue-backed debt is $2,325,000,000 on June 30 of any year.[1] Beginning in FY 2021, the statutory ceiling on the level of outstanding toll revenue bond debt shall not exceed $3,000,000,000 on June 30 of any year.

Policy Statement 10. The amount of planned MDTA debt will be limited by affordability guidelines relating to debt service coverage, the rate covenant set forth below, and as further determined by the Executive Director and CFO in consultation with the financial advisors. The amount of planned toll revenue-backed debt will be shown in the Financial Forecasts which are prepared at least twice per year.

10.1. The 2007 Trust Agreement requires that in each Bond Year (July 1 – June 30, as defined in the Trust Agreement) net revenues (revenues less operating expenditures) must cover 120% of debt service requirements and 100% of the amount annually budgeted for deposit to the M&O Reserve Account.

10.2 The MDTA will maintain a minimum annual debt service coverage level of 200% of debt service for planning purposes. In FY 2016 through FY 2020, the MDTA will increase its minimum annual debt service coverage level to 250% of debt service for planning purposes.[2] In FY 2021, MDTA's minimum annual debt service coverage level shall revert to 200%.

10.3 The MDTA will allow at least $100 million in unprogrammed bonding capacity in reserve for contingencies during Years 3 through 6 of the Financial Forecast planning period.

10.4 Planned debt issuances will be based on reasonable estimates of future toll adjustments and capital funding requirements.

10.5 The period of planned debt issuances will coincide with the 6 year CTP, and may be done for additional periods (*e.g.* 10 years) for longer range strategic planning.

Policy Statement 11. Debt service coverage for conduit debt (which is not backed by MDTA toll revenue) will be determined on a case by case basis for projects where MDTA is a conduit debt issuer.

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[1] Chapter 489 of the 2015 Laws of Maryland (HB 72) decreased MDTA's toll revenue-backed bonds outstanding limit from $3.0 billion to $2.325 billion in FY 2015 through FY 2020. In FY 2021, the debt outstanding limit reverts to $3.0 billion.

[2] Since 2005, MDTA has maintained minimum debt service coverage of 200%. Chapter 489 of the 2015 Laws of Maryland (HB 72) requires MDTA to maintain a minimum annual debt service coverage level of 250% in FY 2016 through FY 2020. In FY 2021, the minimum annual debt service coverage level reverts to 200%.

11.1. Conduit financings shall generally have minimum debt service coverage requirements of 120% of debt service.

11.2. An exception to this minimum for conduit financings could occur if there is a debt service "guarantee" from a rated municipality, authority or entity with investment grade ratings.

11.3. Conduit financings shall not in any way pledge MDTA's toll revenues.

11.4. The MDTA has a self-imposed outstanding debt limit on conduit financings of $700 million, excluding GARVEE bonds (hereinafter defined).

Policy Statement 12. Pursuant to §4-320 of the Transportation Article, and the statutory limits set forth therein, the aggregate principal amount of debt issued and secured by a pledge of future federal aid known as Grant and Revenue Anticipation (GARVEE) bonds will not exceed $750 million, and the maturity date for such debt may not be later than 12 years after the date of issuance.

Policy Statement 13. The MDTA must adhere to the Governor's Executive Order 01.01.1998.07 (Executive Order) which requires annual review and approval of planned State agency debt by the Department of Budget and Management (DBM) and the Governor.

13.1. Notice must be given to DBM at least 30 days in advance of any bond issuance of $25 million or greater.

13.2. The MDTA will comply with the annual reporting requirements as set forth in the Executive Order.

Debt Structural Features

Policy Statement 14. Tax exempt debt will not be issued by MDTA over a term that exceeds the weighted average life of the improvements for any project.

14.1. The MDTA debt must not exceed a term of 40 years per Maryland law, §4-302(b) of the Transportation Article.

Policy Statement 15. Debt will generally be structured to achieve the lowest possible net financing costs.

15.1. Whenever feasible, structuring debt with level debt service costs over the life of the issue is preferred.

15.2. Backloading of costs will be considered in order to match debt service requirements with project revenues during the early years of the project's operation.

15.3. At the CFO's discretion, certain issuance costs and fees (*e.g.* bond counsel, financial advisors, rating agencies, feasibility consultants, trustees, printers, auditors, etc.) may be paid from unrestricted cash instead of bond proceeds.

15.4. In accordance with the Code of Maryland Regulations 11.07.09.09, MDTA may charge an application fee or other fees reasonably related to the expenses it incurs in processing a financing proposal or issuing debt in connection with a Vehicle Parking Facility.

15.5. As a conduit issuer, MDTA may charge the obligor an annual administrative fee to recapture its costs incurred over the life of the bonds.

15.5.1. Examples of such costs include, but are not limited to, arbitrage rebate calculations, trustee fees and auditor expenses.

Policy Statement 16. Optional redemption provisions will generally be included in MDTA bond issues upon the recommendation of the Executive Director, CFO and financial advisors.

