ROARING FORK TRANSPORTATION AUTHORITY

DEBT MANAGEMENT POLICY

I. Introduction

The purpose of the Debt Management Policy (Policy) of the Roaring Fork Transportation Authority (RFTA) is to establish guidelines for the issuance and management of RFTA's debt. This Debt Management Policy confirms the commitment of RFTA's Board of Directors (Board) to adhere to sound financial management practices, including prudent issuance of debt, full and timely repayment of all borrowings, and achieving the lowest possible cost of capital within prudent risk parameters. The debt policies and procedures of RFTA are subject to and limited by the applicable provisions of State and Federal law.

II. Debt Management Policy Objectives

The Primary objectives of the RFTA's debt and financing related activities are to:

- Assure the timely delivery of and finance capital for projects in accordance with the priorities identified within RFTA's Budget or Capital Improvement Program (CIP) annually approved by the Board
- Achieve the lowest cost of borrowing while identifying mitigation factors for any additional risk to RFTA
- Preserve future financial flexibility
- Maintain strong credit ratings and good investor relations

III. Scope and Authority

This Policy governs the issuance and management of all debt financings including ancillary transactions and investment of bond proceeds. While adherence to this Policy is required in applicable circumstances, RFTA recognizes that changes in the capital markets, revenue receipts, program changes, and other unforeseen circumstances may produce situations that are not covered by the Policy or require modifications or exceptions to achieve Policy goals. In these cases, management flexibility is appropriate provided specific authorization from the Board is obtained.

The Chief Financial and Administrative Officer ("CFAO") shall review the Policy periodically but at least once in any five-year period, and recommend amendments, if any, to the Chief Executive Officer ("CEO") to be considered by the Board for approval. The CFAO and CEO shall administer the Policy. The CFAO shall have the day-to-day responsibility and authority for recommending, structuring, implementing, and managing RFTA's debt and financing programs.

IV. General Financial Practices and Context for Debt Management Policy

This Policy must be viewed as an integral component of RFTA's overall financial practices and in the context of its capital-intensive expenditure plans. This Policy and its Overall approach to RFTA's finances must recognize that RFTA's future revenues that flow to RFTA must be available to repay RFTA's debt first and then to fund its entire operations. This Policy also recognizes that RFTA does not have control over external subsidies or certain revenues, which are dependent to some degree on the overall economy locally, the State, and the Nation. RFTA's financial practices, including the issuance of debt, must be designed to assure sufficient resources to fund all of its operating and

capital requirements in all circumstances and be able to accommodate potential declines in external subsidies or other revenues.

V. Debt Issuance Principles and Policies

A. **Board Authorization.** The Board shall specifically authorize any debt issuance. As it relates to lease purchase agreements or related equipment leases, the Board's adoption of the Annual Budget and amendments to the Budget can constitute authorization for the debt issuance, as allowed under applicable law.

B. **Appropriate Purposes for Debt Issuance.** Each debt issuance must accomplish a specific, appropriate purpose. Debt may be issued to accomplish the following objectives:

1. Accelerate the delivery of projects. Debt financing allows the delivery of projects on an accelerated basis. Accelerating projects may provide a programmatic or financial benefit to RFTA.

2. Spread cost over the useful life of an asset. Debt financing allows RFTA to spread the cost of a project over time rather than paying for it upfront in a single payment. In addition, financing effectively spreads the cost of a project among all users that benefit from it.

3. Smooth out annual cash flow. Debt financing spreads the cost of a project over a period of years, thereby evening out RFTA's cash flow.

4. Refundings. Debt financing allows RFTA to issue bonds or other securities to refinance outstanding obligations, if desirable. The reasons for refinancing include:

   a. Debt Service Savings. Refundings may be effectuated to achieve lower borrowing costs and/or achieve net present value savings.

   b. Programmatic Reasons, such as: restructuring outstanding debt, changing the type of debt instruments originally used, retiring a bond issue, removing covenants/pledges that have become restrictive, or retiring debt prior to maturity.

