# COLUMBUS REGIONAL AIRPORT AUTHORITY

# DEBT MANAGEMENT POLICY

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# Debt Manage1nent Policy

## Purpose

The following debt issuance and capital funding policy ("Debt Management Policy" or "Policy") establishes parameters and provides guidance governing the issuance of debt and other financing obligations by the Columbus Regional Airport Authority ("Authority"), provides guidance on capital investment measurements, and provides for compliance requirements associated with this policy.

## Policy State1nent

Under the governance and guidance of all applicable laws and regulations of the United States of America; the State of Ohio, in particular, Ohio Revised Code Chapter 133, Uniform Public Securities Law and Ohio Revised Code Sectibn 4582.2 I *et seq;* and, the Bylaws and Resolutions of the Authority, the Authority may periodically enter into debt obligations. The Authority may enter into debt obligations to finance the construction, rehabilitation, repair, reconstruction, acquisition of infrastructure and other assets; or to refinance existing debt for the purpose of meeting its obligations to bondholders and all interested parties. It is the desire and goal of the Authority to assure that such debt obligations are issued and administered in such a fashion as to obtain the best long-term financial advantage to the Authority and its bondholders, while making every effort to maintain and/or improve the Authority's bond ratings and reputation in the investment community. It is also the desire and goal of the Authority to borrow what is needed, when it is needed, and for an appropriate duration based on what is being financed. It is imperative that the Authority demonstrate to rating agencies, investment bankers, creditors, and current and potential bondholders that the Authority is following a prescribed financial plan.

The Authority may also desire to issue debt obligations on behalf of external agencies or authorities for the purpose of constructing facilities or assets which further the goals and objectives of the Authority. In such cases, the Authority shall take reasonable steps to confirm the financial feasibility of the project and the financial solvency of the borrower and take all reasonable precautions to ensure the public purpose and financial viability of such transactions. For debt obligations that do not further the goals and objectives of the Authority, these agencies shall be referred to the Columbus - Franklin County Financing Authority.

The Authority shall continue to obtain the approval of the Board of Directors, usually on an annual basis, for its capital projects planned primarily through its capital improvement plan. It is also necessary that the Authority continue to meet all continuing disclosure requirements imposed by the Securities and Exchange Commission ("SEC") and/or the Municipal Securities Rulemaking Board ("MSRB") and any other regulatory body.

Where appropriate, the Authority shall consider funding capital improvements with existing cash, but only if such use does not weaken needed cash reserve levels. Great care must be taken to assure that reserve levels are maintained in order to protect the required day's cash on hand goal and debt service coverage as prescribed in this document.

Debt levels and their related annual costs are important financial considerations. Long-term obligations must be managed with available resources. An effective debt management policy provides guidelines for a government to manage its debt program in line with those resources.

## Board Finance & Audit Committee

This Policy has been adopted formally by the Board of Directors. It is the responsibility of the Finance & Audit Committee of the Board of Directors to review the recommendations submitted by the Chief Financial Officer regarding the issuance of debt obligations. The Chief Financial Officer, who, pursuant to the Authority's Bylaws, may also serve as the Authority's Treasurer and fiscal officer, in consultation with the Authority's financial advisor, shall consider all issues related to outstanding and proposed debt obligations, and will consider issues affecting or relating to the creditworthiness, security, and repayment of such obligations, including but not limited to procurement of services, structure, repayment terms and covenants of the proposed debt obligation, and issues which may affect the security of the bonds and ongoing disclosure to bondholders and interested parties.

## Goals and Objectives

The Board has established a debt policy as a tool to ensure that financial resources are adequate to meet the Authority's long-term capital program and financial planning. In addition, the Debt Management Policy helps to ensure that financings undertaken by the Authority satisfy certain clear objective standards designed to protect the Authority's financial resources and to meet its long-term capital needs.

A. *The goals of this policy are:*

1. To document responsibility for the oversight and management of debt related transactions;
2. To define the criteria for the issuance of debt;
3. To define the types of debt approved for use within the constraints established by the Board;
4. To define the appropriate uses of debt;
5. To define the criteria for evaluating refunding candidates or alternative debt structures; and
6. To ensure transparency in the debt transaction process.

