



NORTH CAROLINA TURNPIKE AUTHORITY
Debt

NCDOT POLICY
A.10.0101

Business Category: NC Turnpike Authority		Business Area: NC Turnpike Authority
Approval Date:	Last Revision Date: N/A	Next Review Date:
Authority: <u>N.C. Gen Stat. § 136-89.183</u> <u>N.C. Gen Stat. § 136-89.189</u> <u>N.C. Gen Stat. § 136-89.190</u>		Select all that apply: <input type="checkbox"/> N/A <input type="checkbox"/> Requires Board approval <hr/> <input type="checkbox"/> Requires Federal Highways Administration (FHWA) approval <input type="checkbox"/> Requires other external agency approval: Click here to enter external agency name(s).
Definitions:		
Policy: I. Introduction A. Purpose The purpose of this North Carolina Turnpike Authority (NCTA) Debt Policy is to establish guidelines and a framework for the issuance and management of NCTA's debt. NCTA is committed to consistent, best practices financial management, including maintaining the financial strength and flexibility of NCTA and the full and timely repayment of all financial obligations. Debt transactions that violate any terms of existing documents including Trust Agreements, TIFIA Loan Agreements, bond insurance policies, and state and federal laws will not be considered. NCTA will be open to recommendations or ideas for any proposed transaction as well as variations from the following guidelines provided that such variation must be fully examined in conjunction with NCTA's advisors and justified to the NCTA Board of Directors. This policy does not address or govern NCTA's engagement in Public-Private-Partnerships. B. Review This Policy will be reviewed by NCTA no less than once every (2) two years and any changes to this Policy will be presented to and approved by the NCTA Board of Directors. This Policy will also be made available on the NCTA's website (https://www.ncdot.gov/divisions/turnpike/investor/Pages/default.aspx). C. Best Interest of NCTA Although adherence to this policy is desirable, deviations from the policy may be appropriate at times to address: (i) changing financial goals; (ii) emerging financial products/debt structures; and/or (iii) unique market opportunities. Consequently, the general best interests of NCTA will supersede any provision of the policy.		

D. Authority

N.C. Gen Stat. § 136-89.183

N.C. Gen Stat. § 136-89.189

N.C. Gen Stat. § 136-89.190

II. Financial Planning and Debt Issuance Policy

- A. NCTA will retain the services of a traffic engineer and a general engineering consultant to obtain independent professional advice on the acquisition, construction, operation, and management of the Turnpike Projects. In addition to other duties, the consultants will prepare cost and revenue estimates for all bonded projects and for any projects in which the NCTA funds are used in partnership with funds from other entities.
- B. NCTA will retain the services of a registered Municipal Advisor to serve in capacity as Financial Advisor to perform the tasks set forth in this policy.
- C. In consultation with the Financial Advisor, NCTA will develop, maintain, and update, as appropriate, comprehensive Financial Planning Models as tools in developing a financing plan for existing and proposed toll systems. NCTA will annually review its capital plans and adjust them as necessary in order to comply with the annual debt coverage commitments.
- D. Financial Planning Models will incorporate longer-term capital improvements and the following elements, in addition to other factors:
 - 1. System revenue projections from NCTA's traffic consultant or alternative revenue projection scenarios
 - 2. Existing debt service requirements
 - 3. Projected Operations and Maintenance expenses and Renewal and Replacement Expenses along with required deposits to all reserves
 - 4. Estimated additional debt service requirements
 - 5. Estimated investment income
- E. Long-term debt will be used to finance capital projects and certain equipment where it is cost effective, prudent or otherwise determined to be in the best interest of NCTA. Long-term debt, which includes capital lease financings, will not be used to fund NCTA's operations. The maturity of long-term debt issued by NCTA to finance an asset or project should not exceed the useful life of the asset or project financed.
- F. Medium-term or "put" bonds will be used judiciously and only after careful analysis and discussion of the interest rate and rollover risks involved.
- G. Variable rate debt may be issued in various forms - e.g., bonds, commercial paper, bank lines. The amount of unhedged variable rate debt generally should not exceed 10% of outstanding debt for any NCTA System. As a goal, NCTA desires its total hedged and unhedged variable rate debt not to exceed 20% of outstanding long-term debt for any NCTA System.

