NVTA Financial Working Group

Fairfax Department of Transportation
4050 Legato Road, Suite 400
Fairfax, Virginia 22033
Monday, October 7, 2013
12:00 p.m.

I. Introductions

II. Approval of Summary of September 16, 2013, Meeting

III. Review of Overarching Questions
- A. Discussion of Bond Validation and Other Documents
  - a. Status of NVTA Bond Validation Proceedings
  - b. Status of Letter to Treasury Board
  - c. Preparation for Sale of Bonds

IV. Other Topics for Discussion
- A. Projects Agreements between NVTA and Jurisdictions/Implementing Agencies
  - i. Status of MOA for Transferring Funding to Local Governments
  - ii. Status of MOA between Counties and Towns
    - 1. Discussion of Comments on Framework Document
  - iii. Status of MOA between NVTA and Implementing Agencies
  - iv. Status of MOA between VDOT/DRPT and NVTA
  - v. Status of Cash Flow for Expenditures
  - vi. Documentation of Expenditures
- B. Discussion of Comments on Revised Debt and Financial Policies
- C. Status of Review of Procurement Procedures
- D. Identification of Additional Items for Discussion

V. Other Business
- A. Volunteers for CFO Interviews

VI. Items to Refer to Other Working Groups

VII. Summarize Recommendations Made by Working Group for the October 24, 2013, NVTA Meeting; Additional Information Requirements; Persons Responsible for Securing Information; and Direction to Staff Coordinators

VIII. Next Meeting

IX. Adjourn

NORTHERN VIRGINIA TRANSPORTATION AUTHORITY

POSITION TITLE: Chief Financial Officer

REPORTS TO: Executive Director

BACKGROUND:

The Northern Virginia Transportation Authority (NVTA) is a regional transportation authority established by the General Assembly in 2002. In 2013, the General Assembly passed legislation imposing certain taxes and fees in Northern Virginia jurisdictions[1] for the funding of transportation improvements in this heavily congested region. The Authority will be responsible for allocating more than $300 million in revenue per year, with 70% programmed by NVTA and 30% sub-allocated to counties and cities embraced by the NVTA.

At least initially it is envisioned that the Authority will have a small office staff, consisting of an executive director, a chief financial officer, two program coordinators (planning, programming and oversight of jurisdictional/agency implementation), an accountant and an administrative assistant who will also serve as the clerk of the Authority, executive assistant to the executive director, and office manager.

A key member of the Authority's management team, the chief financial officer (CFO) is responsible for organizing, managing and reporting all the Authority's financial activities, overseeing the day-today operations of its financial activities, coordinating financial activities with member jurisdictions and outside agencies, and providing complex and reliable financial data and administrative support to the executive director and the members of the Authority.

SPECIFIC RESPONSIBILITIES:

a. Development, management and oversight of Authority budget

b. Management of Authority's revenue stream, accounts receivable and accounts payable

c. Oversight of Authority's programming of funds

d. Management and distribution of funds from the Authority to its member local government

e. Development and management of Authority's investment program

[1] Northern Virginia jurisdictions are the counties of Arlington, Fairfax, Loudoun and Prince William; and the cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park.

f. Development and management of Authority's bond/debt program

g. Oversight of Authority's retirement system contributions

h. Responsibility for Authority compliance with generally accepted accounting principles

i. Coordination of auditing requirements

j. Drafting and implementation of financial policies and procedures

k. Staff liaison to Authority's Finance Committee.

PREFERRED CHARACTERISTICS:

- Self-starter comfortable working with considerable responsibility with minimal supervision
- Professional demeanor that "presents well" to public officials (elected and appointed)
- Accustomed to working with multiple agencies and engendering a cooperative relationship
- Ability to brief and speak to elected and appointed officials and the general public in an easily understood manner
- Ability to prepare briefings, charts and information papers readily understood by the general public**.**

QUALIFICATIONS:

- Master's degree preferred in business administration, public policy, finance, or a related field with at least five (5) years of progressively responsible, directly related experience (see below). Alternatively, a bachelor's degree with a combination of education and experience equivalent to a master's degree. CPA and Government Finance Officer (CFOA) certifications are helpful, but not required.