*B. The objectil'es of this policy are:*

1. To establish clear criteria and promote prudent financial management for the issuance of all debt obligations;

2. To identify legal and administrative limitations on the issuance of debt;

3. To ensure the legal use of the Authority's debt issuance authority;

4. To maintain appropriate resources and funding capacity for present and future capital needs;

5. To protect and enhance the Authority's credit rating;

6. To evaluate debt issuance options;

7. To promote cooperation and coordination with other stakeholders in the financing and delivery of services;

8. To manage interest rate exposure and other risks; and

9. To comply with federal regulations and Generally Accepted Accounting Principles (GAAP).

## Debt Management Strategies

To achieve the goals and objectives above, the Board has adopted the following debt management strategies and procedures.

### *A. Funding Strategies*

Debt is to be issued in full compliance with all applicable laws and pursuant to resolutions adopted by the Board.

I. Debt may be issued for public purposes of the Authority;

2. Debt may be used to finance capital projects authorized by the Board, to refinance outstanding Authority debt, to fund capitalized interest thereon as may be permissible, to fund reserve funds, to pay costs of issuance; and for any other lawful purposes as determined by the Authority;

3. Prior to the issuance of bonds, bank credit facilities or bond anticipation notes may be issued for the payment of costs of projects as authorized by the bond authorization and a resolution of the Board.

## *B. Debt Capacity Assessment*

I. The principal amount of bonds that the Authority can issue is subject to approval by the Board. Before approval for issuance of new debt, staff shall provide an analysis and identify all revenues and other funding sources for the payment of debt service (for principal and interest) and underlying assumptions for the funding sources during the anticipated term of the debt. The staff analysis should also explain the use of any proposed or planned credit enhancement, such as reserve funds, bond insurance, etc.

2. Under the Amended and Restated Master Trust Indenture (relating to the Authority's General Airport Revenue Bonds), the Authority is required to maintain a rate covenant coverage requirement of 125% on its Outstanding Bonds. Section 5.04(d) of the Authority's Amended and Restated Master Trust Indenture specifies the procedures to be undertaken if the Authority fails to meet this rate covenant.

## *C. Credit Mai11te11a11ce*

I. One of the most important financial metrics when evaluating and measuring an airport's credit quality is Debt Service Coverage. Included above in "Debt Capacity Assessment", the Authority has a covenant to its bondholders to maintain a rate covenant of 125% on Outstanding Bonds, and such rate covenant should be seen as a "floor". This policy establishes a goal to strive to maintain a Debt Service Coverage above the 125% "floor" on its Outstanding Bonds, understanding that the ability to generate coverage significantly above the rate covenant requirement may be limited by the terms of any negotiated Airline Use and Lease Agreement.

2. Another important financial metric is Days Cash on Hand or the Authority's liquidity position. The Days Cash on Hand metric measures how long the Authority can cover its operating and maintenance costs from its unrestricted cash. This policy establishes a goal (or floor) to strive to maintain 365 Days Cash on Hand as compared to its budgeted Total Operating Expenses (which excludes depreciation and required debt payments). From time-to-time, the Chief Financial Officer may set an informal policy goal to have a higher Days Cash on Hand level based on the business climate, economic cycle, capital / contract planning process, etc.

## *D. Federal Tax Status*

**1. Tax-Exempt Debt** - This Policy assumes tax-exempt interest rates are lower than taxable rates and that interest savings outweigh the increased administrative costs, restrictions on the use of financed projects, and investment constraints associated with tax-exempt debt. Therefore, whenever possible, the Authority will use its best efforts to maximize the amount of tax-exempt debt that is sold and minimize its usage of taxable debt.

2. **Taxable Debt** - The Authority may sell taxable debt when necessary to finance projects with a private use. The Authority will encourage the financing team to blend the financing of taxable projects with the financing of tax-exempt projects in the manner determined to provide the greatest benefit to the Authority.

