

## **Section: Finance Policy #: FIN 102**

### **Debt Management Policy**

#### **Policy Overview**

A Debt Management Policy forms guidelines to ensure MUTD issues debt responsibly. This Debt Management Policy sets forth the responsibilities and authorities of the Board of Directors, the Chief Executive Officer/General Manager (CEO/GM), 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 financings shall be conducted and maintained in compliance with applicable federal law, Montana Code Annotated, county code and other regulatory requirements.

### **I. GENERAL PROVISIONS**

#### **A. Responsibility**

The Debt 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 **Debt 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 Debt Manager. The Debt 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 Debt 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 Debt Manager shall make recommendations to MUTD Board of Directors as necessary to accomplish financing objectives within the boundaries of the Debt Management Policy.

- E. Investor Communication.** The Debt 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; the Debt Manager shall be included in the CIP process for issues related to debt financing. The CIP shall span the following seven fiscal years 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 bonds 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.

- H. Periodic Review of Debt Management Policy**

At least annually, the Debt 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. The Debt Management Policy must be reviewed at least every three years.

## **II. LIMITATIONS ON INDEBTEDNESS**

- A. Allowable Debt Instruments**

Montana Code Annotated 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**

Montana Code Annotated 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.

**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 Montana Code Annotated 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 interest rates are low enough and MUTD's forecasts show that ongoing debt service is affordable.
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. Cost of issuing debt is too high or shown not to be feasible in the current fiscal year pro forma.

**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 Debt Manager shall be responsible for managing relationships and maintaining communication with the credit rating agencies. 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.

MUTD's minimum rating requirement for its direct, long-term, debt obligations is a rating not lower than "xxxx" by xxxxxx. If a debt obligation cannot meet this requirement based on its underlying credit strength, then credit enhancement shall be sought to ensure that the minimum rating is achieved.

### **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 – x years
3. Debt repayment structure – Equal annual debt service payments
4. Debt service coverage ratio - annual net pledged revenues to annual debt service – x.xx%

## **IV. MANAGEMENT OF DEBT AND POST ISSUANCE COMPLIANCE**

### **A. Investment of Bond Proceeds**

Per MCA xxx.xx requirements, MUTD funds are invested by Missoula County on behalf of MUTD.

### **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 bi-annually per each bond sale.

### **C. Continuing Disclosure Practices**

Through guidance with Bond Counsel, the Debt Manager will be responsible for debt documents as well as those related to ensure compliance with any continuing disclosure undertaking.

### **D. Covenant Monitoring**

General financial reporting and certification requirements embodied in bond covenants are to be monitored by the Debt 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 bond documents.