CapMetro	**Debt Management Policy** ~~**FIN-220-17**~~ ~~**Finance**~~**Board of Directors**	~~**Issued**~~**Effective: June 25, 2012** **Revised: August 29, 2022** **Approved by:** **Board of Directors**

Debt Management Policy

1. Purpose and Scope

The purpose of this Debt Management Policy ("Policy") is twofold. First, this Policy will serve as a management tool to enable ~~the~~ Capital Metropolitan Transportation Authority ("Cap~~ital~~ Metro" or the "Authority") to (a) identify transactions that utilize debt in the most efficient manner; and (b) provide for full and timely repayment of all debt. Second, this Policy establishes guidelines consistent with the general policy on debt management for the appropriate amount and type of debt as a means of
~~(a)~~ (i) achieving the lowest possible cost of capital within prudent risk parameters; (~~b~~ii) ensuring access to the capital markets; and (~~c~~iii) providing an accountability process for debt management that is prudent and transparent.

This Policy applies to all debt issued or incurred by Cap~~ital~~ Metro. A current debt policy is an important tool to ensure the use of Cap~~ital~~ Metro's resources to meet its commitments under the Strategic Plan and to maintain sound financial management practices. In addition to periodic updating, Cap~~ital~~ Metro recognizes that changes in the capital markets and other unforeseen circumstances may warrant modifications to this Policy to maintain consistency with the current policies of the CapMetro Board of Directors (the "Board") and the financial needs of Cap~~ital~~ Metro.

Cap~~ital~~ Metro will comply fully with federal and state laws governing the issuance and use of debt.

2. Authority

Bond Financing: Chapter 451, subchapter H of the Texas Transportation Code authorizes the issuance of bonds by Cap~~ital~~ Metro when certain conditions are met. It also imposes certain limitations on the use of debt financing by Cap~~ital~~ Metro.

In general, Cap~~ital~~ Metro may issue bonds at any time and for any amounts it considers necessary or appropriate for the acquisition, construction, repair, equipping, improvement, or extension of its transit authority system with the following conditions:

1. The B~~b~~oard, by resolution, may authorize the issuance of bonds payable solely from revenue.

2. Bonds, any portion of which is payable from taxes, may not be issued until authorized by a majority of the votes received in an election ordered and held for that purpose.

3. Cap~~ital ~~Metro's bonds may be sold at a public or private sale as determined by the Board to be the more advantageous.

4. The Board, by resolution, may issue short-term bonds secured from revenue or taxes received if the debt has a term not exceeding 12 months, and the bond is payable with taxes or other revenue received on or after the date of issuance and before the end of the fiscal year following the fiscal year during which the bonds were issued.

5. Cap~~ital ~~Metro may not issue short-term debt (less than 12 months in duration~~)~~), or bonds secured by the revenue of the ~~a~~Authority to finance the purchase, acquisition, construction, operation, or maintenance of a fixed rail transit system without a voter referendum.

Pension Obligation Bonds: Section 451.139 of the Transportation Code gives Cap~~ital ~~Metro the authority to issue bonds in the amounts necessary for managing or funding retiree pension benefit obligations for pension plans existing as of January 1, 2011, and that result from the competitive bidding of transit services required by Section 451.137. The use of this bonding authority is strictly limited, and it is the Board's policy to use the authority only in a manner that is consistent with the original intent of the law and only at such a time as it can be justified in terms of the long-term financial sustainability of Cap~~ital ~~Metro.

Contractual Obligations: Chapter 271, subchapter A of the Local Government Code authorizes Cap~~ital ~~Metro to execute, perform, and make payments under a contract with any person for the use or the purchase or other acquisition of personal property, or the financing thereof. This provision specifically applies to the purchase or lease of personal property or for financing the acquisition of personal property, such as vehicles. Projects involving purchases of real property or improvements to real property cannot be financed using contractual obligations under state law.

The contract must (1) be on the terms considered appropriate by the Board, (2) be in the form of a lease, a lease with an option or options to purchase, an installment purchase, or any other form considered appropriate by the Board, including that of an instrument which would be required to be approved by the attorney general, provided that contracts in such form must be approved by the attorney general, (3) be for a term approved by the Board and contain an option or options to renew or extend the term and (4) be made payable from a pledge of all or any part of any revenues, funds, or taxes available to Cap~~ital ~~Metro for its public purposes.