III. Debt Service Coverage Targets and Limits

The amount of bonds to be issued is limited by the respective Trust Agreements, including TIFIA Loan Agreements, as applicable, that govern the debt issuance and covenants contained therein, including, but not limited to, the rate covenant and additional bonds test. Target debt service coverage levels, leverage ratios and

liquidity metrics will be set based on the most recent rating agency guidance to ensure investment grade ratings are attained on all senior lien and TIFIA lien rated debt.

IV. Method of Sale Evaluation

With the goal of obtaining the lowest cost of capital and completing a successful transaction, for each transaction recommended, the Director of Finance, with advice from the Financial Advisor, will undertake an analysis to determine the recommended method of sale, including competitive, negotiated, or direct placement.

- A. The evaluation will take into consideration, among other factors the following considerations as outlined in the Government Finance Officers' Association (GFOA) best practice recommendations:
 1. Expected credit rating of bonds being issued
 2. Strength of revenue stream
 3. Structure of bonds and potential need for extensive explanation to the bond market
 4. Disclosure requirements for various methods of sale
 5. Use of insurance or other credit enhancement
 6. Other factors that staff, in consultation with the Financial Advisor, believes favor the use of one method over the other
- B. The evaluation will be shared with the Finance Committee and a recommendation as to the method of sale will be presented.
- C. Should NCTA select the use of a negotiated sale, the following guidelines will be followed to increase the likelihood of a successful transaction and fully documented negotiated sale process:
 1. Underwriters will be selected through a formal Request for Proposal (RFP) process in accordance with NCTA's Procurement Policies either on a deal-by-deal basis or as part of a pool of underwriters for a specified term. Exceptions may be made when in the best interest of NCTA such as when time is of the essence.
 2. NCTA's Financial Advisor will advise NCTA on all aspects of the sale, including but not limited to structuring, disclosure preparation and bond pricing.
 3. Staff and the Financial Advisor will make a recommendation for lead underwriting firm and all participating co-senior and co-manager firms based on:
 - i. results of most recent RFP selection,
 - ii. firm's contribution to development of strategies for transaction,
 - iii. demonstrated ability of firm to successfully underwrite similar transactions, and
 - iv. previous work assigned to firm under current RFP selection
 4. Staff and the Financial Advisor will review all orders for bonds during pricing to understand investor interest and best negotiate a final coupon and yield scale for the bonds.
 5. The Financial Advisor will prepare a post-sale summary and analysis that documents the pricing of the bonds relative to other similar transactions priced at or near the time of NCTA's bond sale and record the true interest cost of the sale and the date of the verbal award. The analysis will be shared with the Finance Committee.
- D. Should a direct placement be recommended, staff and the Financial Advisor will undertake a competitive process for selecting the direct placement counterparty to ensure NCTA's objectives are met at the lowest cost of capital. Such process ideally would include a formal RFP or solicitation of pricing indications, as appropriate.

V. Debt Structure

- A. Debt structures will be determined in consultation with the NCDOT Chief Financial Officer.
- B. NCTA will engage the Local Government Commission (LGC) at the appropriate time for guidance on proposed debt issuances and will maintain contact with LGC staff throughout the debt issuance process. NCTA will follow LGC guidelines for requesting approval including organizing transaction updates to LGC staff, providing transaction overviews and materials to the Commission, and requesting approval in a timely manner.
- C. NCTA may utilize various debt structures to accomplish its financing goals, including but not limited to, the use of premium bonds, discount bonds, capital appreciation bonds, convertible capital appreciation bonds, bond anticipation notes, commercial paper, variable rate and multimodal bonds and capitalized interest, when appropriate in order to achieve the goals provided in this Debt Management Policy.
- D. NCTA will consider interest rate swap transactions only as they relate to its debt management program and not as an investment instrument. No swap transaction should impair the outstanding uninsured bond rating of NCTA's rated obligations.
 1. Swap Agreements may be used for one or more of the following purposes only:
 - i. To achieve significant savings as compared to a product available in the bond market. Significant savings shall be calculated after adjusting for (a) applicable fees, including takedown, remarketing and credit enhancement fees, and (b) call options that may be available on the bonds. Examples may include synthetic fixed rate debt and synthetic variable rate debt. Alternatively, significant savings are deemed to occur if the use of derivatives helps to achieve diversification of a particular bond offering.
 - ii. To prudently hedge risk in the context of a particular financing or the overall asset/liability management of NCTA. Examples may include buying interest rate caps and entering into delayed-start Swaps.
 - iii. To incur variable rate exposure within prudent guidelines, such as buying interest rate caps or entering into a Swap in which NCTA's payment obligation is based on a floating rate.
 - iv. To achieve more flexibility in meeting overall financial objectives than available in conventional markets. An example may include a Swaption (an option to enter into a Swap) with an upfront annuity payment.
 2. Swap Adviser Required: NCTA shall engage a Swap adviser (a "Qualified Independent Representative" as defined under the Dodd-Frank Act) to assist in determining whether and under what terms to enter into a Swap.
 3. Legal Opinion Required: NCTA must receive an opinion acceptable to the market from a nationally recognized bond law firm that the Swap is a legal, valid and binding obligation of NCTA and entering into the transaction complies with applicable law in effect on the date hereof and as they may be amended in the future.
 4. No Speculation Allowed: Swaps shall not be used for speculative purposes. Associated risks will be prudent risks that are appropriate for NCTA to take based on the advice, knowledge and experience of NCTA staff and NCTA's Swap adviser.
 5. Methods by which Swaps may be Solicited: In general, NCTA should procure Swaps by competitive bidding. The process used (e.g. Request for Proposal) can limit the number of

