

LANE TRANSIT DISTRICT

RESOLUTION NO: 2001-027


**A RESOLUTION BY THE BOARD OF DIRECTORS ADOPTING DEBT
MANAGEMENT POLICIES TO BECOME EFFECTIVE UPON APPROVAL**

WHEREAS, it is the goal of the District to maintain a long-term, stable, and positive financial condition; and

WHEREAS, well-planned and prudent financial management, which includes the administration and management of debt financing, is essential to the achievement of District goals;


THEREFORE, BE IT RESOLVED, that the Lane Transit District Board of Directors hereby adopts the Lane Transit District Debt Policy as presented.

ADOPTED this 20th day of June, 2001.



Presiding Officer

ATTEST:



Clerk of the Board

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**LANE TRANSIT DISTRICT
DEBT POLICY
June 2001**

PURPOSE

The Debt Policy sets forth comprehensive guidelines for the financing of capital expenditures. It is the objective of the policy that (1) the District obtain financing only when advisable, (2) the process for identifying the timing and amount of debt or other financing be efficient, (3) competitive interest and other costs be obtained, and (4) the debt policy of the District shall conform with applicable state and federal law.

USE OF DEBT FINANCING

Debt financing, to include general obligation bonds, revenue bonds, certificates of participation, lease/purchase agreements, and other obligations permitted to be issued or incurred under Oregon law, shall be used only to: purchase revenue rolling stock; purchase or construct related operating equipment; and/or purchase or construct real property, facilities, and other improvements. The useful life of the asset or project shall exceed the payout schedule of any debt the District assumes in order to acquire the asset or project.

RESPONSIBILITY

The primary responsibility for developing financing recommendations rests with the CFO/Finance Manager. No less than annually the CFO/Finance Manager shall prepare for the Finance Committee a written report on the status of Capital Improvements Program (CIP) financing. The report shall include a projection of near-term financing needs compared with available resources, an analysis of the impact of contemplated financings on the Long-Range Financial Plan and the Capital Improvements Program, and financing recommendations.

In developing financing recommendations, the CFO/Finance Manager shall consider the following:

- The time proceeds of obligation expected to remain on hand and the related carrying cost
- The options for interim financing, including short-term and interfund borrowing, taking into consideration federal and state reimbursement regulations
- Trends in interest rates
- Other factors as appropriate

The CFO/Finance Manager shall prepare a resolution of intent to issue bonds authorizing staff to proceed with preparations for the consideration of the Board of Directors when the capital budget is presented.

Bond Counsel Involvement

The Bond Counsel will issue an opinion as to the legality and tax-exempt status of all obligations. The District also may seek the advice of Bond Counsel on other types of financing and on any other questions involving federal tax or arbitrage law. Bond Counsel also is responsible for the preparation of the resolution authorizing issuance of obligations, all of the closing documents to

complete their sale, and performance of other services as defined by contract approved by the District's Board of Directors.

Financial Advisor Involvement

The District will seek the advice of the Financial Advisor when appropriate, and when required by law. The Financial Advisor will advise on the structuring of obligations to be issued, inform the District of various options, advise the District as to how choices will impact the marketability of District obligations, and provide other services as defined by contract approved by the District's Board of Directors. To ensure independence, the Financial Advisor neither will bid on nor underwrite any District debt issues. The Financial Advisor will inform the Finance Manager of significant issues.

SHORT-TERM DEBT

General

Short-term obligations may be issued to finance projects or portions of projects for which the District ultimately intends to issue long-term debt; i.e., it will be used to provide interim financing that eventually will be refunded with the proceeds of long-term obligations. Short-term obligations may be backed with a tax or revenue pledge, or a pledge of other available resources.

Interim

Interim financing may be appropriate when long-term interest rates are expected to decline in the future. In addition, some forms of short-term obligations can be obtained more quickly than long-term obligations and, thus, can be used in emergencies until long-term financing can be obtained. In some cases when the amount of financing required in the immediate future is relatively small, it may be more cost-effective for the District to issue a small amount of short-term obligations to provide for its immediate needs than to issue a larger amount of long-term obligations to provide financing for both immediate and future needs when the carrying costs of issuing obligations that are not immediately needed are taken into account.