Subject only to applicable constitutional restrictions, the Board may obligate taxes or revenues for the full term of a contract for the payment of the contract.

The contract may be for any term not to exceed 25 years.

Lease Financing: Lease obligations may also be considered as appropriate for financing capital. Lease financing should be considered when determined to be more beneficial, either economically or from a policy perspective. Factors to be considered and evaluated include: the useful life of the capital, the terms and conditions of the lease, market convention, and the impact on debt capacity and budget flexibility.

3. Purposes and Uses of Debt

It is the policy of the Cap~~ital~~ Metro to minimize the amount of debt it uses consistent with sound financial practices and to manage its debt obligations in a way that minimizes its net debt service payments consistent with credit objectives, all disclosure and regulatory requirements, and the highest standard of fiduciary management of public funds.

In general, Cap~~ital~~ Metro's goal is to use a pay-as-you-go funding mechanism for capital projects and other long-term financial needs of the Authority. Cap~~ital~~ Metro will rely on internally generated funds and/or grants and contributions from other governments in addition to debt to finance its capital needs. Cap~~ital~~ Metro will consider all other financing alternatives or funding

sources for capital projects, including non-debt financing, before using debt financing. Debt financing will be used only when, in the judgment of the President & CEO and Board ~~of Directors~~, it is necessary to meet the strategic objectives of Cap~~ital~~ Metro, is cost effective and prudent.

Cap~~ital~~ Metro will consider long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets (including land) with a useful life of at least five years. Debt ~~will~~ may be issued to finance capital projects and equipment~~, except in case of extreme financial emergency~~. No debt will be issued or incurred for periods exceeding the estimated useful life of the project or projects to be financed. Pursuant to Section 451.352, Transportation Code, Cap~~ital~~ Metro may issue bonds without voter approval for such financing if the bonds are secured by revenues only. Other debt issuance for the acquisition of real property requires voter approval. The Board ~~of Directors~~ will make the determination of the approach to be used in individual cases.

Pursuant to Section 451.362, Transportation Code, Cap~~ital~~ Metro is authorized to issue bonds with a term of 12 months or less. These bonds may be issued to fund working capital needs. To issue short-term debt on a tax-exempt basis, special rules apply. The short-term debt must be issued to cover an anticipated cash flow shortfall/deficit and Cap~~ital~~ Metro must provide evidence that it will experience a deficit.

Debt will be structured for a period consistent with (1) a fair allocation of costs to current and future beneficiaries or users, (2) projected repayment sources, (3) current and projected interest rate environment, and (4) the estimated life of assets being financed.

4. Decision Analysis

Whenever Cap~~ital~~ Metro is considering a possible use of debt financing, information will be developed to provide the President & CEO and the Board with a clear understanding of the implications of the debt and its impact on the financial sustainability of Cap~~ital~~ Metro. The following information will be provided by the Finance Department for review and recommendation by the President & CEO and consideration by the Board ~~of Directors~~:

1. Debt Analysis

a. Debt capacity analysis
b. Purpose for which the debt is issued
c. Debt structure
d. The appropriateness of the proposed debt strategy (e.g., use of bonded debt versus contractual obligation or lease financing)
e. Debt burden
f. Adequacy of debt and capital planning
g. Age and obsolescence of capital assets affected

2. Financial Analysis

a. Stability and current trends in tax and other revenue sources
b. Current budget trends
c. Impact on the Strategic Plan and Long-Range Financial Plan
d. Reserve balance status
e. Financial monitoring and reporting capabilities
f. Cash flow projections

3. Economic and Administrative Analysis—Should Cap~~ital ~~Metro contemplate a bond issue, other information may be required for use by the voters and by the bond rating agencies in assessing Cap~~ital ~~Metro's creditworthiness. This information might include, but not be limited to, the administrative structure of Cap~~ital ~~Metro, overall planning efforts, geographic data, population and demographic data, trends in the local economy and other general indicators of the service area.