16.1. Depending upon market conditions, call provisions will be evaluated for each bond issue on a case by case basis.

Policy Statement 17. Capitalization of interest (borrowing funds to pay interest on a debt obligation) will generally be limited to the interest due on debt during construction of the facilities.

17.1. When deemed appropriate by the Executive Director, CFO and financial advisors, capitalized interest may extend beyond the construction period, but in no event, will it extend beyond one year after project completion in accordance with Maryland law, §4-101(c) of the Transportation Article.

Policy Statement 18. MDTA may issue variable rate securities with interest rates tied to an index according to a predetermined formula or based upon the results from a periodic remarketing of securities for toll revenue-backed or conduit debt.

18.1. The decision to issue variable rate debt must be approved by the MDTA Board upon the recommendation of the Executive Director, CFO and financial advisors.

18.2. MDTA has a self-imposed limit that at the time of issuance no more than 15% of its toll revenue-backed debt will be in variable rate mode.

18.3 Limits on variable rate conduit debt will be determined on a case by case basis taking into consideration debt service coverage and obligor cash reserves.

Policy Statement 19. Upon the approval of the MDTA Board, MDTA may enter into financing agreements involving interest rate swaps, floating/fixed rate auction securities, or other forms of debt bearing synthetically determined interest rates.

19.1. MDTA will consider the use of such financing agreements on a case by case basis and any use shall be consistent with the Trust Agreement, State policy and financial prudence.

Policy Statement 20. When it is determined to be prudent by the Executive Director, CFO and financial advisors, and subject to approval of the MDTA Board, MDTA may issue bond anticipation notes or other short-term indebtedness, in accordance with applicable statutory law and trust agreements, as a source of interim construction financing.

Method of Sale

Policy Statement 21. The MDTA shall sell and issue debt, subject to MDTA Board approval, either through a competitive bidding process or by a negotiated sale (including a direct bank loan). A competitive bond sale is the preferred method unless it is determined by the Executive Director, CFO, the financial advisors and legal counsel that this method is unlikely to produce the best sale results. Factors to consider in selecting the sale method include, but are not limited to, bond issue size and related issuance costs, repayment terms, market conditions, credit history and the timing of the need for funds.

21.1. Competitive sales will be awarded to qualified bidder(s) based upon the lowest true interest cost method.

21.2. In the event of a negotiated sale, the underwriting team for the negotiated sale will be selected through a competitive solicitation process and approved by the MDTA Board.

21.3 In the event of a direct bank loan, a competitive solicitation will be conducted and the bonds will be awarded based upon lowest true interest cost unless the Executive Director and CFO determine that it is in the best interest of the MDTA to accept an alternative bid with more favorable terms and conditions.

Policy Statement 22. Documentation of MDTA bond sales and closings will be prepared by bond counsel, financial advisors, the MDTA Office of Legal Counsel, theMDTA Division of Finance, and other applicable parties for approval by the MDTA Board, and in the case of conduit debt, the State Board of Public Works or other appropriate officials, as required.

Refundings

Policy Statement 23. The CFO and financial advisors will periodically review MDTA outstanding debt to identify refunding opportunities. Refunding will be considered when there is net economic benefit or the refunding is advisable to modernize bond trust

covenants essential to operations and management. The CFO, the Executive Director and staff from MDTA's Division of Finance shall consider additional factors that they deem appropriate in determining specific bonds that shall be refunded.

23.1. In general, advance refundings for economic savings will be considered when net present value (NPV) savings may be achieved in the minimum range of 3% to 5% of the refunded par. Projected NPV savings shall be discounted at the All-In True Interest Cost. Alternately, NPV savings may be calculated using discount factors from the funding yield curve for each individual maturity.

23.2. In concert with NPV savings analysis, Refunding Efficiency shall be calculated for each individual maturity. Refunding Efficiency measures the percentage of the call option value captured through present value cash flow savings. Maturity refundings that are projected to capture more than 85% of the option value may be viewed favorably and worthy of consideration, though a calculated efficiency below 95% suggests that greater savings may be achieved by delaying the financing.

23.3 An Opportunity Cost Index (OCI) analysis may also be performed to obtain additional perspective on advance refundings with negative arbitrage. This analysis can show the potential savings that may be achieved by delaying the refinancing to the first call date. The OCI analysis is calculated by dividing the current projected NPV savings by the potential NPV savings at the first call date using a forward yield curve based on historical interest rates, i.e. a 5 or 10 year average. A calculated OCI value of greater than 70% is preferable.

23.4. Refundings that are projected to generate savings below the NPV benchmarks, or below the Refunding Efficiency and Opportunity Cost thresholds may be considered on a case by case basis. Factors that may justify an economic refinancing below savings thresholds include interest rate trends and the timing of new money bond issues.

23.5 A refunding is subject to MDTA Board approval, either for economic reasons or when existing bond trust covenants or other factors impinge on prudent and sound financial management, and such a restructuring is in MDTA's overall best financial interests.

Disclosure/Arbitrage Compliance

Policy Statement 24. The MDTA is committed to full and complete financial disclosure, and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure.

Policy Statement 25. The MDTA is committed to compliance with Federal arbitrage tax law and regulations which govern the issuance and management of tax exempt debt.