firms solicited to no fewer than three. NCTA shall determine which parties it will allow to participate in a competitive transaction. In situations in which NCTA would like to reward a particular firm or wishes to achieve diversification of counterparty exposure, NCTA may allow a firm or firms not submitting the bid that produces the lowest cost to match the lowest bid and be awarded up to a specified percentage of the notional amount of the Swap Agreement. In addition, to encourage competition, NCTA may allow bidders to match the winning bid up to a specified amount of the notional amount as long as the bid is no greater than a specified spread from the winning bidder. The parameters for the bid must be disclosed in writing to all potential bidders.

Notwithstanding the above, NCTA may procure a Swap by negotiated method in either of the following situations:

- i. NCTA makes a determination that, due to the size or complexity of a particular Swap, a negotiated transaction would result in the most favorable pricing and terms. NCTA shall use a Swap adviser to assist in the price negotiations, in the development of terms, and in risk assessment.
 - ii. NCTA makes a determination, in light of the facts and circumstances, that entering into a negotiated Swap will promote its interests by encouraging and rewarding innovation.
6. Each Swap executed by NCTA shall be subject to an independent review and analysis by a financial advisor or other qualified party and include a finding that its terms and conditions reflected a fair market value as of the date and time of its execution
7. Form and Content of Swaps: To the extent possible, the Swap shall contain terms and conditions set forth in the International Swap and Derivatives Association Inc. Master Agreement, including any schedules and confirmation. The schedule should be modified to reflect specific legal requirements and business terms desired by NCTA. NCTA shall consider including provisions that permit NCTA to assign its rights and obligations under the Swap and to optionally terminate the Swap at its market value at any time. Unless specifically noted in the Swap, the counterparty shall not have the right to assign or terminate a Swap without the prior written consent of NCTA.
8. Risk Analysis Required: Before entering into a Swap, NCTA shall evaluate all the risks inherent in the transaction. These risks to be evaluated could include counterparty risk, termination risk, rollover risk, basis risk, tax event risk and amortization risk. NCTA shall endeavor to diversify its exposure to counterparties. To that end, before entering into a Swap, NCTA should determine its exposure to the relevant counterparty or counterparties and determine how the proposed transaction would affect the exposure.
9. Counterparty Selection Criteria and Provision for Collateralization: NCTA may enter into a Swap if the counterparty has at least one long-term unsecured credit rating in the AA category and no other rating below the 'A' category from Fitch, Moody's or Standard & Poor's, and the counterparty has demonstrated experience in successfully executing Swaps. If after entering into a Swap the ratings of the counterparty are downgraded below 'BBB' by any one of the ratings agencies, then the Swap shall be subject to termination by NCTA unless (a) the counterparty provides either a substitute guarantor or assigns the Swap, in either case, to a party meeting the rating criteria reasonably acceptable to NCTA or (b) the counterparty (or

guarantor if applicable) collateralizes the Swap in accordance with the criteria set forth in the Swap and this Policy. Should the counterparty (or guarantor if applicable) elect to collateralize the Swap, then, in addition to any requirements in the Swap, the obligations of the counterparty shall be fully and continuously collateralized by direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America, and such collateral shall be deposited with NCTA or an agent thereof. Such collateral posted by a counterparty shall have a net market value of at least one hundred percent (100%).