Cap~~ital ~~Metro may use the services of qualified internal staff and outside advisors to assist in the analysis, ~~evaluation~~evaluation, and decision processes, including bond counsel and financial advisors. This ~~p~~Policy is intended to ~~insure~~ensure that potential debt complies with all laws and regulations, as well as sound financial principles and the Board and general public are fully informed of the implications of any assumption of debt by Cap~~ital~~ Metro.

5. Credit Standards

In all cases in which debt is used by Cap~~ital ~~Metro, the goal is to maintain the highest possible credit ratings for all categories of short- and long-term debt that can be achieved without compromising delivery of basic Cap~~ital ~~Metro services and achievement of Cap~~ital ~~Metro's adopted policy objectives and strategic goals.

Cap~~ital ~~Metro recognizes that external economic, natural, or other events may, from time to time, affect the ~~credit-worthiness~~creditworthiness of its debt. Nevertheless, the Board is committed to ensuring that actions within their control are prudent and consistent with the highest standards of public financial management, and supportive of the credit-worthiness objectives defined herein.

6. Tax Status

Cap~~ital~~ Metro may issue or incur debt on a taxable or tax-exempt basis, depending on the approach that makes the most sense for Cap~~ital~~ Metro in a given circumstance. Cap~~ital~~ Metro has a preference for issuing debt on a tax-exempt basis to take advantage of the interest cost savings compared to issuing taxable debt.

7. Financial Disclosure

Cap~~ital~~ Metro is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, other governmental ~~entities~~entities, and the general public to share clear, comprehensible, and accurate financial information.

Cap~~ital~~ Metro also is committed to providing ~~secondary~~ supplementary disclosure on a timely and comprehensive basis. Official statements accompanying debt issues, Annual Financial Reports, and continuing disclosure statements will meet (at a minimum) the standards articulated by the Municipal Securities Rulemaking Board (MSRB), the Government Accounting Standards Board (GASB), ~~the National Federation of Municipal Analysts,~~ the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP).

8. Capital Planning

To enhance creditworthiness and prudent financial management, Cap~~ital~~ Metro is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to systematic capital and financial planning will

be demonstrated through the annual preparation of a five-year capital program plan and a long- range financial plan.

9. Debt Limits

The primary goal of the Board ~~of Directors~~ is to minimize the use of debt and to use debt financing prudently when it is utilized. Cap~~ital~~ Metro will keep outstanding debt within the limits prescribed by State law and at levels consistent with its creditworthiness objectives. Cap~~ital~~ Metro will maintain debt service coverage ratios consistent with the best practices for local government debt issuance. At a minimum, the debt service coverage ratio for financial planning purposes will be set at an average coverage ratio of 2.0x ~~net~~ operating and non-operating revenue over annual debt service costs. The debt-to-net-revenue coverage ratio will be calculated annually and included in Cap~~ital~~ Metro's Comprehensive Annual Financial Report and presented to the Board annually.

In all cases, debt will be structured to achieve the lowest possible net cost to Cap~~ital~~ Metro given market conditions, the timing of the capital project, the nature and type of security provided, and the repayment of its overall debt to reflect the projected sources of debt service payments.

10. Credit Enhancements

Credit enhancement (letters of credit, bond insurance, etc.) may be used when net present value of debt service on the related bonds or other obligations is reduced by more than the costs of the enhancement or when it is required to gain access to the market (i.e., variable rate obligations).

11. Costs and Fees

All costs and fees related to issuance of bonds will be paid out of bond proceeds.

12. Refunding

Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net ~~economic benefit~~economic benefit of at least 3 percent present value savings, given the overall financial objectives of Cap~~ital~~ Metro, or the refunding is essential in order to modernize covenants essential to operations and management.

13. Approval of Debt

All final decisions regarding the issuance of long-term debt in whatever form will be approved by the President & ~~/~~ CEO and submitted to the Board ~~of Directors~~ for approval.

References

Reserve Policy

~~See Policy FIN-220-11~~

~~B~~Budget and Financial Planning Policy

~~See Policy FIN-220-13~~

Investment Policy

~~See Policy FIN-220-14~~

Capital Improvement ~~Program~~ Plan Policy

~~See Policy FIN-220-15~~