I. **General.** This debt policy is adopted to implement the debt program of the Northern Virginia Transportation Authority (the “NVTA”) authorized by the Code of Virginia §33.2-2511. The purpose of the NVTA’s Debt Program is to support the construction financing program of the NVTA while achieving the lowest cost of capital. In order to further this purpose, it is necessary to adopt policies and procedures that ensure the highest credit quality, assure access to capital markets and preserve financial flexibility.

II. **Background.** The NVTA’s senior lien debt obligations are currently rated Aa1 from Moody’s Investors Service, AA+ from Standard & Poor’s, and AA+ from Fitch Ratings. These ratings were achieved in part because the NVTA has implemented policies and procedures for maintaining a high quality debt program that contain detailed guidelines for debt issuance. The policy will guide decisions on all debt issued by the NVTA and also assist the NVTA in realizing debt service savings and efficiencies. Specifically, the policies will support the following objectives:

- Maintain the current ratings on all senior lien revenue debt;
- Guide the NVTA and its managers in evaluating debt issuance options and in making debt issuance decisions;
- Maintain appropriate financial assets for present and future needs;
- Promote sound financial management;
- Ensure legal use of the NVTA’s debt issuance authority; and
- Promote cooperation and coordination with other stakeholders in the financing and delivery of transportation services and infrastructure.

III. **Application of Revenues**

A. **NVTA Act.** §33.2-2510 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 §33.2-2509) as follows:

1. Solely for transportation purposes benefitting those counties and cities embraced by the NVTA.

2. Thirty percent (the "30 Percent Share") shall be distributed to the localities on a pro rata basis subject to reduction in accordance with the Code of Virginia and NVTA Policy 19 – Distribution of 30 Percent Funds adopted on December 11, 2014.

3. The remaining amounts (approximately seventy percent) will be distributed as follows:
   a. First to pay debt service on bonds issued by the NVTA and secured by a pledge of such monies; and
   b. For "pay-as-you-go" projects.
4. The projects financed by the monies or bonds secured thereby described in the preceding paragraph must meet the following criteria:
   a. Must be (x) in the regional long range transportation plan, in accordance with §33.2-2500, and be rated in accordance with §33.2-257 or (y) a mass transit capital project that increases capacity;
   b. Must reflect the NVTA's priority for selecting projects that are expected to provide the greatest congestion reduction relative to the cost of the project;
   c. Must be located (x) only in localities embraced by the NVTA 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 NVTA; and
   d. 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 NVTA that are generated by or attributable to the locality.

B. Master Indenture of Trust. The Master Indenture of Trust dated as of December 1, 2014 (the “Master Indenture”), 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 accordance with NVTA Policy 19 – Distribution of Thirty Percent Funds, adopted on December 11, 2014;
   b. And then from such Fund to each locality its pro rata portion of the remaining 30 Percent Share in accordance with NVTA Policy 19 – Distribution of Thirty Percent Funds;

2. Then the remaining amounts (the "Regional Revenues") 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 Revenues are deposited to the NVTA General Fund (as such fund is defined in the Master Indenture) and are available for any other lawful purpose of the NVTA, including the construction of "pay-as-you-go" projects and deposits to any reserves established by NVTA.

IV. Debt Management.

A. Debt Affordability Criteria (Debt Capacity).

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1 For "regional funds" (including bond proceeds) received in FY 2014, the rating requirement does not apply.
1. **Debt Capacity.** For planning purposes, Debt Capacity for the issuance of new debt shall be calculated as a function of the projected Regional Revenues, as defined in the Master Indenture.
   a. It should be stressed that in accordance with the terms of the Master Indenture and the order of precedence defined in the Code of Virginia, debt service payments shall have precedence over all other obligations of the NVTA payable from the Regional Revenues.
   b. Debt Capacity shall be projected forward a sufficient time to support the cash flow requirements of the NVTA’s adopted six year Capital Improvement Plan (“CIP”) together with funds identified for pay-as-you-go construction.

2. **Debt service coverage requirements.**
   a. The 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 the NVTA’s Financial Advisor, to maintain its credit ratings on senior lien debt.
   b. Senior lien debt. The ratio of annual Regional Revenues to annual senior lien debt service will be a minimum of 2.0 times. A pro forma calculation for this ratio is included as Exhibit 1 to this policy.
   c. Subordinate lien debt. The ratio of annual Regional Revenues to annual senior lien debt service plus annual subordinated 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 30 Percent Share.**
   a. Required Transfers. 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 Revenues 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 or established by the NVTA over a reasonable period of time as determined by the NVTA.

