Consent Item (B) 04-27-2023

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

◉ Action ○ Information	MEAD Number: 203444	Resolution: ○ Yes ◉ No

TITLE:

WMATA Debt Management Policy

PRESENTATION SUMMARY:

Staff will seek approval of WMATA's Debt Management Policy which increases the capacity of Metro's line of credit to $500 million and caps interest rates at SOFR plus 7.0%.

PURPOSE:

Approve the WMATA Debt Management Policy which increases the capacity of Metro's Line of Credit to $500 million and caps interest rates at the Secured Overnight Financing Rate (SOFR) plus 7.0%.

DESCRIPTION:

Parties with an interest in the WMATA Debt Management Policy are as follows:

- Wells Fargo
- Bank of America
- Truist Bank
- RBC Capital Markets
- TD Bank
- Barclays Bank
- J P Morgan
- Jefferies LLC
- Kestrel Verifiers
- Climate Bond Initiative
- RBC Capital Markets
- Ramirez & Co., Inc.
- Siebert Williams Shank & Co., LLC
- UBS Financial Services Inc.
- Frasca & Associates, LLC
- Phoenix Capital Partners, LLC
- Hogan Lovells US LLP
- Public Financial Management, Inc.
- The Bank of New York Mellon
- Orrick Herrington & Sutcliffe LLP

Key Highlights:

- Debt Management Policy increases Line of Credit (LOC) capacity from $350 million to $500 million
- Debt Management Policy increases LOC interest rate from 5% to 7% over SOFR
- The estimated cost to increase the LOC capacity is approximately $220,000 per year

Background and History:

WMATA's Dedicated Capital Funding Agreement with the State of Maryland requires the Board to annually review and approve WMATA's Debt Management Policy (DMP) as of February 27, 2020. Thereafter, the DMP has been reviewed and approved as an attachment to each fiscal year budget.

Section 206 of the DMP establishes parameters for short-term debt, including the line of credit program. Currently, the maximum aggregate debt totals $350M and the interest margin is capped at SOFR plus 5% for the LOC program.

Discussion:

Prior to March 2017, WMATA maintained $250M in lines of credit which was increased to $350M by the Board via Resolution 2017-15 to provide six weeks of liquidity. Since that time, WMATA's combined budget has increased from $2.8 billion to $4.8 billion, a growth of approximately 53%. Due to the recent increase in the size of the capital plan combined with the rapid spend down of capital budget, it is necessary to increase the line of credit to $500 million to maintain six weeks of liquidity which is favored by rating agencies. The purpose of the lines of credit is to provide emergency liquidity to mitigate risks such as, but not limited to the following:

1. Delayed receipt of reimbursable federal funds of an additional $124 million through Infrastructure Investment and Jobs Act (IIJA)
2. Potential delays in payment of reimbursable costs through the federal Electronic Clearning Hourse Operation (ECHO) system and other payors
3. Cybersecurity risks beyond WMATA control
4. National or local health crisis

The Board via Resolution 2020-16 authorized a maximum interest rate of 5.0% on the lines of credit in response to dramatic changes in market conditions for commercial bank credit facilities during the pandemic. Recent increases to interest rates by the Federal Reserve is creating stress on the banking system which necessitates increasing the LOC maximum interest rate margin to 7.0% in anticipation of access to capital tightening.

FUNDING IMPACT:

Program:	Capital Improvement Program		
Project:	CIP varies with the need for stopgap funding		
Project Manager:	Robert Haas, Vice President and Treasurer		
Project Department/Office:	Treasurer's Office		
	Year One	Year Two & Beyond	Total
Budget:	Total project budget amount in year one from Board-approved budget.	Budget amount, from the Board-approved budget, for the period that provides funding for the contract.	Budget Year One + Budget Year Two & Beyond
This Action:	Amount required for year one.	Remaining amount required for contract.	This Action Year One + This Action Year Two & Beyond
Prior Approval:	Commitments & obligations against the budget as recorded in PeopleSoft	Commitments & obligations against the budget as recorded in PeopleSoft	Prior Approval Year One + Prior Approval Year Two & Beyond
Remaining Budget:	Budget – (subtotal + prior approval)	Budget – (subtotal + prior approval)	Remaining Budget Year One + Remaining Budget Year Two & Beyond

Remarks:	As applicable. Budget and funding beyond FYXX (year one) are subject to Board approval and availability of funds.
Operating Budget Impact:	Positions: Insert additional positions to be added to the budget. Annual Expense: Insert estimated additional non-personnel expense to be added to the budget.