C. **Debt Affordability.** Debt affordability shall be determined by the requirements of RFTA's bond indentures (e.g. additional bonds test/debt service coverage) and RFTA's ability to meet all of its on-going operating, capital, and reserve requirements.

D. **Financial Goals.** RFTA shall issue debt so as to achieve the optimal balance of lowest borrowing cost, financing flexibility, and market acceptance.

VI. Approach to Financing

RFTA is able to issue debt either directly on its own or through a conduit agency where the debt would be issued on behalf of RFTA by another entity, but RFTA remains the obligor.

A. Types of Financing Transactions

RFTA has several options available to it by which to secure borrowings. Upon Board approval, and subject to all legal requirements, RFTA can utilize the method most advantageous to the particular borrowing being contemplated. Below are several options utilized by transit agencies and municipal agencies.

1. Revenue Bonds. Revenue bonds shall be the preferred method of debt financing. Voter authorization is required to issue such bonds, and they may be issued as either a senior or junior lien and may be issued on a fixed or variable rate basis. There is no present intention to issue synthetic fixed-rate bonds.

2. Debt Secured by Federal, State, or Local Grants. RFTA may issue debt secured by federal formula assistance, full funding grant agreements, or comparable federal, state or local approved grants or funding assistance and may participate in loans, credit enhancement, or credit support provided under the Transportation Infrastructure Finance and Innovation Act (TIFIA).

3. Other kinds of Debt and Financing Transactions. RFTA may issue debt secured by other revenues or by its general credit (such as Certificates of Participation ("COPs")), or engage in financial lease transactions, if appropriate for the funding need being addressed.

   a) Lease or Installment Purchase Financing Structures. Lease or installment purchase obligations, which are subject to annual Board appropriations, are a routine and appropriate means of financing capital equipment. These types of obligations should be considered where such financing will be more beneficial, either economically or from a policy perspective. A tax-exempt lease or installment purchase may be used to finance any property that RFTA has the statutory authorization to lease or purchase. As a general matter, only land and depreciable property may be leased or purchased. Generally, the leased or purchased property is a capital asset to be used by RFTA in its own operations.

Payments made by RFTA pursuant to a long-term lease or installment purchase agreement may be made from any lawfully available funds of RFTA. The useful life of the capital equipment, the terms and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program.

This Policy covers the following Lease Financing structures commonly used by transit agencies:

Certificates of Participation (COPs): If RFTA wishes to utilize a tax-exempt lease or installment purchase in connection with the sale of municipal securities, certificates of participation, representing undivided interests in the rental or installment payments, may be sold to the public.

Capital/Equipment Lease: RFTA may also use long-term lease obligations to directly finance or refinance specific capital equipment.

B. Use of Long-Term and Short-Term Debt

1. Long-Term Debt. RFTA may issue long-term debt, on a fixed or variable rate basis to finance the construction, acquisition, installation, or rehabilitation of long-lived capital assets.

   a) Fixed-Rate Debt. Fixed rate debt is a form of long-term financing in which the interest rate is set at the time of bond issuance and does not change unless subsequently refinanced. It is expected that most of RFTA's debt obligations will be fixed rate.

   b) Variable Rate Debt. Variable rate debt is a form of long-term financing in which the interest rates are reset periodically, typically on a weekly or daily basis. Forms of variable rate debt include variable rate demand bonds, index notes, and commercial paper. Typically, the interest rates for variable rate debt are lower than for fixed rate debt, although they will fluctuate throughout the term of a financing. Variable rate debt offers the benefits of diversifying the debt portfolio, reducing interest costs, providing interim funding for capital projects, and improving the match of assets to liabilities. The amount of unhedged variable rate debt will generally not exceed 30% of the principal amount of all outstanding debt.

c) It is not expected that RFTA's debt obligations will be variable rate, but will only be considered if it satisfies RFTA's financial goals Prior to the issuance of variable rate debt, RFTA will evaluate through financial analysis that sufficient liquid funds exist to address any associated risks, such as rising interest rates, the non-renewal of credit facilities securing such variable obligations, and market access risks. If variable rate debt is used, the CEO or other appropriate Authority staff shall periodically evaluate the appropriateness of converting the debt to fixed interest rates and at least annually report to the Board on the results of such evaluation.