### *E. Legal Limitations 011 the Use of Debt*

I. The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized.

2. The Authority shall comply with all requirements for the issuance of bonds set forth in the Amended and Restated Master Trust Indenture, which include the additional bonds tests and the rate covenant.

## Types of Debt

### *A. Bonds*

The Board may authorize the issuance of bonds, which may be structured as:

I. **Fixed Rate Bonds** - Bonds that have an interest rate that remains constant throughout the lifo of the bond.

- Serial Bonds
- Term Bonds
- Capital Appreciation Bonds

2. **Variable Rate Bonds-** Bonds which bear a variable interest rate but do not include any bond which, during the remainder of the term thereof to maturity, bears interest at a fixed rate. Provision as to the calculation or change of variable interest rates shall be included in the authorizing resolution.

3. **Refunding Bonds** - Bonds refunding the whole or part of a Series of Bonds delivered on original issuance.

### *B. Short-Term Debt*

Subject to Board authorization, the Authority may issue short-term debt. Debt issued in a short-term mode may be used for any lawful purpose, including but not limited to the following:

I. To fund projects with an average useful life(s) often years or less;

2. To fund projects with total financing costs of less than ten million ($10,000,000);

3. To fund projects during the construction phase of a project; or

4. To fund cash flow deficits.

## Debt Management Practices

### *A. Structure*

The Board shall establish by resolution all terms and conditions relating to the issuance of debt and will invest all proceeds pursuant to the terms of the Board's authorizing resolution and the Authority's Investment Policy.

1. **Term**
   The term of any debt (including refunding debt) shall not be materially greater than the average useful life of the project as a whole.

2. **Capitalized Interest**
   From time-to-time certain financings may require the use of capitalized interest. Interest may be financed (capitalized) through a period permitted by federal law when it is determined that doing so is beneficial to the financing of the project.

3. **Debt Service Structure**
   The Authority should generally strive to avoid use of bullet maturities unless it is advantageous to the Authority to do so. This does not include term bonds with sinking fund requirements.

4. **Call Provisions**
   Call features should be structured to provide the maximum flexibility relative to cost. The Authority will avoid the sale oflong-term, non-callable bonds absent careful evaluation with respect to the value of the call option.

5, **Original Issuance Discount/Premium**

Bonds sold with original issuance discounUpremium are permitted with the approval of the Board.

## *B. Reji11a11ci11g 011tsta11di11g Debt*

The Chief Financial Officer shall have the responsibility to analyze outstanding bond issues for refunding opportunities and to make recommendations for refinancing to the Board. The Board will consider the following issues when analyzing possible refunding opportunities:

1. **Debt Service Savings**

   The bonds will be considered for refunding when:

   - The refunding of the bonds to be refunded results in savings; or
   - The refunding of the bonds is necessary due to a change in private/public use of a project that would cause a need to change the tax status of the Bonds; or
   - The refunding is primarily for restructuring purposes.

2. **Tenn of Refunding Issues**

   It is the Board's general intent to refund bonds within the term of the originally issued debt (i.e., the backloading of debt is generally discouraged). In the event the bonds are not refunded within the term of the originally issued debt, management shall provide the Board an explanation detailing the purposes for extending the term of the debt. Permissible explanations might include extending the debt term to achieve certain airline cost per enplanement targets, improve coverage ratios and credit ratings, to combine refunding opportunities with the issuance of new debt, or to restructure debt.

3. **Escrow Structuring**

   The Authority should consider the least costly securities available in strncturing refunding escrows, seek competitive bids on a selected portfolio of securities, and award to the lowest cost provider whenever it is in the best interest of the Authority. The provider must guarantee the delivery of securities. Substitution of securities will either be permitted or not. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Authority from its own account.

   In the event of a current refunding for savings, the level of economic savings shall be determined, and on the sale date, certified by the Chief Financial Officer or the financial advisor.

## *C. Methods of Sale*

The Authority is free to choose the method of sale but should make a selection that is in the best interest of the Authority. Most revenue bonds issued by airport authorities are sold by means of negotiated sales as the result of the need to explain the credit to the market and the rating agencies. The Authority shall use the following guidelines for each method of sale.