- Demonstrated knowledge/experience:
    - ✓ of the principles and practices related to public financial systems
    - ✓ of state and federal laws, rules and regulations and practices concerning the financing of transportation projects
    - ✓ managing and accounting for multiple and diverse revenue streams received on a monthly and/or quarterly basis
    - ✓ of budget development and execution in the public sector
    - ✓ in planning and executing a sophisticated debt management program, including the planning, execution and monitoring of a substantial debt portfolio

  - ✓ in evaluating the effectiveness and efficiency of various financial management applications and alternative systems
  - ✓ in supervising and motivating a small staff.

- Knowledge of
  - ✓ financial planning
  - ✓ financial analysis
  - ✓ financial forecasting/projecting
  - ✓ complex project financing structures
  - ✓ cost accounting principles and automated accounting environments related to finance and accounting
  - ✓ state and federal laws regulating treasury, cash, investment debt and banking management
  - ✓ federal and state laws with respect to monetary investment
  - ✓ state defined local budget laws and requirements
  - ✓ annual audit and financial reporting requirements
  - ✓ relevant software.

- Ability to
  - ✓ define goals and develop plans/mechanisms to achieve them
  - ✓ establish and maintain effective working relationships with peers and colleagues
  - ✓ exercise effective time management, balance multiple priorities and consistently meet time lines and due date**s.**
  - ✓ develop, implement and monitor internal controls
  - ✓ use and apply relevant software programs.

WORK ENVIRONMENT:

Work will typically be performed in a quiet, office environment. Support to Authority (and potentially, committee) meetings will be in a public meeting environment that may be crowded and sometimes noisy.

RELEVANT WEBSITE: www.theNovaAuthority.org

APPLICATION: Submit to Camela Speer at camela.speer@thenovaauthority.org

Distribution of Revenue to Towns
DRAFT: October 3, 2013

Background

- HB 2313 approved three revenue sources for transportation in Northern Virginia
  - .7% Sales Tax
  - $0.15 Grantor's Tax (congestion relief fee)
  - 2% Transient Occupancy Tax
- HB 2313 requires that jurisdictions received benefits in proportion to the way the funding is raised
- HB 2313 requires counties to work with towns to ensure that the towns receive proportional benefit based on the revenues raised in the towns
- HB 2313 states that if a jurisdiction uses a portion of this funding for non-transportation purposes, the jurisdiction loses the local portion of the regional funding during the next fiscal year.

Financial Working Group Recommendations

- The three counties distribute revenues to the towns using the same approach.
- Counties will determine the exact property associated with the payment of the grantor's tax and specifically identify those properties inside the towns on a monthly basis. Towns should receive the funding specifically associated with property sales within their boundaries.
- Transient Occupancy Taxes are reported by individual hotel/motel. Towns should receive the funding specifically associated with each of the hotels within their boundaries. The Code of Virginia requires that sales taxes be distributed to towns based on their percentage of school-age population. The same approach should be used to distribute the new regional sales tax revenue to towns. These incremental sales taxes would not be divided by two, as is done with the base sales tax.

- Method of Distribution: Counties are subject to the HB 2313 provisions about misappropriation of transportation funding. They are at significant risk of losing revenue for a subsequent fiscal year, if a town misappropriates any of the HB 2313 revenue. If there are multiple towns in one county, a town could lose its share if funding based on misappropriation of one of the other towns. As a result, it may be best that towns receive their funding from counties on a reimbursement basis.

- Revenue Estimates and Reconciliation: Prior to the beginning of each fiscal year, NVTA will provide each county with an estimate of revenues it will receive from each of the revenue sources. Counties will, in turn, estimate the amount of revenues each town will receive. Actual revenues will be made available for towns to apply to projects as they are received throughout the year. Upon the conclusion of a fiscal year, NVTA will calculate actual revenues collected in each county, and the counties will calculate the revenue collected in each town. *[look at hard copy].*

Northern Virginia Transportation Authority
Debt Management Policy

This debt management policy is adopted to implement the debt program of the Northern Virginia Transportation Authority (the "Authority" or "NVTA") as authorized by Section 15.2-4839 of the Code of Virginia. The purpose of the Authority's Debt Management Program will be to support the construction program of the Authority while achieving the lowest cost of capital. In order to accomplish this goal, it will be necessary to adopt policies and procedures that ensure the highest credit quality, assure access to capital markets and preserve financial flexibility.