TIMELINE:

Previous Actions	February 2020 - Resolution 2020-04 adopted Debt Management Policy April 2020 - Resolution 2020-16 increased LOC interest rates Annual Review of Debt Management Policy
Anticipated actions after presentation	Annual Review of Debt Management Policy

RECOMMENDATION:

Approve the WMATA Debt Management Policy which increases the capacity of Metro’s Line of Credit to $500 million and caps interest rate margins at SOFR plus 7.0%.

Presented and Adopted: April 27, 2023

SUBJECT: DEBT MANAGEMENT POLICY

2023-14

RESOLUTION
OF THE
BOARD OF DIRECTORS
OF THE
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

WHEREAS, WMATA's Dedicated Capital Funding Agreement with Maryland requires the Board to adopt a debt management policy and then review and adopt that policy annually; and

WHEREAS, Staff has prepared the attached revised debt management policy for Board consideration;

NOW, THEREFORE, be it

RESOLVED, That the Board adopts the Debt Management Policy, as shown in Attachment A; and be it finally

RESOLVED, That this Resolution shall be effective 30 days after adoption in accordance with Compact Section 8(b).

Reviewed as to form and legal sufficiency,

Patricia Y. Lee
Executive Vice President, Chief Legal Officer, and General Counsel

WMATA File Structure No.:
4.1.0 Bonds

Motioned by Mr. Smedberg, seconded by Dr. Loh
Ayes: 8- Mr. Smedberg, Ms. Babers, Mr. Drummer, Ms. Kline, Mr. Letourneau, Dr. Loh, Mr. McAndrew and Ms. Martin-Proctor

Attachment A

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Debt Management Policy Guidelines
April 2023

I. Introduction

Section 101. Purpose

These Debt Management Policy Guidelines (the “Policy Guidelines”) document the Washington Metropolitan Area Transit Authority’s (“WMATA” or the “Authority”) goals for the use of debt instruments and provides guidelines for the use of debt for financing the Authority’s infrastructure and capital projects and other operational purposes. The Authority’s overall guiding principles in issuing debt is to (a) identify transactionsthat utilize debt in the most efficient manner, (b) make timely debt service payments, and (c) achievethe lowest possible cost of capital and maintain high credit ratings and access to the capital markets.

Section 102. Authority, Scope and Review

WMATA is an interstate compact agency, and an agency and instrumentality of the District of Columbia, State of Maryland, and Commonwealth of Virginia. WMATA’s continuing power to issue revenue bonds is set forth in Article IX of the Compact. Notwithstanding any provision of these Guidelines to the contrary, all debt obligations of WMATA will comply with the requirements of the Compact as well as all other applicable laws, regulations and Board Resolutions.

These Policy Guidelines will be reviewed annually by the WMATA Board of Directors (the “Board”) and any changes to the Policy Guidelines must be presented to and approved by the Board.

Section 103. Administration of Policy Guidelines

Both the Executive Vice President and Chief Financial Officer and the Vice President and Treasurer will be responsible for managing, implementing and reviewing the Policy Guidelines and recommending appropriate debt offerings including, if necessary, debt comparison analysis to the General Manager and Chief Executive Officer from time to time.

Section 104. General Best Interest of Authority

The General Manager and Chief Executive Officer will bring to the Board for approval prior to closing, any deviations from the Policy Guidelines that may be appropriate to address 1) changing financial goals, 2) emerging financial products/debt structures and 3) unique market opportunities.

II. General Debt Issuance Policies

Section 201. Use of Debt

WMATA will issue bonds for any lawful purpose. Bond proceeds will not be used for ongoing operating needs except as provided for in this section.