1. **Competitive** - In a competitive sale, the bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale.

2. **Negotiated-In** a negotiated sale, the underwriter(s) will be chosen through a Request for Qualification (RFQ) process, or other means selected by the Chief Financial Officer. The interest rate and underwriter's fees will be negotiated prior to the sale. The factors to be considered for a negotiated sale include the following:

   - Volatility of market conditions;
   - Size of the bond sale;
   - Credit strength;
   - Whether the bonds are issued as variable rate demand obligations.

3. **Private Placement**

   From time to time the Authority may elect to privately place its debt. Such placement may be considered if this method is demonstrated to result in a cost savings relative to other methods of debt issuance or is otherwise in the best interest of the Authority.

## *D. Underwriter Selection (Negotiated Tra11sactio11)*

1. **Senior Management Selection** - The Chief Financial Officer, with the assistance of the financial advisor, shall select the Senior Manager for a proposed negotiated sale. In the absence of a financial advisor, the Chief Financial Officer may appoint an evaluation team to assist in the selection. The selection criteria shall include, but may not be limited to the following:

   - Ability and experience in managing complex transactions similar to the proposed financing;
   - Prior knowledge and past experience with the Authority;
   - Willingness to risk capital and demonstration of such risk;
   - Quality and experience of personnel assigned to the engagement;
   - Financing ideas presented; and
   - Underwriting fees.

2. **Co-Manager Selection** - Co-managers will be selected on the same basis as the Senior Manager. The number of co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the bonds. The Chief Financial Officer will affirmatively determine the designation policy for each bond issue.

4. **Underwriter's Counsel-** In any negotiated sale of the Authority's debt in which legal counsel is required to represent the underwriter, the appointment will be made by the Senior Manager with input from the Chief Financial Officer and financial advisor.

5. **Underwriter's Discount** - Management should evaluate the proposed underwriter's discount in comparison to other issues in the market. lfthere are multiple underwriters in the transaction, the Chief Financial Officer will determine the allocation of fees with respect to the management fee, if any. The determination will be based upon participation in the structuring phase of the transaction. All fees and allocation of the management fee will be determined prior to the sale date; a cap on management fee, expenses and underwriter's counsel will be established and communicated to all parties. The Senior Manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

6. **Evaluation of Underwriter Performance** - The Chief Financial Officer, with the assistance of the financial advisor, will evaluate each bond sale after completion to assess the following: costs of issuance including the underwriter's compensation; pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis; and the distribution of bonds and sales credit.

   Following each sale, the Chief Financial Officer, with the assistance of the financial advisor, should provide a report to the Board on the results of the sale.

## *E. Credit Quality*

The Authority's debt management activities will be conducted to receive the highest credit ratings possible, consistent with its financing objectives. The Chief Executive Officer and Chief Financial Officer will be responsible for maintaining relationships and communicating with the rating agencies that assign ratings to the Authority's debt. The Chief Financial Officer will provide the rating agencies with periodic updates of the general financial condition of the Authority. Full disclosure of operations and open lines of communication shall be maintained with the rating agencies. The Chief Financial Officer, together with the financial advisor, shall prepare and make presentations to the rating agencies to assist credit analysts in making an informed decision. The Chief Financial Officer should consider scheduling in-person or virtual meetings with rating agencies upon the request of the rating agencies or as often as conditions warrant.

## *F. Credit E11ha11ceme11ts*

The Authority should consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus the cost. The Authority may consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements:

1. **Bond Insurance**
   The Authority may purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds. The Authority, with the assistance of the financial advisor, should solicit quotes for bond insurance from interested parties.

2. **Letters of Credit**
   The Authority may enter a letter-of-credit (LOC) agreement when such an agreement is deemed prudent and advantageous. Although not required, the Authority may prepare and distribute a request for qualifications to qualified banks or other qualified financial institutions which includes terms and conditions that are acceptable to the Board.