The Authority's goal is to achieve a minimum rating in the double-A category on its senior lien debt obligations. Therefore, the Authority shall implement policies and procedures for managing debt including overarching financial policies for maintaining a high quality debt program and detailed guidelines for debt issuance. The policy will guide decisions on all debt issued by the Authority and also assist the Authority in realizing debt service savings and efficiencies. Specifically, the policies will support the following objectives:

- Achieve and maintain a double-A category rating from one or more of the nationally recognized municipal bond credit rating firms for all senior lien revenue debt;
- Guide the Authority and its managers in policy and debt issuance decisions;
- Maintain appropriate capital assets for present and future needs;
- Promote sound financial management;
- Ensure legal use of the Authority's debt issuance authority;
- Promote cooperation and coordination with other stakeholders in the financing and delivery of transportation services and infrastructure; and
- Evaluate debt issuance options

I. <u>Application of Revenues</u>

A. NVTA Act – Section 15.2-4838.1 of the NVTA Act authorizes the use of revenues of the Northern Virginia Transportation Authority (including regional tax and fee revenues transferred from the NVTA Fund established under Section 15.2-4838.01) as follows:

1. Solely for transportation purposes benefitting those counties and cities embraced by the Authority.
2. Thirty percent (the "30 Percent Share") shall be distributed to the localities on a pro rata basis subject to reduction under the "maintenance of effort" provisions of Section 15.2-4838.1.B.2.
3. The remaining seventy percent will be distributed as follows:
    a. First to pay debt service on bonds issued by the Authority and secured by a pledge of such moneys;
    b. For "pay-as-you-go" projects;
    c. Each project financed by such moneys or bonds secured thereby must meet the following criteria:
        i. Must be (x) in regional transportation plan in accordance with Section 15.2-483) ("TransAction 2040") and be rated in accordance with Section 33.1-13.01:1 or (y) a mass transit capital project that increases capacity;[1]

[1] For "regional funds" received in FY 2014, the rating requirement does not apply.

ii. Must reflect the Authority's priority for selecting projects that are expected to provide the greatest congestion reduction relative to the cost of the project;
iii. Must be located (x) only in localities embraced by the Authority or (y) in adjacent localities but only to the extent that such extension is an insubstantial part of the project and is essential to the viability of the project within the localities embraced by the Authority ; and
iv. Must result in each locality's total long-term benefit being approximately equal to the proportion of the total of the fees and taxes received by the Authority that are generated by or attributable to the locality.

B. Master Indenture of Trust – The Master Indenture of Trust approved on July 24, 2013, further specifies that all amounts transferred from the NVTA Fund are deposited to a Revenue Fund and are distributed as follows:

1. First, the 30 Percent Share is deposited in the Member Locality Distribution Fund;
   a. And then from such Fund to the Operating Fund in an amount sufficient to fund the next 30 days of operations;
   b. And then from such Fund to each locality its pro rata portion of the remaining 30 Percent Share (subject to reduction as described above);
2. Then the remaining amounts (the "Regional NVTA Funds") must be distributed in the following order of priority:
   a. To fund all senior debt service requirements;
   b. To fund all debt service reserve requirements (if due);
   c. To fund subordinate debt service requirements (if due); and
   d. To fund all rebate fund requirements (if due).
3. Once all debt service requirements are met, the remaining Regional NVTA Funds are deposited to the NVTA General Fund available for any other lawful purpose of the Authority, including the construction of "pay-as-you-go" projects.

II. <u>Debt Management Planning</u>

A. Debt Affordability Criteria (Debt Capacity)

1. <u>Debt Capacity</u> – For planning purposes, Debt Capacity for the issuance of new debt shall be calculated as a function of the projected Regional NVTA Funds, as defined in the Master Indenture of Trust.
   a. It should be stressed that in accordance with the terms of the Master Indenture of Trust and the order of precedence defined in the Code of Virginia, debt service payments shall have precedence over all other obligations of the Authority.
   b. Debt Capacity shall be projected forward a sufficient time to support the cash flow requirements of the Authority's adopted long range capital plan together with funds identified for pay-as-you-go construction.
2. <u>Debt service coverage requirements:</u>
   a. NVTA strives to set policy targets for debt service coverage at the minimum levels necessary, in light of relevant criteria and methodologies of the credit rating agencies and recommendations of NVTA's Financial Advisor, to achieve a minimum of a AA category rating on senior lien debt.
   b. For senior lien debt: The ratio of annual Regional NVTA Funds to annual senior lien debt service will be a minimum of 2.0 times. A proforma calculation for this ratio is included as Exhibit 1 to this policy.