10. Disclosure and Financial Reporting: NCTA will take steps to ensure that there is full and complete disclosure of all interest rate swaps to the NCTA Board of Directors, rating agencies and in disclosure documents. With respect to its financial statements, NCTA will adhere to the guidelines for the financial reporting of interest rate swaps as set forth by the Government Accounting Standards Board.
11. Dodd-Frank Act\Conformance to Dodd-Frank: It is the intent of NCTA to conform this Policy to the requirements relating to legislation and regulations for derivatives transactions under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as supplemented and amended from time to time, including any regulations promulgated in connection therewith (herein collectively referred to as "Dodd-Frank"). Pursuant to such intent, it is the policy of NCTA that, with respect to each interest rate swap: (i) each swap advisor engaged or to be engaged by NCTA will function as the designated qualified independent representative of NCTA, sometimes referred to as the "Designated QIR"; (ii) each swap advisor will agree to meet and meets the requirements specified in CFTC Regulation 23.450(b)(1) or any successor regulation thereto (herein referred to as the "Representative Regulation"); (iii) each swap advisor will provide a written certification to NCTA to the effect that such swap advisor agrees to meet and meets the requirements specified in the Representative Regulation; (iv) NCTA will monitor the performance of each swap advisor consistent with the requirements specified in the Representative Regulation; (v) NCTA will exercise independent judgment in consultation with its swap advisor in evaluating all recommendations, if any, presented by any swap dealer with respect to transactions authorized pursuant to this Policy; and (vi) NCTA will rely on the advice of its swap advisor with respect to interest rate swaps authorized pursuant to this Policy and will not rely on recommendations, if any, presented by any swap dealer with respect to interest rate swaps authorized pursuant to this Policy.
12. Legal Entity Identifier: NCTA shall obtain and maintain current at all times a "legal entity identifier" from a firm designated by the CFTC to provide such numbers.
13. Long-Term Implications: In evaluating a particular transaction involving the use of a Swap, NCTA shall review long-term implications associated with entering into Swaps, including costs of borrowing, historical interest rate trends, sensitivity analysis, variable rate capacity, credit enhancement capacity, opportunities to refund related debt obligations and other similar considerations.
14. Methods to be Used to Reflect the Use of Swaps in NCTA's Financial Statements: NCTA shall reflect the use of Swaps on its financial statements in accordance with generally accepted accounting principles and shall include appropriate information about the market value, risk

and legal authority regarding such agreements. Such disclosure in NCTA's financial statements will provide appropriate information to ratings agencies, investors and the secondary market.

15. Monitoring: NCTA's staff shall monitor the use of Swaps on a continual basis.

Responsibilities for monitoring shall include the following activities:

- i. Preparing a description of each Swap, including a summary of its terms and conditions, the notional amount, rates, maturity and other provisions thereof.
- ii. Determining any amounts which were required to be paid and received, and that the amounts were paid and received in a timely manner.
- iii. Determining that each counterparty is in compliance with its rating requirements.
- iv. Determining that each counterparty is in compliance with the downgrade provisions, if any (see Counterparty Selection Criteria and Provision for Collateralization Criteria).
- v. Determining at least quarterly, that all posted collateral, if required, has a net market value of at least one hundred percent (100%) of the net market value of the Swap to NCTA (see Counterparty Selection Criteria and Provision for Collateralization).
- vi. Taking appropriate action to limit undesirable exposures.
- vii. Developing a contingency plan in the event that early termination of the Swap is determined to be desirable or warranted.
- viii. Obtaining market valuation information from counterparties or third-party advisors to meet GASB fiscal year end reporting requirements.

VI. Call Provisions

- A. Call provisions for NCTA bond issues will be made as short as possible consistent with the lowest interest cost to NCTA, taking into consideration the option value of such call provisions.
- B. When practical and cost efficient, all NCTA bonds should be callable at par.

VII. Debt Refunding

NCTA staff and the Financial Advisor will monitor the municipal bond market for opportunities to obtain interest savings by refunding or refinancing outstanding debt. As a general rule, the present value savings of a particular refunding should equal or exceed 3% of the refunded maturities and not materially extend the maturity of the outstanding debt. For an advance refunding a higher minimum savings threshold should be required, depending on how soon the bonds may be called. However, in order to meet certain restructuring or risk management goals, NCTA may elect to lower the present value savings threshold for any individual transaction.