3. **Liquidity**
   For variable rate debt requiring liquidity facilities to protect against remarketing risk, the Authority will evaluate:

   - Alternative forms of liquidity, including direct pay letters of credit, standby letters of credit, and lines of credit, in order to balance the protection offered against the economic costs associated with each alternative;
   - Diversification among liquidity providers, thereby limiting exposure to any individual liquidity provider;
   - All cost components attendant to the liquidity facility, including commitment fees, standby fees, draw fees, and interest rates charged against liquidity draws; and
   - A comparative analysis and evaluation of the cost of external liquidity providers compared to the requirements for self-liquidity.

## *G. Use of Structured Products*

Interest rate agreements or forward purchase agreements will be considered on a case-by-case basis, after assessing the risks attendant with each agreement before the transaction is considered.

### H. *Risk Assessment*

The Authority will evaluate each transaction to assess the types and amounts of risk associated with that transaction, considering all available means to mitigate those risks. The Authority will evaluate all proposed transactions for consistency with the objectives and constraints defined in this Policy. The following risks should be assessed before issuing debt:

1. **Change in Public/Private Use** - The change in the public/private use of a project that is funded by tax-exempt funds could potentially cause a bond issue to become taxable.

2. **Default Risk** - The risk that debt service payments cannot be made by the due date.

3. **Liquidity Risk** - The risk of having to pay a higher rate to the liquidity provider in the event of a failed remarketing.

4. **Interest Rate Risk** - The risk that interest rates will rise, on a sustained basis, above levels that would have been set if the issued had been fixed.

5. **Rollover Risk** - The risk of the inability to obtain a suitable liquidity facility at an acceptable price to replace a facility upon termination or expiration of a contract period.

6. **Credit Risk** - The risk that an issuer of debt securities or a borrower may default on his obligations by failing to repay principal and interest in a timely manner.

### L *Co1lti1111ing Disclosure*

The Authority will comply with SEC Rule I 5c2-l2 related to the provision of its audited annual financial information, certain financial information and operating data by specified dates, and the provision of notice of certain enumerated events with respect to the bonds, if material. Such material events include:

1. Principal and interest payment delinquencies;

2. Nonpayment-related defaults;

3. Unscheduled draws on debt service reserves;

4. Unscheduled draws on credit enhancements;

5. Substitution of credit or liquidity providers or the failure ofperfonnance on the part ofa liquidity provider;

6. Adverse tax opinions or events affecting the tax-exempt status of any bonds;

7. Modifications to rights of bond holders;

8. Bond calls;

9. Defeasances;

10. Release, substitution, or sale of propetiy securing repayment;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar events;

13. Consummation of a merger, consolidation, or acquisition;

14. Appointment of a successor or additional trustee;

15. Incurrence of a financial obligations; and

16. Default, event of acceleration, termination event or modification of terms of a financial obligation.

## *J. Transparency*

The Authority shall comply with Ohio's Open Meetings Act, providing adequate public notice of meetings and specifying on the agenda when matters related to debt issuance will be considered. Additionally, in the interest of transparency, all costs (including interest, issuance, continuing, and one-time) shall be disclosed to the public in a timely manner.

Within a reasonable period of closing on a debt transaction, the debt service schedule outlining the rate of retirement of the principal amount shall be made available to the public.

This may be accomplished by press release, publication in the Authority's annual comprehensive financial report (ACFR), posting to the Authority's website or by other means intended to disclose this information to the general public.

## *K. Professional Services*

The Board requires all professionals engaged to assist in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by the Board. This includes "soft" costs or compensations in lieu of direct payments.

1. **Counsel** - The Authority will enter into an engagement letter agreement with each lawyer or law firm representing it in a debt transaction. No engagement letter is required for any lawyer who is an employee of the Authority or lawyer or law firm which is under a general appointment or contract to serve as counsel to the Authority. No engagement letter is required for counsel not representing the Authority, such as underwriters' counsel.

2. **Bond Counsel** - Bond counsel is contracted by the Authority and serves to assist it in all its debt issues.