   c. For subordinate lien debt: The ratio of annual Regional NVTA Funds minus annual debt service on senior lien debt to annual subordinate lien debt service will be a minimum of 1.30 times. A proforma calculation for this ratio is included as Exhibit 1 to this policy.
3. Treatment of Local Revenues:
   a. Required Transfers – Authority revenues earmarked for transfer to the member localities, the 30 percent share will not be included in the debt capacity calculation or calculation of coverage requirements.
4. "Pay go" and reserve set asides – Any portion of Regional NVTA Funds not utilized for debt service due to coverage requirements will be set aside for pay-as-you-go capital financing and additional reserves as required by this policy over a reasonable period of time as determined by the Authority.
5. Reserve and liquidity levels
   a. Debt Service Reserve Fund – Consistent with the provisions of the Master Indenture of Trust, each bond issue may include a Debt Service Reserve Fund ("DSRF") funded from bond proceeds, Regional NVTA Funds or the NVTA General Fund as determined by the Authority at the time of issuance. In considering the need for this structural feature, NVTA may consider whether it is economically advantageous to have a DSRF and the potential impact on the existing credit ratings on the Authority's outstanding bonds, among other factors.
   b. Working Capital Reserve – The Authority will maintain a Working Capital Reserve account in its General Fund equal to at least [six months] of the budgeted, annual Regional NVTA Funds. Such funds may be used within a fiscal year to manage any mismatches in the actual receipt of revenue and the disbursement of funds for project construction to project implementing entities. If tapped, the Executive Director of the NVTA will develop and submit to the Authority Board a plan to restore the Working Capital Reserve to its minimum level over a period not to exceed [18] months. The NVTA will revisit the level of this reserve no later than June 30, 2015 to reflect its actual cash flow patterns and experience and periodically as needed.

B. Bond Structure

1. Term of Bonds. NVTA shall strive to match the financing period with the economic life of the asset being developed in general conformance with the following guidelines:
   a. Short term debt (less than ten years) normally should be used for projects with an economic life of 0 to 15 years, but may be used at any time to restructure the Authority's outstanding debt portfolio to reduce the average life of the Authority's bonds.
   b. Terms of the bonds for major construction projects shall not exceed 30 years which is less than the 40 year maximum term of debt permitted under Section 15.2-4519.B.1.
   c. The Authority will attempt to achieve an average bond life for all aggregate outstanding debt of less than 20 years in order to ensure that significant debt capacity is available to meet the future needs of the Authority.
2. Capitalized Interest. The Authority intends to pay interest on all debt obligations when due from current revenues unless the capitalization of interest shall be deemed necessary and prudent or the best interest of the Authority for any project specific

financing. If used, the capitalized interest period and amount shall not exceed that which is necessary to complete the construction period.

3. Debt Service Repayment Structure. It is the preference of the Authority to promote rapid repayment of debt principal in order to (i) achieve the objective of average bond life of less than 20 years, (ii) to maintain or improve the credit rating, and (iii) to execute the capital program in the most cost effective manner. The Authority may choose to structure debt repayment so as to wrap around existing obligations or to achieve other financial planning goals.
4. Call Provisions. Optional redemption provisions on NVTA debt, if any, shall be determined based upon the market conditions at the time of issuance with advice from the Financial Advisor. The Authority will select the call provision most likely to result in the lowest cost of funds while providing reasonable opportunity and flexibility for future refinancing to achieve future debt service savings.