5. **Reserve and liquidity levels.**
   a. Debt Service Reserve Fund. Consistent with the provisions of the Master Indenture, each bond issue may include a Debt Service Reserve Fund (“DSRF”) funded from bond proceeds, Regional Revenues or the NVTA General Fund as determined by NVTA at the time of issuance. In considering the need for this structural feature, the NVTA may consider whether it is economically advantageous to have a DSRF and the potential impact on the existing credit ratings on the NVTA’s outstanding bonds, among other factors.
   b. Working Capital Reserve. The NVTA will maintain a Working Capital Reserve (“WCR”) account in the NVTA General Fund equal to $120,000,000.00. 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 and to pay debt service. Not less frequently than
annually during the NVTA’s budget process, the NVTA will estimate the increase, if any, to the WCR requirement and fund such incremental increase within the course of the next ensuing fiscal year. To the extent the WCR requirement is forecast to decrease in a given fiscal year, the NVTA may release such amounts within the course of such ensuing fiscal year provided that any debt service or debt service reserve fund requirements are fully funded in accordance with the Master Indenture. The WCR is not required by the Master Indenture; rather, it is a policy of the NVTA and is subject to change.

c. If tapped, the Executive Director of the NVTA will develop and submit to the NVTA 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 periodically to reflect its actual cash flow patterns and experience, liquidity expectations of the credit rating agencies consistent with the NVTA’s current credit ratings, and actual experience with delays or disruptions, if any, to the Commonwealth’s budget adoption and appropriations process.

B. Bond Structure.

1. Term of Bonds. The 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 permanent financing (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 NVTA’s outstanding debt portfolio to reduce the average life of the NVTA’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 §33.2-1920.
   c. The NVTA 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 NVTA.

2. Capitalized Interest. The NVTA 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 NVTA 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 NVTA 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 its credit rating, and (iii) to execute the capital financing program in the most cost effective manner. The NVTA 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 the NVTA debt, if any, shall be determined based upon the market conditions at the time of issuance with advice from the Financial Advisor. The NVTA 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.** The NVTA expects to issue special tax revenue bonds, either on a senior lien or subordinate basis, as its primary form of debt. The debt capacity of the NVTA to issue such revenue bonds shall be governed by this Debt 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 NVTA 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 (10%) of the total debt of the NVTA. Any commercial paper program or other variable rate financing vehicle 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 the NVTA’s liquidity and cash flow experience. Any changes to the threshold must be approved by the NVTA.

4. **Commercial Paper/Interim Financing.** The NVTA may establish a commercial paper program or other forms of interim financing such as bond anticipation notes or line of credit if economically advantageous to manage the NVTA’s cash flow, improve efficiency or reduce negative arbitrage. The NVTA 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 NVTA may use pooled loan programs supported by available Regional Revenues if cost effective (e.g., sales through the Virginia Resources Authority). Such debt may be senior or subordinate lien as negotiated with the lender with such coverage and other requirements as determined by the lender and consistent with the Master Indenture.

6. **Unrated Debt.** The NVTA may issue unrated debt if deemed in its best interests.

7. **Derivative Structures.** The NVTA shall not make use of derivative structures (swaps, hedges, etc.) for at least five years after the initial adoption date (December 12, 2013) of this policy. Such structures shall not be used thereafter unless the NVTA shall adopt specific policies in this regard.
D. Refinancing Outstanding Debt.

1. **Minimum Savings Threshold.** The NVTA 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 NVTA may restructure debt when it is in the best financial interest of the NVTA to do so. Such refundings will be limited to restructuring to meet anticipated revenue expectations, achieve cost 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 NVTA will normally refinance bonds within the original term of the existing debt. However, after careful evaluation, the NVTA may consider maturity extension when necessary to achieve a desired outcome, provided that such extension is permissible under the Master Indenture.

E. Use of Credit Enhancement.

1. **Bond Insurance.** Bond insurance may be obtained to achieve a higher credit rating than the NVTA’s uninsured debt when cost effective.

2. **Letters of Credit.** Letters of Credit may be obtained when cost effective.

F. Additional Bonds.

1. The 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 (6) years.

G. Capital Improvement Plan (“CIP”).

1. The NVTA will update its multi-year capital improvement plan (CIP) annually. The CIP will be developed in accordance with all applicable statutory requirements. The NVTA shall make every effort to coordinate the timing of the adoption of its capital improvement plan to benefit the capital planning processes of the NVTA’s member jurisdictions and of impacted state and regional authorities.
2. The NVTA will review and update the long range comprehensive transportation plan for the region at least every five (5) years.

