

Staff Report

To: Board of Directors
From: Allison Segal
Date: September 19, 2025

Agenda Item: 5.6 Debt Policy

Attachments:

Section: Finance Policy #: FIN 102 Debt Management Policy

Recommendation:

Approve Finance Policy #: FIN 102 Debt Management Policy as presented.

Discussion:

In anticipation of securing MUTD's first debt obligations, a debt management policy has been drafted to ensure the agency issues debt responsibly. This policy incorporates feedback from the finance committee meeting held on September 4, 2025, and Baker Tilly Municipal Advisor Steve Scharff.

Financial Impact and Funding Source:

N/A

DBE Certified: N/A

Section: Finance Policy #: FIN 102

Debt Management Policy

Policy Overview

A debt management policy forms guidelines to ensure that the Missoula Urban Transportation District issues debt responsibly. This debt management policy sets forth the responsibilities and authorities of the board of directors, the chief executive officer and general manager, and the finance manager in managing MUTD's debt program.

Purpose

This debt management policy provides a general framework under which MUTD plans for and manages its use of debt financing. This debt management policy is one of MUTD's comprehensive financial management policies that guide district operations. In addition to this debt management policy, all district financing shall be conducted and maintained in compliance with applicable federal law, Montana Code Annotated (MCA), county code and other regulatory requirements.

I. GENERAL PROVISIONS

A. Responsibility

The finance manager shall be responsible for the implementation of this policy. Any amendments to this policy must be approved by the Board of directors.

B. Selection of Finance Consultants and Service Providers

The Finance Manager is responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement MUTD's debt program. Goals of the solicitation and selection process include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices. The solicitation and selection process for such services will comply with MUTD procurement requirements for such services.

Finance consultants and service providers include municipal finance advisor, bond and disclosure counsel, underwriters, and other services necessary to carry out the debt issuance activities of MUTD (paying agents, escrow agents, verification agents, feasibility consultants, rebate consultants, trustees, etc.). Any firm acting as financial advisor to MUTD regarding debt issuance must be a registered municipal advisor (as defined by the Municipal Securities Rulemaking Board) and must remain in compliance with all securities regulations.

C. Financing Proposals

MUTD's board of directors shall be responsible for ensuring that any financing proposal involving a pledge of MUTD's credit through the sale of bonds, securities, execution of loans, leases, other alternative financing mechanisms, or making of guarantees or agreements that directly or indirectly pledge or lend MUTD's credit shall be referred to the finance manager. The finance manager shall be responsible for analyzing the proposal, responding to the proposal, and recommending the action to be taken.

D. Debt Planning and Administration

The finance manager is responsible for administering MUTD's debt programs, including the sale of debt (e.g. timing, process, structure, etc.) and monitoring ongoing federal and state regulatory

compliance. The finance manager shall make recommendations, which may include recommendations of a finance consultant, to the board of directors as necessary to accomplish financing objectives within the boundaries of the debt management policy.

- E. Investor Communication.** The finance manager is MUTD's centralized point of contact for inquiries from current or prospective bondholders, bond rating agencies and credit analysts regarding district bond issues, bond disclosure and this debt management policy.

- F. Comprehensive Capital Planning and Financing Approach.**

MUTD shall develop multi-year capital plans during the annual budgeting process. Multi-year Capital Improvement Plan ("CIP") for the board of directors' consideration and adoption resides with finance manager and shall be included in the CIP process for issues related to debt financing. The CIP shall span ten years at a minimum per the current reserves policy and shall be updated annually as part of MUTD's budget process.

The CIP shall (1) contain a comprehensive description of project funding sources (grant, cash reserves, debt) and pre-identified revenues for debt repayment; (2) identify the timing of project expenditures and their impact on future operating and capital budgets; and (3) evaluate the impact of the projects on the amount and timing of debt to be issued, aggregate debt service requirements, outstanding debt, and debt burden.

- G. Maintenance, Replacement and Renewal**

Consistent with its philosophy of keeping its capital assets and infrastructure systems in good repair, and to maximize the capital stock's useful life, MUTD will strive to set aside sufficient reserves to finance ongoing asset management needs in accordance with the reserve policy. Reserves are currently established for operations, fleet replacement, and facility management.

MUTD shall maintain adequate debt service reserves in accordance with the requirements of each bond indenture / resolution or loan agreement. These reserves serve as a financial safeguard to ensure timely payment of principal and interest obligations, particularly in periods of revenue shortfall or economic uncertainty. The reserve levels will be reviewed annually and adjusted as necessary to reflect changes in debt service to stay in adherence of the prescribed requirements.

- H. Periodic Review of Debt management policy**

At least annually, the finance manager shall review MUTD's debt management policy and, if needed based on market and regulatory developments, recommend updates for the board of directors approval. The debt management policy may be updated at any time, subject to board of directors approval, and must be reviewed at least every three years.

II. LIMITATIONS ON INDEBTEDNESS

- A. Allowable Debt Instruments**

MCA 7-14-235 establishes transportation district bonds are authorized. A transportation district may borrow money by the issuance of general obligation or revenue bonds or a combination thereof to provide funds for the district.

