CHICAGO TRANSIT AUTHORITY
Debt Management Policy Guidelines

May 8, 2019

I. Introduction

Purpose of Debt Management Policy Guidelines

The purpose of these Debt Management Policy Guidelines (the "Policy Guidelines") is twofold. First, the Policy Guidelines will serve as a management tool to enable the Chicago Transit Authority (the "CTA" or the "Authority") to (a) identify transactions that utilize debt in the most efficient manner and (b) provide for full and timely repayment of all borrowings. Second, the Policy Guidelines will establish guidelines for the appropriate amount and type of debt as a means of (a) achieving the lowest possible cost of capital within prudent risk parameters and (b) ensuring ongoing access to the capital markets.

Authority, Scope and Review

The CTA is a political subdivision, body politic and municipal corporation of the State of Illinois organized and existing under the Metropolitan Transit Authority Act, 70 Illinois Compiled Statutes 3605 (the "Act"). CTA's continuing power to issue revenue bonds is set forth in Section 12 of the Act. All debt obligations of CTA will comply with the requirements of the Act and the Bond Authorization Act as well as all other applicable laws, regulations and Board Ordinances.

CTA will apply these Policy Guidelines to all short and long-term bonds and notes as well as any direct borrowing programs it considers. These Policy Guidelines, however, will not cover equipment leases.

The Policy Guidelines will be reviewed periodically and any changes to the Policy Guidelines must be presented to and approved by the Chicago Transit Board (the "Board"). The Policy Guidelines will be made available on CTA's website (www.transitchicago.com).

Administration of Policy Guidelines

The Chief Financial Officer and Treasurer ("CFO") shall be responsible for managing, implementing and reviewing the Policy Guidelines and recommending appropriate debt offerings to the Board from time to time.

<u>General Best Interest of Authority</u>

While adherence to the Policy Guidelines is desirable, the Board recognizes that deviations from the Policy Guidelines may be appropriate to address 1) changing financial goals, 2) emerging financial products / debt structures and 3) unique market opportunities. As a result, the general best interests of CTA shall supersede any Policy Guidelines provision.

II. General Debt Issuance Policies

<u>Use of Debt</u>

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

Long-Term Debt: Long-term bonds/notes are preferred for financing essential capital activities including the acquisition, construction and rehabilitation of major capital assets or to fund other special programs, such as self-insurance, unemployment insurance and unfunded pension liability programs.

Short-Term Debt: CTA may use short-term bonds/notes as a cash management tool to provide interim financing for capital financing activities, to bridge temporary cash flow deficits within a fiscal year, and/or to reduce interest rate costs. Short-term debt obligations may include commercial paper, grant anticipation notes, working cash notes, variable rate bonds, bond anticipation notes, lines of credit as well as any other appropriate instruments.

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

Direct Borrowing: Where direct borrowing/lending (such as TIFIA loans) would prove more economically beneficial, the CTA will consider direct loan obligations. However, the CTA will only proceed with a direct loan transaction if the transaction creates tangible benefits including but not limited to interest cost savings after considering administrative cost, increased financial flexibility and additional requirements associated with direct lending vis-à-vis traditional bond financing.

<u>Financing Purposes</u>

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

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

Refunding Bonds: CTA may issue refunding bonds to achieve debt service savings on its outstanding bonds by redeeming high interest rate debt with lower interest rate debt. The CTA may structure the savings from these bonds on a level, accelerated or deferred basis depending on the Authority's financing goals. When identifying potential refunding candidates for refundings, the Authority will generally seek a per bond net present value savings guideline of 3% based on market conditions. The Authority will review and reserves the right to change its refunding guidelines to maximize financial objectives. Notwithstanding the above, the 3% savings guideline shall not apply for bonds with a call date between one and three years from their stated maturity, or for small principal maturities and bonds that produce significant negative arbitrage.

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

Credit Ratings

CTA shall have a ratings strategy that is guided by achieving the best economic situation for the Authority. Attaining a proper balance between minimizing borrowing cost and maximizing financial flexibility will be one of the major goals of CTA debt program.

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

CTA will strive to communicate regularly and frequently with the rating agencies. As requested, the Authority will forward information to the rating agencies, arrange regular conference calls to update the rating analysts on any significant financial developments and communicate with the rating agencies prior to each CTA bond sale.

Subordinate Liens

The CTA may determine for some of its revenue sources that it may be advantageous to issue subordinate lien debt. In such cases, first and subordinate liens for these revenue sources will be utilized in a manner that addresses the most critical constraint – typically either cost, debt capacity or structure thus allowing for the most beneficial use of the revenue source securing the bonds.

Tax Status

The Authority may issue debt on a taxable or tax-exempt basis. CTA has a preference for issuing debt on a tax-exempt basis to take advantage of the interest costs savings compared to issuing taxable debt.