2. Short-Term Debt. RFTA may finance operating and capital needs on an interim basis, with short-term debt, pending the receipt of expected funding sources using:

   a) Tax and Revenue Anticipation Notes. Tax and Revenue Anticipation Notes ("TRANs" or "RANs") are borrowings used to bridge temporary cash flow deficits within a fiscal year.

   b) Grant Anticipation Notes. Grant Anticipation Notes ("GANs") are issued to fund capital projects in advance of the receipt of grants, typically federal grants. Such notes may also include a back-up pledge of farebox, sales tax, or other revenues, as appropriate, to enhance the creditworthiness of the GANs and to provide a source of repayment if the timing of the grant receipts is delayed due to the appropriation process.

   c) Bond Anticipation Notes. Bond anticipation notes ("BANs") are issued to fund projects in advance of a revenue stream that has not yet been received. At maturity, BANs are repaid from that revenue stream or by refunding bonds secured by that revenue stream.

   d) Direct Line of Credit. A Line of Credit ("Line") may be used as an alternative to other short-term borrowing options. Lines are typically structured as short-term agreements with a financial institution providing the Line.

   e) Commercial Paper. Commercial Paper ("CP") is an interim financing product whereby RFTA issues CP on an as-needed basis with a final maturity up to 270 days. CP requires liquidity and security through a vehicle such as an LOC and is sold by a commercial paper dealer in the public markets.

C. Structural Features of Financing. The CEO and CFAO, with the advice of RFTA's financial advisor, shall determine the structural features to be included as part of each debt financing. The structural features shall be appropriate to the transaction and the markets at the time of the financing, and shall be consistent with this Policy.

1. Coupon Payment Structure. Coupon payment structures may consist of either current coupon bonds or capital appreciation bonds (or zero coupon bonds). Current coupon bonds pay interest periodically (generally, semi-annually), and pay principal at maturity. Capital appreciation bonds pay interest and principal at maturity and generally will increase the borrowing cost. Current coupon payment structures shall be used whenever possible. Capital appreciation bonds may be used to accomplish a structuring or programmatic objective that cannot be achieved with a current coupon payment structure.

2. Maturity of Debt. Generally, the final maturity of the debt shall not exceed the useful life of the assets being financed or the remaining term of the revenue stream pledged to repayment. The average life of the financing shall not exceed the average life of the

assets being financed.

3. Debt Service Structure. RFTA's debt service structure will be developed and maintained to achieve strong credit ratings while addressing its overall revenue constraints and financing capacity. The principal and interest on debt obligations shall be structured taking into account: a) the market conditions, b) indenture requirements, c) other outstanding debt, d) cash flow needs, and e) financing objectives. In most cases, debt service on RFTA's obligations shall be structured to achieve approximately equal annual debt service payments over the life of the issue. RFTA shall maintain the flexibility to consider deferred repayment structures if appropriate.

4. Lien Levels. RFTA may create senior and junior lien pledges for each revenue source that secure bond repayment to optimize RFTA's financing capacity and allow for the most beneficial use of the revenue source securing the bond.

5. Discount and Premium Bonds. Discount and Premium Bonds are those that are issued at a sale price below (Discount) or above (Premium) the principal amount or par value. RFTA shall evaluate the use of Discount and Premium bonds in the context of general market conditions at the time of sale and the manner in which it offers its bonds for sale.

6. Redemption Features. RFTA's securities shall contain appropriate redemption provisions relating to the ability to call or retire bonds prior to maturity. Redemption provisions shall reflect the kind of securities being issued, the market conditions at the time of issuance and the likelihood that it will receive future grants or revenues with which to retire debt early.

7. Debt Service Reserve Funds. RFTA may be required to issue bonds that are secured, in part, by amounts on deposit in or credited to a debt service reserve fund or account to maximize the bond rating, minimize the net cost of borrowing and/or to provide additional reserves for debt service or other purposes. Debt service reserve funds may secure one or more series of bonds, and may be funded by proceeds of bonds, other available moneys of RFTA, and/or by suitable surety policies, letters or lines of credit or other similar instruments, if available at a cost effective price.