25.1. The MDTA Division of Finance is responsible for the system of record keeping and reporting necessary to meet the arbitrage rebate compliance requirements of the Federal tax code.

Investment of Bond Proceeds

Policy Statement 26. Bond proceeds shall be invested in accordance with provisions of the applicable Trust Agreement and MDTA's Investment Management Policy.

Consultant Selection

Policy Statement 27. The MDTA will retain external financial advisors, to be selected for a term of up to six years, through a competitive process administered by the MDTA Division of Finance through the MDTA Division of Procurement.

27.1. The Executive Director and CFO shall determine on a case by case basis and pursuant to any applicable financial advisory services contract, when to use the services of the financial advisors for bond sales or other financial advice.

27.2. To ensure independence and to avoid any potential conflicts, neither the financial advisors, their firms, nor any of their affiliates, will bid on or underwrite any MDTA debt issuances, or perform any other services relating to the sale or issuances of such debt, unless specifically authorized by the Executive Director and CFO upon approval by the MDTA Board.

Policy Statement 28. The MDTA and the Maryland Attorney General will retain qualified bond counsel as required for debt issues. Bond counsel will issue an opinion as to the legality of the debt issuance and the tax-exempt status of any such obligations.

28.1. The MDTA Assistant Attorney General (AAG) shall act as procurement officer on behalf of the Office of the Maryland Attorney General and procure competitive proposals from outside law firms.

28.2. The AAG shall form a review committee to evaluate written proposals and to conduct oral interviews of the proposers.

28.3 After the review committee completes its evaluation, the AAG shall make recommendations to the Maryland Attorney General regarding the selection of one or more firms to serve as bond counsel.

28.4 The solicitation and selection process for such services will be accomplished according to the legally appropriate procurement process utilized by the Maryland Attorney General. The Attorney General's Office shall make such selection, and the AAG shall notify the MDTA Board of the selection. The contract(s) shall be awarded, subject to available funding for the contract(s).

Policy Statement 29. The MDTA Division of Finance shall be responsible for pre-qualifying underwriting firms to provide services for debt issued in a negotiated sale.

29.1. Underwriters will be required to demonstrate sufficient capitalization, experience, and competitive pricing in order to qualify to underwrite debt.

29.2. A review committee will be formed to evaluate written proposals and to conduct oral interviews if necessary.

29.3. The formal selection of the qualified underwriting firms for all negotiated bond sales (except direct bank loans) will be presented to the MDTA Board for approval upon recommendation by the review committee.

Policy Statement 30. The MDTA Division of Finance, in conjunction with the MDTA Assistant Attorney General, will approve the selection of the underwriter's counsel, in the event of a negotiated bond sale. The cost of the underwriter's counsel will be payable from bond proceeds of each specific issue and allocated to underwriter's costs.

Policy Statement 31. The CFO shall have the authority to periodically select other service providers (e.g., trustees, arbitrage consultants, etc.) as necessary to meet legal requirements and to minimize net debt costs.

Policy Statement 32. Compensation for bond counsel, underwriter's counsel, financial advisors, and other financial services will be as low as possible (through the competitive and any legally required procurement process), given desired qualification levels, and consistent with industry standards.

Credit Ratings

Policy Statement 33. The MDTA seeks to maintain the highest possible investment grade credit ratings for the revenue bonds, notes, and other evidences of indebtedness issued under the provisions of Title 4 of the Transportation Article.

33.1. For issues secured by toll revenues, MDTA will request ratings prior to the sale of securities from at least two of the three major rating agencies for municipal bond issues: Moody's Investors Service, Standard & Poor's Corporation and Fitch Ratings.

33.2. For conduit financing issues, the decision to request underlying credit ratings will be on a case-by-case basis as determined by the Executive Director, CFO, the financial advisors, the obligor and the underwriter for the bonds in the case of a negotiated sale.

33.3. The MDTA may provide written and/or oral presentations to the rating agencies to assist the agency credit analysts.

Policy Statement 34. MDTA shall consider the use of credit enhancements such as bond insurance, letters of credit, and surety bonds when such credit enhancement proves cost-effective.

34.1. The net debt service on the bonds should be reduced by more than the costs of the enhancement. A credit enhancement should bring a lower interest rate on debt and a higher rating from the rating agencies, thus lowering overall costs.

Policy Statement 35. The Executive Director, CFO and the financial advisors are responsible for maintaining relationships with the rating agencies. This effort includes providing periodic updates on MDTA's general financial condition along with meetings and presentations in conjunction with a new debt issuance.

Annual Review

Policy Statement 36. This Debt Policy is to be reviewed by the MDTA Finance Committee at least annually.

IV. Procedures Responsibility

Implementation of the procedures is the responsibility of the CFO and MDTA Division of Finance staff. Any deviation from the procedures must be promptly reported to the MDTA Finance Committee and the MDTA Board.

V. Glossary

None

VI. Attachment(s) (Exhibits/Tables, etc.)

None

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APPROVED FOR FORM & LEGAL SUFFICIENCY:

Assistant Attorney General

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