3. **Financial Advisor** - The financial advisor is contracted by the Authority and serves and assists on financial matters. The Authority shall approve the written agreement with the firm serving as financial advisor in debt management and transactions. The financial advisor shall not be permitted to bid on or underwrite an issue for which they are or have been providing advisory services.

4. **Underwriter** - If there is an Underwriter, the Underwriter is to clearly identify themselves in writing (e.g., in a response to a request for proposals or in promotional materials provided to an issuer) as an underwriter and not as a financial advisor from the earliest stages of its relationship with the Authority with respect to that issue. The Underwriter must clarify its primary role as a purchaser of securities in an arm's-length commercial transaction and that **it** has financial and other interests that differ from those of the Authority. The Underwriter in a publicly offered, negotiated sale shall be required to provide pricing information both as to interest rates and to takedown per maturity to the Authority in advance of the pricing of the debt.

## *L. Potential Conflicts of Interest*

Professionals involved in a debt transaction, hired or compensated by the Authority, shall be required to disclose to the Authority any existing client or business relationships between and among the professionals to a transaction (including but not limited to financial advisor, bond counsel, trnstee, paying agent, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations, and program administrators. This disclosure shall include that information reasonably sufficient to allow the Authority to appreciate the significance of the relationships. Professionals who become involved in the debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard, electronic bidding platform are not subject to this disclosure. No disclosure is required that would violate any rnle or regulation of professional conduct.

## Debt Administration

### *A. Pla1111i11g for Sale*

1. Prior to submitting a bond resolution for approval, the Chief Financial Officer, with assistance of the financial advisor, will present to the Board the purpose of the financing, the proposed structure of the financing, the proposed method of sale for the financing, members of the proposed financing team, and an estimate of all the costs associated with the financing, and/or;

2. In the case of a proposed refunding, proposed use of credit enhancement, or proposed use of variable rate debt, the Chief Financial Officer will present the rational for using the proposed debt structure, an estimate of the expected savings associated with the transaction or the other reasons for undertaking the refunding and a discussion of the potential risks associated with the proposed structure, and/or;

3. The Chief Financial Officer, bond counsel, financial advisor, along with other members of the financing team will prepare a Preliminary Official Statement describing the transaction and the security for the debt that is fully compliant with all legal requirements.

### *B. PostSale*

1. The Chief Financial Officer will present a post-sale report to the members of the Board describing the transaction and setting fo1th all the costs associated with the transaction.

2. The financial advisor will provide a closing memorandum with written , instructions on transfer and the flow of funds.

3. The Chief Financial Officer will establish guidelines and procedures for tracking the flow of all bond proceeds, as required by the Internal Revenue Code, over the life of bonds for the purpose of monitoring the expenditure and investment of proceeds and calculation of arbitrage and any rebate obligations.

### *C. Arbitrage*

Compliance with arbitrage requirements on invested tax-exempt bond funds will be maintained. Proceeds that are to be used to finance construction expenditures are exempted from the filing requirements, provided that the proceeds are spent in accordance with requirements established by the IRS. The Authority will comply with all of its tax certificates for tax-exempt financings by monitoring the arbitrage earning on bond proceeds on an interim basis and by rebating all positive arbitrage when due, pursuant to Internal Revenue Code Section 148. The Authority may contract \Vith an arbitrage consultant to prepare these calculations when needed. The Authority will also retain all records relating to debt transactions for as long as the debt is outstanding, plus three years after the final redemption date of the transaction.

***D.*** *Ⅰ11vestment of Proceeds*

Any proceeds or other funds available for investment by the Board must be invested pursuant to the Authority's Investment Policy.

## Review of the Policy

The debt policy guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt. The Board maintains the right to modify these guidelines and may make exceptions to any of them at any time to the extent that the execution of such debt achieves the Board's goals.

This policy will be reviewed by the Chief Financial Officer periodically and as part of the debt issuance process. At that time, the Chief Financial Officer will present any recommendations for any amendments, deletions, additions, improvement, or clarification to the Board.

## Approvals

Fabio Spino, Chief Financial Officer

Suzanne Bell, Senior Attorney