8. Credit Enhancement

   a) Bond Insurance. Bond insurance provides improved credit quality for the bonds as a result of the insurance provider's guaranty of the payment of principal and interest on the bonds. Bond insurance may be used if, in the judgment of the CEO and CFAO with the advice of RFTA's financial advisor, it will clearly result in a lower borrowing cost to RFTA or improve the marketability of its bonds.

   b) Letters of Credit. A letter of credit (LOC) is an arrangement with a bank or other financial institution that provides additional security that moneys will be available to pay debt service on an issue. LOCs are typically issued by domestic and foreign banks or other financial institutions in connection with commercial paper and certain variable rate transactions. Such banks and financial institutions improve the credit quality of variable rate financings by guaranteeing the repayment of bond principal and interest, and/or providing needed liquidity to investors. LOCs may be used where they provide an economic advantage to the transaction over other variable rate structures.

9. Financial Derivative Products. RFTA does not contemplate the use of financial derivative products.

D. <u>Method of Bond Sale.</u> RFTA's debt may be sold on either a competitive or negotiated basis or as a direct placement with a bank or other financial institution.

1. <u>Competitive Sale.</u> In a competitive sale, RFTA's debt will be offered for sale on a set date and time, and investment banks and other financial institutions ("Underwriters") will have an equal opportunity to purchase the debt. The award of the debt will be made to the bidder that offers the lowest true interest cost. Conditions under which a competitive sale would be preferred are as follows:

   a) Bond prices are stable and/or demand is strong
   b) Market timing and interest rate sensitivity are not critical to the pricing
   c) The bond type and structure are conventional
   d) The transaction size is manageable
   e) Proposed security and repayment source have strong credit rating
   f) Investors are familiar with the credit

2. <u>Negotiated Sale.</u> In a negotiated sale, RFTA's debt will be offered to an Underwriter or syndicate of Underwriters that are pre-selected by RFTA to market its debt. Conditions under which a negotiated sale would be preferred are as follows:

   a) Bond prices are volatile or demand is weak or supply of competing bonds is high
   b) Market timing is important, such as for advance refundings
   c) The credit involves the need for greater pre-marketing by the Underwriter
   d) Coordination of multiple components of the financing is required
   e) Variable rate bonds or notes are issued
   f) Early structuring and market participation by Underwriters is desired
   g) The orderly placement of RFTA's bonds will benefit future transactions under that program

3. <u>Direct Placement with Banks or Other Financial Institutions.</u> In this structure, RFTA would place its bonds directly with a bank or other financial institution at a private sale. The bank or other financial institution would be selected through a competitive process. Direct placements typically involve lower transaction costs than competitive or negotiated sales. Conditions under which a direct placement would be preferred are as follows:

   a) The financing is relatively small and the higher transaction costs associated with a competitive or negotiated sale would result in a higher all-in borrowing cost
   b) The market for direct purchases is favorable

VII. Documentation of Transactions

The major aspects of each financing, including the decision processes, shall be fully documented.

VIII. Investment of Bond Proceeds

Proceeds raised in a debt financing shall be invested in a manner that is consistent with the applicable financing documents, and Federal and State law.

IX. Refinancing Outstanding Debt

RFTA shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or financial advisory firms. RFTA will consider the following issues when analyzing possible refunding opportunities:

A. **Debt Service Savings.** RFTA may effectuate refundings to achieve present value savings and/or reduced borrowing costs. The present value savings will be net of all costs related to the refunding.

B. **Restructuring.** RFTA may restructure outstanding debt to meet unanticipated revenue expectations, mitigate irregular debt service payments, release reserve funds or amend restrictive bond covenants.

C. **Term of Refunding Issues.** RFTA may refund bonds within the term of the originally issued debt. However, RFTA may consider maturity extension, when necessary to achieve a desired outcome, if such extension is legally permissible and potential credit impacts are adequately evaluated.