WMATA may use a mix of pay-as-you-go and debt to finance capital projects and other short and long-term financial needs of the Authority. The financing purpose will guide the type of debt WMATA uses, which may include:

Long-Term Debt: Long-term bonds/notes (instruments with a maturity of more than two years are preferred for financing essential capital activities including the acquisition, construction and rehabilitation of major capital assets. Long-Term Debt may not be issued with a maturity exceeding thirty (30) years. Debt will be issued for a duration matched to the overall economic life of the CIP projects financed.

Short-Term Debt: WMATA may use short-term bonds/notes (instruments with a maturity of two years or less) as a cash management tool to provide interim financing to bridgetemporary cash flow deficits within a fiscal year, and/or to reduce interest rate costs. Short-term debtobligations may include commercial paper, grant anticipation notes, working cash notes, variable ratebonds, bond anticipation notes, lines of credit as well as any other appropriate instruments.

Variable Rate Debt: In addition to fixed rate debt, WMATA may issue bonds/notes with a variable interest rate to 1) diversify its debt portfolio, 2) reduce interest costs, 3) improve its match of assets to liabilities, 4) provide budgetary relief or 5) allow grant funding flexibility to accommodate changes in debt service levels. The aggregate amount of WMATA's outstanding unhedged long-term variable rate debt, however, is not authorized to exceed 20% of its outstanding long-term debt.

Direct Borrowing: Where direct borrowing/lending (such as TIFIA loans) would prove more economically beneficial, WMATA will consider direct loan obligations. However, WMATA will only proceed with a direct loan transaction if the transaction creates tangible benefits to WMATA.

Bond Premium: Bonds can be sold at par or as premium bonds or discount bonds. If bonds are sold with a premium, the premium shall be deposited to a Cost of Issuance Account to pay bond issuance costs, and, if applicable, any residual premium will be transferred to a Capitalized Interest Account to pay any capitalized debt service on the bonds; and, any further residual premium will be deposited into the Project Fund specific to that bond issue.

When issuing Gross Revenue Bonds, WMATA will attempt to "right-size" the issue so as to minimize any excess premium derived after covering 1) bond issuance costs; 2) and capitalized debt service, if any. Any remaining premium will be deposited to the project fund to satisfy the CIP Project Fund requirement.

<u>Section 202. Financing Purposes</u>

The Authority may issue debt for either new money or refunding purposes.

New Money Bonds: New money bonds may be issued to provide additional funding for essential capital activities or other activities suitable for bond financing, as detailed under Use of Debt.

Refunding Bonds: WMATA may issue refunding bonds to achieve debt service savings on its outstanding bonds by redeeming high interest rate debt with lower interest rate debt. WMATA may structure the savings from these bonds on a uniform, proportionate or accelerated basis depending on the Authority's financing goals. When refunding outstanding bonds, the Authority will generally seek a per bond net present value savings guideline of 3% based on market conditions. Refundings with lower savings rates may be appropriate to maximize overall financial objectives. Notwithstanding the above, the 3% savings guideline will not apply for bonds with a call date between one and three years from their stated maturity.

In certain instances, it may be advantageous for WMATA to issue refunding bonds that do not produce positive economic savings but serve to restructure debt or retire a bond issue in order to remove undesirable bond covenants. Prior to issuing such refunding bonds, WMATA will evaluate the benefits (both intangible and tangible) as well as the economic costs and compliance with existing bond covenants for approval by the Board.

Section 203. Issuance Processes

There are three basic processes for the issuance of long-term bonds:

- **Jurisdictional Capital Contribution Debt**. This form of debt may be issued using the process contained in the applicable Capital Funding Agreement which may provide for an opt-in option for the funding jurisdictions and formal agreement by the opting-in jurisdictions to fund that debt service. The security for these bonds will be WMATA's Gross Revenues as defined in the applicable bond resolution.

  Dedicated Funding Debt. This form of debt may be issued with the approval of the Board without any jurisdictional input. The security for these bonds shall be the Dedicated Funding contributions received from the District of Columbia, the State of Maryland, and the Commonwealth of Virginia pursuant to the following legislative enactments: (a) from the District of Columbia under D.C. Official Code § 1-325.401 or any successor statute, as the same may be amended from time to time in the future;(b) from the State of Maryland under Md. Transportation Code Ann. § 10-205(g) or any successor statute, as the same may be amended from time to time; and (c) from the Commonwealth of Virginiaunder the Va. Code §33.2-3401.B or any successor statute, as the same may be amended from timeto time. Dedicated Funding shall also include funds paid by any of the District of Columbia, the State ofMaryland, the Commonwealth of Virginia or any other Participating Jurisdiction in-lieu-of such amounts.