C. Types of Debt

1. Revenue Bonds. NVTA expects to issue revenue bonds, either on a senior lien or subordinate basis, as its primary form of debt. The debt capacity of the Authority to issue revenue bonds shall be governed by this Debt Management Policy.
2. Lease Purchase Agreements. Lease purchase debt for which the asset is pledged, in addition to Authority revenues, as security for the debt payment may not be issued unless the Board adopts specific policies in this regard.
3. Variable Rate Debt (short or long term). The Authority may issue variable rate debt to achieve a lower cost of capital, improve cash flow efficiencies or manage interest rate risk and in no case shall variable rate debt exceed ten percent of the total debt of the NVTA. Any commercial paper program that is used as an interim financing tool shall not be included in the calculation of the ten percent (10%) maximum variable rate debt limit. The NVTA will revisit this threshold periodically to reflect market conditions, credit rating agency criteria, and NVTA's liquidity and cash flow experience. Any changes to the threshold must be approved by the Board.
4. Commercial Paper. The Authority may establish a commercial paper program if economically advantageous to manage the Authority's cash flow, improve efficiency or reduce negative arbitrage. The Authority may create its own program or use a pool legally available to it within the Commonwealth.
5. Federal or State or other Conduit Pool Loan Programs. The Authority may use pooled loan programs supported by available Regional NVTA Funds if cost effective (e.g., sales through the Virginia Resources Authority). Such debt may be senior or subordinate lien as negotiated with the issuing authority with such coverage and other requirements as determined by the issuing agency and consistent with the Master Indenture of Trust.
6. Unrated Debt. The Authority may issue unrated debt if deemed in its best interests.
7. Derivative Structures. The Authority shall not make use of derivative structures (swaps, hedges, etc.) for at least five years after adoption of this policy. Such structures shall not be used thereafter unless the Board shall adopt specific policies in this regard.

D. Refinancing Outstanding Debt

1. Minimum Savings Threshold. The Authority establishes a minimum present value savings threshold of three percent (3%) of the refunded bond principal amount. The present value savings will be net of all costs related to the refinancing.

2. Restructuring. The Authority may restructure debt when it is in the best financial interest of the Authority to do so. Such refundings will be limited to restructuring to meet anticipated revenue expectations, achieve costs savings, mitigate irregular debt service payments, release reserve funds, consolidate multiple series of outstanding debt, or remove unduly restrictive bond covenants.
3. Term of Refunding Issues. The Authority will normally refinance bonds within the original term of the existing debt. However, after careful evaluation, the Authority may consider maturity extension when necessary to achieve a desired outcome, provided that such extension is permissible under the Master Indenture of Trust.

E. Use of Credit Enhancement

1. Bond Insurance. Bond insurance may be obtained to achieve a higher credit rating than NVTA's uninsured debt when cost effective.
2. Letters of Credit. Letters of Credit may be obtained when cost effective.

F. Additional Bonds

1. NVTA anticipates new money bond sales in a frequency adequate to meet its cash flow needs.
2. Additional bond issuance shall not exceed any of the limits prescribed in the Debt Affordability section of these policies in any fiscal year.
3. Subsequent bond sales will be on parity with prior issuances of senior or subordinate lien bonds, as appropriate.
4. Additional bond issuances should be planned to remain within capacity/affordability limits based on careful forecasts of revenues reasonably anticipated to be received over the course of the following six years.

G. Capital Financial Plan

1. Beginning in FY 2015, NVTA shall adopt a multi-year capital plan. The capital plan will be developed in accordance with all applicable statutory requirements. The Authority shall make every effort to coordinate the timing of the adoption of its capital plan to benefit the capital planning processes of the Authority's member jurisdictions and of impacted state and regional authorities.
2. The Authority will review and update the long-term comprehensive transportation plan for the region at least every five years.

III. Debt Management Administration

A. Selection of Advisors and Other Providers

1. Financial Advisor. The Authority will use the services of a Financial Advisor to assist in the implementation and execution of bond policies, sales and other financial analyses as necessary. The Financial Advisor will be selected through a competitive process in accordance with the Code of Virginia and other procedures that the Authority may establish under such terms and compensation as the Authority may determine. A selection advisory committee shall include the Chief Financial Officer and other members appointed by the Executive Director, including at least three knowledgeable staff members from member jurisdictions, which will include the top three revenue contributing jurisdictions and a rotation of up to two of the remaining contributing jurisdictions. The Executive Director shall make every effort to ensure

that each member jurisdiction is given the opportunity to participate in the selection process.