D. **Escrow Structuring.** RFTA may utilize State and Local Government Series Obligations (SLGS), Open Market Securities, or other investments authorized by the refunded bond's legal documents as its escrow securities depending on which is most advantageous to RFTA at the time of sale.

E. **Arbitrage.** RFTA shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

F. **Cash Defeasance.** RFTA may utilize appropriate funds available to cash defease all or a portion of its outstanding bonds if it is advantageous to do so.

X. Market Relationships

A. **Rating Agencies and Investors.** Rating Agencies - Moody's Investors Service, Standard & Poor's, and Fitch - evaluate the credit of public and corporate transactions. The CEO or his/her appropriate designees, shall: 1) meet with the assigned Rating Agency analysts prior to each competitive or negotiated sale of RFTA's bonds, and 2) periodically update the Rating Agencies as to developments at RFTA.

B. **RFTA Board of Directors Communication.** The CFAO and CEO shall inform the Board of feedback from the Rating Agencies and investors regarding RFTA's financial strengths and weaknesses.

C. **Continuing Disclosure.** RFTA shall remain in compliance with each continuing disclosure undertaking entered into by RFTA under Securities and Exchange Commission (S.E.C.) Rule 15c2-12 (the "Rule") by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within the period required by each continuing disclosure Undertaking entered into by RFTA under the Rule.

D. **Rebate Reporting.** The use of bond proceeds and their investments must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate annual rebates related to any bond issues, with rebate paid every five years. The CEO and CFAO shall ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculation, and timely rebates, if necessary.

XI. Financing Team Members

The implementation of RFTA's debt financings may involve the following financing team members where appropriate:

A. **Financial Advisor.** RFTA's financial advisor shall work with the CEO in developing the most

appropriate approach to a particular debt financing transaction, including the type of financing transaction, structural features, manner of sale, and other relevant matters. In a competitive sale, the financial advisor shall work with RFTA and RFTA's bond counsel to develop an appropriate set of documents, coordinating Authority rating presentations, managing the sale process, and overseeing the closing.

B. **Bond Counsel.** Bond counsel provides the legal opinion delivered with the bonds confirming, among other things, that the bonds are valid and binding obligations of the issuer. RFTA's bond counsel shall work with the CEO, CFAO, General Counsel, and RFTA's financial advisor in providing legal advice on proposed financing structures, drafting the relevant legal documentation, providing the necessary legal opinions, and preparing the closing documentation.

C. **Disclosure Counsel.** If utilized, a separate disclosure counsel coordinates the preparation of the Official Statement. Disclosure counsel shall be a firm with extensive experience in public finance and may also serve as Bond counsel.

D. **Trustee.** A nationally recognized trust company, with assets of at least $100,000,000 shall serve as trustee on RFTA's bond issues. If desired by the CEO, the trustee may also serve as RFTA's dissemination agent for purposes of complying with applicable continuing disclosure requirements.

E. **Underwriters.** If RFTA sells its debt securities at competitive sale, the underwriter shall be that firm or syndicate of firms that provides RFTA with the lowest true interest cost in accordance with the terms and conditions in the notice of sale.

F. **Disclosure by Financing Team Members.** RFTA expects that all financing team members shall at all times provide RFTA with objective advice and analysis, maintain the confidentiality of RFTA financial plans, and be free from any conflicts of interest. All financing team members shall be required to provide full and complete disclosure, under penalty of perjury, relative to any agreements with other financing team members and outside parties that could compromise any firm's ability to provide independent advice that is solely in the best interests of RFTA or that could be perceived as a conflict of interest. The extent of disclosure may vary depending on the nature of the transaction.

XII. Post-Issuance Tax Compliance Procedures

RFTA will establish and document procedures to ensure that RFTA is in compliance with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied with respect to tax-exempt bonds and other obligations after the bonds are issued so that interest on the bonds is, and will remain, tax-exempt. Additionally, as part of the post issuance compliance procedures RFTA will ensure that proceeds of the debt issuance are directed to the intended use. The Post-Issuance Compliance Procedures will be reviewed at least every three years.