- **Debt Secured by Other Revenue Sources**. WMATA may issue debt secured by other sources of revenue not described above. The approval of the Board is the only approval necessary unless the source of revenue is from one or more of the local funding jurisdictions; in which case, those jurisdictions will have the same rights as under Jurisdictional Capital Contribution Debt.

Section 204. Combination of Security for Bonds

WMATA may issue bonds with one or more types of security provided that the issuance requirements and process for each type of security is met.

Section 205. Borrowing Capacity

In addition to complying with the financial covenants for outstanding Gross Revenue Transit Bonds authorized under the 2003 Gross Revenue Bond Resolution (2003-53) and subsequent supplemental resolutions and other applicable bond resolutions, the Authority will manage its debt to ensure sufficient revenues are available to meet its obligations under its various liens. WMATA will monitor debt capacity and analyze impact of additional debt on the Authority's short- and long-term debt capacity. Any debt cap will be based on the overall needs of the Authority and the Debt Service Coverage requirements contained in anyapplicable bond resolution.

Senior and Junior Liens for each revenue source will be utilized in a manner that maximizes critical constraints, including cost and capacity, thus allowing for the most beneficial use of the revenue for the most efficient security structure. Prior to each lien, the Authority's Board will approve a maximum annual debt service ((MADS) ratio of pledged revenue divided by annual debt service) or other debt service coverage requirement necessary to satisfy the constraints.

Section 206. Use of Short-Term Debt

Short-Term Debt may be issued by WMATA. Lines of Credit not used for credit enhancement may be used for interim funding of the approved capital program or to ameliorate the impact of any shortfall in the Operating budget. When used in the capital program, the costs of such usage shall be charged to the applicable capital program or project. When a Line of Credit is used to ameliorate the impact of any shortfall in the Operating budget, the costs of such usage, including interest, shall be paid solely out of the Operating budget and charged to the jurisdiction or jurisdictions causing the need to use the Line of Credit or charged pursuant to the applicable subsidy formula when the use of the Line of Credit is from a non-jurisdictional requirement but never from any capital funds.

All forms of Short-Term Debt must be approved by the Board of Directors before closing; except that Lines of Credit meeting the following parameters may be issued without further Board action:

- Aggregate amount not to exceed $500 million;

- The interest rate shall not exceed the then-current 30-day Secured Overnight Financing Rate ("SOFR") (or any generally accepted substitute for SOFR) plus margin of up to 7.00% per annum (calculated on the basis of an actual 360-day year);

- Have a term which is less than one year;

- Fees and transaction costs paid by WMATA on a Line of Credit may include the fee types and transaction costs contained in the existing Line of Credit program in effect upon passage of this policy and additional fee types and transaction costs (and each in amounts) which are reasonable and customary for the industry at the time of entering into a new or renewed Line of Credit; and

- If financial institution indemnification is required as a condition of the Line of Credit, such indemnification shall have already been granted by the Board of Directors.

Section 207. Credit Ratings

WMATA's credit ratings goal is to achieve the best economic benefit from the Authority's debt issuances by attaining appropriate balance between minimizing borrowing cost and maximizing financial flexibility and result.

For existing bond programs, WMATA will attempt to maintain or improve current credit ratings without adversely affecting levels of debt that may be issued for any particular program. For new bond issuances, WMATA will generally seek investment grade ratings from at least two Nationally Recognized Statistical Rating Organizations. However, WMATA acknowledges that as market conditions and financing needs evolve, so should the Authority's credit ratings strategy. WMATA may accept a lower rating (and thus incur a modest financing cost differential) in order to gain flexibility needed to effect significant policy initiatives. The Authority will periodically review its credit rating strategy to see if market or capital plan developments warrant a revision in WMATA's approach to its ratings.

WMATA will strive to communicate regularly with rating agencies. As requested, the Authority will provide information to rating agencies, arrange regular conference calls to update rating analysts on significant financial developments and communicate with rating agencies prior to each WMATA public bond offering.