B. Limitation On Bonded Indebtedness

MCA 7-14-236 determines the limitation on bonded indebtedness. The amount of bonds issued to provide funds for the district and outstanding at any time may not exceed 1.51% of the total assessed value of taxable property, determined as provided in 15-8-111, within the district, as ascertained by the last assessment for state and county taxes prior to the issuance of the bonds. The Certified Taxable Valuation Information is provided by the Montana Department of Revenue, and the total assessed value is found on line 2 of the provided 15-10-202, MCA.

C. Limitations on General Obligation Indebtedness Paid from Property Taxes

As an urban transportation district established by Missoula County in 1977, MUTD is required to follow MCA 7-7-2223 Election Required for Issuance of Certain Bonds.

D. When Debt Can Be Issued

MUTD authorizes use of long-term debt under the following situations:

1. To fund MUTD's capital projects, related capitalizable expenditures costs as indicated in the CIP.
2. When it is determined to be reasonable, necessary, or advantageous and in the best interest of the district to do so and MUTD's forecasts show that ongoing debt service does not interfere with maintaining transportation service levels.
3. The asset has a long, useful life which will benefit citizens and taxpayers far into the future.
4. The duration of debt does not exceed, and should generally be shorter than, the expected economic useful life of the assets being financed.
5. Use of debt is consistent with legal and other limits.

E. When Debt Cannot Be Issued

MUTD will not authorize use of long-term debt under the following situations:

1. Capital projects that have not been included in the CIP and approved through the annual budget process.
2. For ongoing operating expenses.
3. The life of the debt is longer than the life of the capital asset it funds.
4. There is not a demonstrably feasible plan of finance that would allow MUTD to maintain a going concern upon the issuance of such obligations.

III. DEBT ISSUANCE PRACTICES

A. Criteria for Determining the Method of Sale

With guidance from the municipal financial advisor, the method of sale for debt obligations will produce the best results, achieve a specific financing goal, and be in the best interest of MUTD. Sale options include, but are not limited to competitive, negotiated, private placement, and lease financing.

B. Rating Agency Relationships and Minimum Requirements

The finance manager shall be responsible for managing relationships and maintaining communication with the credit rating agencies that provide a rating or otherwise have agreed with MUTD to surveil the credit quality of MUTD or its obligations. This effort includes providing periodic updates on MUTD's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

The finance manager shall not knowingly or willfully commit any action with the intent or expected outcome of reducing MUTD's credit rating by one or more nationally recognized rating agencies without first consulting such actions and outcomes, to the extent known, with the board of directors.

C. Debt Structuring Practices

For any issued debt, the following guidelines apply:

1. Maximum term – No longer than the useful life of the asset being financed.
2. Average maturity – Contingent on the useful life of the asset being financed.
3. Debt repayment structure – All obligations shall be structured such that payments are not unreasonably deferred or delayed except when it is prudent, advantageous, or in the best interest of MUTD to do so.
4. Debt service coverage ratio – The fees or charges prescribed, if any, along with any appropriated property tax collections and/or state or federal aid, must produce revenue at least sufficient to: (a) pay when due all bonds and interest on the bonds for the payment of which the revenue has been pledged, charged, or otherwise encumbered, including reserves for the bonds; and (b) provide for all expenses of operation and maintenance of the undertaking, including reserves.

D. Use of Debt-Related Derivatives

1. MUTD shall not enter into contracts for derivative products without first establishing a derivatives policy. These contracts can include, but are not limited to – interest rate swaps, futures and options contracts, options on swaps, and other hedging mechanisms.

IV. MANAGEMENT OF DEBT AND POST ISSUANCE COMPLIANCE

A. Investment of Proceeds

MCA 7-14-23 determines the role of the county treasurer. The county treasurer shall be, ex officio, the treasurer for the transportation district and keep a detailed account of all other money from any source received by the district. A separate fund will be established to ensure all payments and disbursements from the fund are related to the project being financed.

B. Budgeting For and Making Debt Payments

MUTD will ensure the debt service payments are indicated in the pro forma that is approved by the board of directors in the annual budget process. Debt service payments will be made annually or biannually per each bond sale.

C. Continuing Disclosure Practices

Through guidance with bond counsel, the finance manager will be responsible for debt documents as well as those related to ensure compliance with any continuing disclosure undertaking. The details of such continuing disclosure undertaking shall be consistent with market practices and is determined at the time of issuance of bonds. Fulfilling this ongoing requirement may be supplemented by MUTD's municipal financial advisor or other finance consultants, but in no way shall such assistance subvert or replace the responsibility of the finance manager in ensuring compliance of these requirements are met.

D. Covenant Monitoring

General financial reporting and certification requirements embodied in bond covenants are to be monitored by the finance manager to ensure that all covenants are complied with.

E. Tax Law Compliance

MUTD will comply with federal and state compliance requirements as directed by bond counsel and closing documents.

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