VIII. Credit Enhancement and Liquidity

Bond insurance, surety policies, letters of credit, liquidity facilities and other credit enhancements will be used when it provides economic savings or risk management opportunities for NCTA. Letters of credit, liquidity facilities or other credit facilities may expose NCTA to bank provider risk. In those instances, bank providers should not possess long term credit ratings lower than "A2/A/A" and short-term ratings lower than "P-1/A-1/F1" from Moody's Investors Services, Standard and Poor's Corporation and Fitch Ratings, respectively.

IX. Continuing Disclosure

NCTA is committed to providing continuing disclosure of financial and pertinent credit information relevant to NCTA's outstanding securities and will continue to comply with those provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure. NCTA has engaged the services of Disclosure Counsel to provide guidance and advice to NCTA concerning securities law and disclosure issues. NCTA will also coordinate with the North Carolina Department of Transportation and North Carolina Office of State Budget and Management as applicable. Additionally, NCTA will maintain financial information on its website to provide timely information to the market and public. Such information will include, but not be limited to, audited comprehensive annual financial reports, rate covenant reports, and ratings reports.

X. Credit Objectives

- A. It is NCTA's intent to maintain and improve the credit ratings on its outstanding and proposed bond issues. NCTA will maintain long-term debt ratings from at least two of the three major bond rating agencies - Moody's Investors Service, Standard and Poor's Corporation, and Fitch Ratings. NCTA may discontinue the use of ratings from any agency which currently rates the debt of NCTA if, based on advice from NCTA's Financial Advisor and underwriting team, the discontinuance of such rating will not adversely affect the rates that can be achieved in selling NCTA's debt without such rating. NCTA may issue non-rated debt when determined to be reasonable by NCTA's advisors and deemed in the best interest of NCTA by the NCTA Board of Directors.
- B. NCTA's Director of Finance will maintain frequent communications with the credit rating agencies that currently assign ratings to NCTA's various debt obligations, and bond insurers that currently enhance any of NCTA's various debt obligations. This effort must include providing periodic updates on NCTA's general financial condition along with coordinating meetings and presentations, as necessary, in conjunction with a new debt issuance.
- C. NCTA's Director of Finance will consider, in conjunction with the Financial Advisor and Disclosure Counsel, elements of an investor relations program that may be designed to keep present and future investors that hold NCTA's debt fully informed on current developments related to NCTA and its long-term debt.

XI. On-going Reporting Requirements

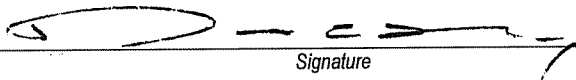

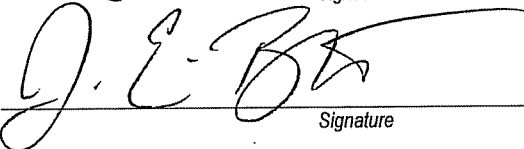
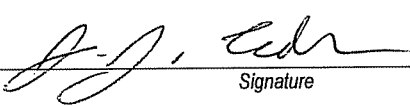
- A. At least once each year, the Director of Finance will provide the Finance Committee and the Board of Directors a report on the status NCTA's debt. At a minimum, the report must include:
 1. Amount and percentage of total debt by security type
 2. Any changes in ratings, including ratings of credit enhancers and swap counterparties
 3. Current mark-to-market value of all interest rate exchange agreements, if applicable
 4. Historical rate performance for all variable rate bonds, if applicable
- B. NCTA's Director of Finance, with the assistance of the Financial Advisor, will be responsible for analyzing any unsolicited proposals received relative to debt issues, responding to the proposal as appropriate, and recommending to the Finance Committee any action to be taken in a timely manner.

Scope: Click here to provide a statement identifying to whom the policy applies.

Procedures: Click here to briefly reference any standard operating procedure or procedure manual. Provide hyperlinks when applicable.

Related Documents: Click here to list any forms, tools, and/or background material relevant to the policy. Whenever possible, hyperlink to related documents.

Revision History		
Revision Date	Revision Number	Description

Policy Approval		
<p>Signing below certifies that the aforementioned policy has been vetted by the business area representative, applicable legal counsel (AG's office, etc.), and executive staff member(s).</p>		
Business Area Representative		8-6-20 Date
Legal Counsel <i>(Responsible for the Unit)</i>		8-6-2020 Date
Executive Staff Member <i>(Responsible for the Unit)</i>		8-6-20 Date
Executive Staff Member <i>(Responsible for the Unit)</i>		8-6-20 Date
Executive Staff Member <i>(Responsible for the Unit)</i>	_____	_____