Section 208. Subordinate Liens

WMATA may determine that for some of its revenue sources it may be advantageous to issue subordinate lien debt. However, WMATA will only proceed with subordinate lien debt if the transaction creates tangible benefits to WMATA and is approved by the Board.

Section 209. Tax Status

WMATA has a preference for issuing debt on a tax-exempt basis to take advantage of interest costs savings compared to issuing taxable debt. However, WMATA may issue debt on a taxable or tax-exempt basis.

Section 210. Credit Enhancement

WMATA may secure credit enhancement for all or a portion of each bond issue. Credit enhancement may include municipal bond insurance or a letter/line of credit (which shall not be covered by Section 206 of this Debt Policy). The Executive Vice President and Chief Financial Officer or designees shall recommend use of credit enhancement considering such factors as economic benefit of the enhancement, and future secondary market trading conditions. WMATA will not secure credit enhancement unless the premium cost is less than the present value of the projected interest savings or if such credit enhancement improves capital market access and/or facilitates liquidity in the secondary market for the securities. For municipal bond insurance, or other forms of credit enhancement which are paid for with an upfront premium, WMATA will analyze the economic benefit both to the maturity of the bonds and to the first optional redemption date.

WMATA may also fund a debt service reserve fund to enhance the marketability of its bonds.

For bond issues that require a debt service reserve fund, WMATA may purchase a surety bond policy or letter of credit to satisfy the reserve fund requirement in lieu of funding.

III. Sustainability and Environmental, Social and Governance (ESG) Debt

As a mass transit system, WMATA promotes low carbon emissions and an environmentally friendly “green” platform encompassing its operations and infrastructure. The Authority’s debt collateralattracts investors who want to contribute to its sustainable business model and may have mandates to invest in a socially responsible manner.

WMATA is under no obligation to certify “green” for any debt issuance or as a compliance requirement and can solely rely on its energy efficient asset base of environmentally friendly collateral as qualifying its debt as “green” and socially responsible.

As investors continue to pursue “impact” investments and WMATA fulfills that socially responsible objective with programs such as Metro Access, fares for low-income and disabled customers, subsidized student fare programs, and outreach programs to the low income and non-banked community, WMATA’s investor relations when appropriate will emphasize its positive impact in the community to broaden the Authority’s investor base and highlight the Authority’sfederal mandate to serve lower income customers.

Debt issuances, when logical, are permitted to be marketed and labeled as “green”, “sustainable”, or “ESG” investment opportunities to potential investors. WMATA will leverage this marketing advantage to lower its cost of funds and/or to diversify investors when possible as the ESG market continues to grow worldwide.

IV. Method of Sale and Use of Professionals

Section 401. Method of Bond Sale

The General Manager & Chief Executive Officer or his designee may choose between the following three different bond sale methods: negotiated, competitive and private placement. A competitive sale is the preferred method of sale unless market conditions at the time of sale indicate a negotiated or private placement sale will result in lower overall cost to WMATA. In such cases, Board approval is required to proceed with a negotiated sale or private placement.

Factors which may be considered when determining the most efficient bond sale method include:

• Bond market conditions	• Bond structure	• Market timing
• Credit demand	• Credit acceptance	• Credit ratings
• Use of proceeds	• Bond size	• Financing complexity
• Desire to negotiate bond covenants	• Credit enhancement participation	• Credit Complexity

Section 402. Selection of Bond Financing Professionals

Bond Financial Advisory Professionals including firms that provide financial advisory and underwriting services to WMATA in connection with the issuance of debt shall be selected on a competitive basis to create pools of qualified vendors. The Executive Vice President and Chief Financial Officer or her designee have been delegated the authority to select Bond Financial Advisory professionals. The Authority will strive for diversity and provide opportunity for DBE firms, veteran owned, and other minority and women-owned firms as part of each underwriting team.

WMATA will select and retain at all times one or more independent registered municipal advisors (IRMAs) to review financing ideas provided to the Authority by Bond Underwriting Professionals. Further, concurrently with the planning for a debt issue, WMATA shall obtain the services of Bond Financial Advisory Professionals and, as needed, Bond Underwriting Professionals.