V. Administrative Matters.

A. Selection of Advisors and Other Providers.

1. Financial Advisor. The NVTA 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 NVTA may establish under such terms and compensation as the NVTA 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 NVTA 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 NVTA may establish under such terms and compensation as the NVTA may determine.

3. Other Services. The NVTA 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 NVTA. 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 NVTA 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 Sale.

1. Competitive Sales. The NVTA shall sell debt on a competitive basis whenever practicable.
2. **Negotiated Sales.** The NVTA may sell bonds via negotiated sale based on an evaluation of current market conditions and the economic advantages to the NVTA, especially for the first few series of bond issues until the NVTA has gained sufficient market acceptance and recognition as a regular issuer.

3. **Private Placements.** The NVTA is permitted to use private placement financings based on an evaluation of current market conditions and the economic advantages to the NVTA.

**C. Underwriter Selection (if negotiated sale).**

1. The NVTA will always use a formal, competitive, open selection process to choose an underwriter.
2. The 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 NVTA or as otherwise prohibited by applicable Municipal Securities Rulemaking Board (MSRB) Rules.
3. The NVTA will determine the selection process for appointing any co-managing underwriters.
4. The 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.
5. Underwriter selection shall be conducted in accordance with applicable procurement statutes and procedures established by the NVTA. 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.

**D. Public Notices and Hearings.**

1. Notices of public hearing shall be published and public hearings held prior to the NVTA approval of any debt issuance if required by and in conformance with federal law, where applicable, and the Virginia Code.
2. The NVTA may impose additional notice requirements upon itself as a matter of practice to promote transparency. For example, the NVTA may post any such notices of public hearing on its website and in a paper or papers of general circulation within the jurisdictions embraced by the NVTA; provided that the
failure to effect any such additional notice requirement shall not invalidate any Authority action.

VI. **Provisions Pertaining to the 30 Percent Share: The NVTA Role as a Conduit Issuer.**

A. The 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 the 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 the NVTA on behalf of a locality shall not have any negative fiscal or operational impact on the 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 its choosing, which may include capitalization of such costs. The NVTA may charge a fee for its services in addition to normal costs of issuance.

VII. **Provision Pertaining to the 30 Percent Share: Operating Reserve.** The NVTA will maintain an operating reserve account in the Operating Budget sufficient to fund to at least twenty percent (20%) of then current fiscal year’s budgeted operating expenses. This operating reserve may be used, at the discretion of the NVTA’s Executive Director, to cover unanticipated increases in the NVTA’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.

VIII. **Investment Policies.** The NVTA adopted separate, written investment policies on December 11, 2014. The NVTA will maintain such policies consistent with applicable sections of Virginia Code and to provide for the 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.
IX. Debt Monitoring & Responsible Parties.

A. Post Issuance Compliance Procedures. The NVTA will maintain 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. On December 11, 2014, the NVTA adopted two separate, written Post Issuance Compliance policies and procedures.

B. Arbitrage rebate compliance. The NVTA will sell the minimum amount necessary to meet construction requirements consistent with Federal arbitrage restrictions and comply with all necessary reporting requirements. The NVTA will work with its member jurisdictions and other project owners to 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 and notices of the specific events designated by the NVTA’s continuing disclosure agreements. The NVTA shall ensure that any local jurisdiction constituting a “material obligor” with respect to any of the NVTA’s debt within the meaning of Rule 15c2-12 agrees to provide the continuing disclosure required under the Rule.

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

E. The NVTA’s Executive Director and Chief Financial Officer will review and update this Debt Policy at least every three (3) years.

Exhibit 1: Proforma Debt Service Coverage Calculation Methodology

Figures shown below are for illustrative purposes only.

- Annual Regional Revenues = (A) = $210,000,000
- Debt Service on Senior Lien Debt = (B) = $7,000,000
- Debt Service on Subordinate Lien Debt = (C) = $1,000,000
- Debt Service Coverage Requirement for Senior Lien Debt = (A / B) = $210,000,000 / $7,000,000 = 30.0x
- Debt Service Coverage Requirement for Subordinate Lien Debt = A / (B + C) = $210,000,000 / ($7,000,000 + $1,000,000) = 26.25x

Approved by Northern Virginia Transportation Authority: December 12, 2013
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