Credit Enhancement

CTA may secure credit enhancement for all or a portion of each bond issue. Credit enhancement may come in the form of municipal bond insurance or a letter / line of credit. The CFO or designee shall make the final recommendation to use credit enhancement taking into account such factors as the economic benefit of the enhancement, CTA's available insurance capacity with the insurance community and future secondary market trading conditions. CTA will not secure credit enhancement unless the premium cost is less than the present value of the projected interest savings or if such credit enhancement enhances capital market access and/or facilitates liquidity in the secondary market for the securities. For municipal bond insurance, or other forms of credit enhancement which are paid for with an upfront premium, CTA will analyze the economic benefit both to the maturity of the bonds and to the first optional redemption date.

CTA may also use a letter or line of credit ("LOC") to provide credit support for its debt. The Authority shall consider the following criteria when selecting the LOC provider: 1) Long-term ratings at least equal to or better than CTA's; 2) Short-term ratings of P-1 / A-1; 3) Business terms and conditions acceptable to CTA; 4) Representative list of clients for whom the bank has provided credit support; 5) Fees - cost of LOC, draws, bank counsel and other administrative costs; and 6) Trading differential cost. CTA may select a liquidity facility to provide liquidity on variable rate bonds. The same criteria for selecting a LOC provider will apply to selection of a liquidity provider.

The CTA may also fund a debt service reserve fund to enhance the marketability of its bonds. For bond issues that require a debt service reserve fund, the CTA may purchase a surety bond policy to satisfy the reserve fund requirement in lieu of funding.

III. Method of Sale and Use of Professionals

Method of Bond Sale

The Authority may choose between the following three different bond sale methods: negotiated, competitive and private placement, but prefers the use of negotiated bond sales. Factors which may be considered when determining the most efficient bond sale method include:

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

Selection of Bond Financing Professionals

"Bond Underwriting Professionals" and "Bond Financial Advisory Professionals" include firms that provide either underwriting or financial advisory services, respectively, to the CTA. These firms shall be selected on a competitive basis to create pools of qualified vendors pursuant to the Letters of Interest and Qualifications ("LIQ") or Request for Proposals ("RFP") process. The CTA will select firms for the pools based upon such factors as underwriting/advisory experience, reputation of assigned personnel, expertise in transportation financing and knowledge of CTA. In addition to the factors set forth hereinabove, the Authority shall strive for diversity and provide opportunity for DBE and other minority and women-owned firms as part of each financing team. All businesses evaluated and qualified through the LIQ process shall be submitted to the Board for its approval.

As part of the RFP process for financial advisory services, the CTA will select and retain at all times one or more independent registered municipal advisors (IRMAs) to review financing ideas provided to the Authority from Bond Underwriting Professionals and Bond Financial Advisory Professionals.

In addition to the above, the CTA may periodically solicit separately for specialized services, including short-term lending products, based on the financial needs of the Authority and market factors at the time of the solicitation. The market for banks that offer short-term lending products to governments generally tends to change more frequently and is much smaller than the market for firms that provide bond underwriting services. As such, the CTA may solicit bids for short-term borrowing programs from any firms the Authority deems viable at the time of the financing.

CTA requires its Bond Underwriting Professionals and Bond Financial Advisory Professionals to provide services in accordance with all currently applicable Municipal Securities Rulemaking Board (MSRB) rules and any subsequent MSRB rulings or requirements. Bond Underwriting Professionals must provide services in accordance with MSRB Rule G-17, including disclosure of all conflicts. Bond Financial Advisory Professionals must act in accordance MSRB Rule G-42 and will be subject to a fiduciary duty that includes a duty of loyalty and a duty of care. In addition, Rule G-42 requires disclosure of conflicts of interest.

The CFO may review the pools on an annual basis. If the CFO determines that additional qualified firms not currently in a pool are available, the LIQ process may be repeated to solicit additional firms to add to the pool(s). In such case, firms that are already in a pool will not be required to resubmit. Following the LIQ process, an ordinance will be submitted to the Board amending the previously approved pool. Such firms will only be added to a pool for the remaining balance of the term of the pool.

IV. Disclosure

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

The Authority will also remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data on the Electronic Municipal Market Access (EMMA) repository for the benefit of its bondholders within the timeframe required under each financing. CTA will make its financial statements, annual budget and official statements available on its website. The CTA will ensure all other continuing disclosure activities are performed in accordance with the CTA’s continuing disclosure undertakings.

V. Post Issuance Considerations

The CTA will comply with all post issuance tax requirements as detailed in the individual tax compliance certificate executed in connection with each bond or note sale.

Investment of Bond Proceeds

Unless otherwise authorized by the Board, CTA shall invest the sale proceeds of its bonds in accordance with the CTA's Investment Policy (passed by Ordinance No. 019-44, as it may be amended from time to time). CTA shall invest bond proceeds in a manner that allows proceeds to be available when needed.

Arbitrage Rebate

CTA shall retain an arbitrage rebate specialist within two years from the issuance of each series of bonds to perform annual arbitrage rebate calculations. In addition, CTA shall require that calculations are performed within sixty days of the five-year anniversary date of the bonds (or the first computation date for rebate purposes) and every five years thereafter until the bonds are paid in full.

Trustee Relationships and Monitoring of Trustee Activities

The Authority shall periodically monitor trustee activities made on behalf of the CTA.

Authorization

These Policy Guidelines have been authorized by the Chicago Transit Board by Ordinance No. 019-43.