In addition to the above, WMATA may periodically solicit separately for specialized services, including short-term lending products, based on the financial needs of the Authority and market factors at the time of the solicitation. As the market for financial institutions offering short-term lending products to governments evolve, WMATA may solicit bids for short-term borrowing programs from firms meeting the Compact requirements and whom the Authority deems viable at the time of the financing. WMATA requires its Bond Financial Advisory Professionals to provide services in accordance with allcurrently applicable Municipal Securities Rulemaking Board (MSRB) rules and any subsequent MSRBrulings or requirements.

V. Derivatives

Section 501. General Policy

Interest rate swaps and options (Swaps or Derivatives) are appropriate management tools that can assist WMATA to meet important financial objectives. Properly used, these instruments can help

WMATA increase its financial flexibility, provide opportunities for interest rate savings, enhanced investment yields, or reduce interest rate risk through more effective matching of assets and liabilities. Derivatives for commodities used by WMATA also provide opportunities for financial benefit. The Executive Vice President and Chief Financial Officer or her designee must determine if the use of any Swap or hedging instrument is appropriate and warranted given the potential benefit, risks, and objectives of the Authority.

- WMATA may consider the use of a derivatives if it achieves one or more of the following objectives:
    - Provides specific risk mitigation not otherwise available;
    - Produces greater than expected interest rate savings or incremental yield over other market alternatives;
    - Results in improved capital structure or better asset/liability match.
- WMATA will not use derivative products that are speculative or create extraordinary leverage or risk; lack adequate liquidity; provide insufficient price transparency; or as investments.

WMATA will only do business with A+ or higher rated counterparties or counterparties whose obligations are supported by A+ or higher rated parties.

<u>Section 502. Interest Rate Derivative Policy</u>

Financial transactions using Swaps or other derivative products used in lieu of a fixed rate debt issue should generate greater projected savings than the typical structure used by WMATA for fixed rate debt.

- WMATA will limit the total notional value of interest rate derivatives to an amount not to exceed twenty percent of total outstanding fixed rate debt and 100% of variable rate debt.

<u>Section 503. Commodity Derivative Policy</u>

WMATA is authorized to hedge or execute contracts for diesel fuel, electricity, CNG, carbon credits, and other commodities (excluding financial derivatives discussed above) that have a direct business relationship to WMATA’s operations but not to exceed 95% of the expected use of the commodity to provide budget stability.

VI. Disclosure

WMATA will periodically review the requirements of the MSRB and the recommendations of the Government Finance Officers Association (“GFOA”) including the GFOA recommendation that financial statements be prepared and presented according to generally accepted accounting principles.

The Authority will also comply with Rule 15c2-12 by filing its annual financial statements and other financial and operating data on the Electronic Municipal Market Access (EMMA) repository for the benefit of its bondholders within the timeframe required under each financing. WMATA will make its financial statements, annual budget and official statements available on its investor relations website. The Vice President and Treasurer will comply with all SEC requirements for disclosure by providing annual financial information and notices of material events as outlined in the Continuing Disclosure Agreement executed for each series of bonds.

VII. Post Issuance Considerations

Section 701. General Compliance Requirements

WMATA will comply with all debt covenants and comply with all post issuance tax requirements as detailed in the individual tax compliance certificate executed in connection with each bond or note sale. Specifically, WMATA will comply with Federal tax law to establish and maintain the exclusion from gross income tax on the Authority's bonds. WMATA will particularly focus on arbitrage requirements and will evaluate and ensure compliance with all applicable tax law during the debt issuance process, and on an ongoing basis thereafter, monitoring the Authority's debt portfolio in light of regulatory changes an case law, including arbitrage rules, including the Authority's arbitrage rebate position and any attendant rebate liability, as defined in § 148 of the Tax Code.

Section 702. Investment of Bond Proceeds

WMATA will invest the sale proceeds of its bonds in accordance with the provisions of the WMATA Compact and the Internal Revenue Code. WMATA will invest bond proceeds in a manner that allows proceeds to be available when needed.

Section 703. Trustee Relationships and Monitoring of Trustee Activities

The Vice President and Treasurer is responsible for monitoring trustee activities made on behalf of WMATA on a quarterly basis.