2. Bond Counsel. The Authority will use the services of Bond Counsel to assist in the implementation and execution of bond policies, sales and other legal analyses as necessary. The Bond Counsel will be selected through a competitive process in accordance with the Code of Virginia and other procedures that the Authority may establish under such terms and compensation as the Authority may determine.
3. Other Services. The Authority may obtain the services of other advisors as necessary to implement its debt program under such terms and conditions as may be determined by the Authority. Such services may include, but are not limited to, trustee and fiscal agent services, specialized financial analytical services, special tax or disclosure counsel, rebate and arbitrage compliance services, audit services and other services that may be necessary.
4. Other Jurisdiction Contracts. The Authority may use any contract for consultant services issued by a member jurisdiction or agency of the Commonwealth provided that the terms and conditions of the contract permit its use by other jurisdictions or governmental entities of the Commonwealth and the contract was competitively bid or issued through a request for proposal.

B. Methods of Issuance

1. Competitive Sales. NVTA shall issue debt on a competitive basis whenever practical.
2. Negotiated Sales. NVTA may issue bonds via negotiated sale based on an evaluation of current market conditions and the economic advantages to NVTA, especially for the first few series of bond issues until the Authority has gained sufficient market acceptance and recognition as a regular issuer.
3. Private Placements. NVTA is permitted to use private placement financings based on an evaluation of current market conditions and the economic advantages to NVTA.

C. Underwriter Selection (if negotiated sale)

1. NVTA will always use a formal, competitive, open selection process to choose an underwriter.
2. NVTA's Financial Advisor may not participate in any sale as an underwriter (senior manager, co-manager, or part of a syndicate) while under contract to the Authority or as otherwise prohibited by applicable MSRB Rules.
3. NVTA will determine the selection process for appointing any co-managing underwriters.
4. NVTA may competitively select a pool of underwriters who may be used to underwrite bond sales over a multi-year period. The period in which an underwriter can be used may exceed more than one financing and more than one year; the period of use will be established at the time of the initial underwriter selection.
   a. Underwriter selection shall be conducted in accordance with applicable procurement statutes and procedures established by the Authority. A selection advisory committee shall include the Chief Financial Officer and other members appointed by the Executive Director, including at least three knowledgeable staff members from member jurisdictions, which will include the top three revenue contributing jurisdictions and up to two of the remaining contributing jurisdictions. The Executive Director shall make every effort to ensure that each member jurisdiction is given the opportunity to participate in the selection process.

D. Public Notices and Hearings

1. Notices of public hearing shall be published and public hearings held prior to Board approval of any debt issuance if required by and in conformance with federal law, where applicable, and the Virginia Code.
2. NVTA shall post any such notices of public hearing to be published on its website and in a paper or papers of general circulation within the jurisdictions embraced by the NVTA. Regardless of whether such publication is required by federal or Virginia law; provided that the failure to effect any such local publication shall not invalidate any Board action unless the local publication is required by laws.

IV. <u>Provisions Pertaining to the 30 Percent Share: NVTA Role as a Conduit Issuer</u>

A. NVTA may act as a conduit issuer for any member locality utilizing a separate Trust Indenture specifically for the member's issuance of debt secured by their 30 Percent Share. Member localities may agree to a Master Indenture with allowance for Supplemental Indentures specifically for the conduct of its initial and subsequent issues.

B. Debt Service for any NVTA conduit debt issued for individual member localities may be paid directly to the member locality's trustee for an issue secured by the member locality's 30 Percent Share of NVTA revenues. Localities may pledge other revenues as needed. The aggregate of all revenues pledged must meet a minimum coverage ratio of 1.00 times.

C. Localities may agree to a joint issue for projects that benefit more than one locality, however, such joint ventures shall at a minimum clearly establish jurisdictional shares and responsibility for debt service payments.

D. Any debt issued by NVTA directly for the benefit of an individual member locality must not have any impact on the NVTA's credit rating, debt capacity/affordability or marketing of other NVTA debt.

E. Conduit debt issued by NVTA on behalf of a locality shall not have any negative fiscal or operational impact on NVTA or on any of the other member localities. The NVTA and its other member localities shall be protected in the event of default or non-appropriation by the obligated member.

F. All costs of issuance will be borne entirely by the member locality in a manner of their choosing, which may included capitalization of such costs. NVTA may charge a fee for its services in addition to normal costs of issuance.

V. <u>Provision Pertaining to the 30 Percent Share: Operating Reserve</u>

A. <u>Operating Reserve</u> – The Authority will maintain an operating reserve account in the Member Locality Distribution Fund sufficient to fund to at least twenty percent (20%) of operating expenses. This operating reserve may be used, at the discretion of NVTA's Executive Director, to cover unanticipated increases in the Authority's operating budget. If used, the Executive Director will present a plan to the NVTA Board for refilling the reserve during the next ensuing fiscal year budget process. The Authority will invoice each member locality for their proportionate contribution necessary to refill the reserve to three months of operating expenses.

VI. Investment Policies

A. The Authority will establish separate, written investment policies consistent with applicable sections of Virginia Code and that provide for maintenance of sufficient cash on hand to meet daily operating, capital and debt service requirements in conformance with the expected schedule and actual receipt of revenues from all sources.

VII. Debt Management Monitoring & Responsible Parties

A. Post Issuance Compliance Procedures. The Authority will establish appropriate accounting and reporting procedures to ensure the timely payment of debt service, the satisfaction of all debt service coverage requirements and financial covenants and compliance with applicable federal tax and securities laws. Prior to issuance of any tax-exempt debt, the NVTA will develop separate, written Post Issuance Compliance procedures.

B. Arbitrage rebate compliance. The Authority will sell the minimum amount necessary to meet construction requirements consistent with Federal arbitrage restrictions and comply with all necessary reporting requirements. The Authority will attempt to size its sale amounts so as to qualify for the two year spend down exception test.

C. Secondary market disclosure (Rule 15c2-12 compliance). Continuing Disclosure shall at a minimum include the year-end financial audit in addition to other documents designated by the Authority. The Authority shall ensure that any local jurisdiction constituting a "material obligor" with respect to any of the Authority's debt within the meaning of Rule 15c2-12 agrees to provide the continuing disclosure required under the Rule.

D. NVTA's Executive Director or his designee will be responsible for the implementation of this Debt Management Policy with the advice and input from NVTA's legal counsel and Financial Advisor.

E. NVTA's Executive Director will review and update this Debt Management Policy at least every five years.

Exhibit 1: Proforma Debt Service Coverage Calculation Methodology

- Annual Regional NVTA Funds = **(A)** = $210,000,000
- Debt Service on Senior Lien Debt = **(B)** = $30,000,000
- Debt Service on Subordinate Lien Debt = **(C)** = $30,000,000
- Debt Service Coverage Requirement for Senior Lien Debt = **(A / B)** =
- $210,000,000 / $30,000,000 = 7.0x
- Debt Service Coverage Requirement for Subordinate Lien Debt = **(A-B) / C** = ($210,000,000 - $30,000,000) / $30,000,000 = 6.0x

Topics for Inclusion in NVTA Global Memorandum of Agreement ("MOA") with its Constituent Localities Regarding 30% Distribution under HB2313

1. Recitation of NVTA's overall legal requirements and role; and locality requirements under HB2313 and compliance therewith.
2. Recitation of applicable HB2313's enactment clauses as they affect 30% distribution to counties, cities and towns.
3. Agreements by localities to reimburse NVTA should NVTA be required to reimburse another party, including but not limited to the Commonwealth, including but not limited to those instances of locality default, non-compliance with statutory requirement, non-compliance with MOA, or as required by judicial order.
4. County MOA's with Towns; timing and content.
5. Uniform basis for calculating town distribution of County 30% share of revenues.
6. NVTA distributions of the 30% to its constituent localities in a successive fiscal year based upon showing of compliance with all statutory requirements and conditions of MOA in previous fiscal year; including but not limited to proof of maintenance of effort requirements and proper expenditure of all funds in previous fiscal years.
7. Documentation, record keeping and records retention requirements and annual reports. Va. Code Section 15.2-4838.1B.1
8. Creation of a separate fund. Va. Code Section 15.2-4838.1B.1
9. Timing, method, and notification of locality default and NVTA action when locality default has occurred.
10. Discussion of locality payment of its share of NVTA's annual administrative fees, including locality use of its share of 70% revenues (depending on court case resolution);locality use of its 30% share under HB2313, or locality payment of its share by other non-HB2313 funds.
11. Effect of non-payment of locality share of NVTA's administrative fees. NVTA action in response to non-payment.
12. Calculation and distribution of interest on all 30% funds held by NVTA until actual distribution by NVTA to localities.

13. Agreement to adhere to all applicable procurement practices and provisions of Virginia procurement law with respect to all projects funded with NVTA 30% or 70% revenues.
14. Need for standardization of a single MOA as between NVTA and its constituent localities.
15. Miscellaneous Items.