Line of Credit

With the approval of the Board of Directors, the District may establish a tax-exempt line of credit with a financial institution selected through a competitive process. Draws shall be made on the line of credit when (1) the need for financing is so urgent that time does not permit the issuance of long-term debt, or (2) the need for financing is so small that the total cost of issuance of long-term debt, including carrying costs of debt proceeds not needed immediately, is significantly higher. Draws will be made on the line of credit to pay for projects designated for line-of-credit financing by the Board of Directors. Only projects that ultimately will be financed with the proceeds of authorized bonds may be so designated.

Borrowings under the line of credit shall be retired with the proceeds of long-term debt. Interest on borrowings will be repaid from current revenues. A takeout agreement or alternate financing source will be provided for additional security in addition to the tax or revenue pledge.

Additionally, a line of credit may be established to fulfill bond covenant requirements for a reserve fund when permitted under applicable ordinances and when it is cost beneficial to do so.

LONG-TERM DEBT

General

Long-term obligations will not be used for operating purposes, and the life of the obligations will not exceed the useful life of the projects financed. Debt service structure will approximate level debt service unless operational matters dictate otherwise. The District will strive to limit its annual issuance of long-term obligations to either \$5 million or \$10 million to take advantage of small-issuer exemptions in the federal arbitrage laws. Should subsequent changes in the law raise these limits, then the District's policies will be adjusted accordingly.

The cost of issuance of private activity bonds usually is higher than for governmental purpose bonds. Consequently, private activity bonds will be issued only when they will economically benefit the District. The cost of taxable debt is higher than for tax-exempt debt. However, the issuance of taxable debt is mandated in some circumstances and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the bond proceeds. Therefore, the District usually will issue tax-exempt obligations, but occasionally may issue taxable obligations.

Bonds

Long-term general obligation bonds may be issued to finance significant capital improvements for purposes set forth by the Board of Directors when authorized by voters in a properly called election. Revenue bonds also may be issued for such purposes. (Revenue bonds do not require voter approval.) Bonds will have an average life of not more than the average useful life of the rolling stock or facility being financed or 20 years, whichever is less. The structure should approximate level debt service for both general obligation and revenue bonds. Outstanding general obligation bonds shall never exceed in the aggregate 2.5 percent of the real market value of all taxable property in the District. Revenue bonds must be payable, both as to principal and interest, solely from the net revenues of the District after payment of obligations having priority and payment of expenses including taxes.

Call provisions for bond issues shall be made as short as reasonably possible, consistent with the lowest interest cost to the District. When feasible, all bonds shall be callable at par.

When cost-beneficial and when permitted under applicable ordinances, the District may consider the use of surety bonds, lines of credit, or similar instruments to satisfy reserve requirements.

For the District to issue new revenue bonds, revenues (as defined in the resolution authorizing the revenue bonds in question) net of all expenses shall be a minimum of 125 percent of the average annual debt service and 110 percent of the debt service for the year in which requirements are scheduled to be the greatest. Revenues net of all expenses should be maintained at 150 percent of the maximum annual debt service for financial planning purposes. Annual adjustments to the District's rate structure will be made as necessary to maintain a 150 percent coverage factor.

Negotiated versus Competitive Sale versus Private Placement

When feasible and economical, obligations shall be issued by competitive rather than negotiated sale. Whenever the option exists to offer an issue either for competition or for negotiation, analysis of the options shall be performed to aid in the decision-making process. When a sale is not competitively bid, the District publicly will present the reasons and will participate with the Financial Advisor in the selection of the underwriter or direct purchaser.

When cost-beneficial, the District may privately place its debt. Private placement sometimes is an option for small issues. The opportunity may be identified by the Financial Advisor.

Bidding Parameters

The notice of sale will be constructed so as to ensure the most favorable bid for the District, in light of existing market conditions and other prevailing factors. Parameters to be examined include the following:

- Limits between lowest and highest coupons
- Coupon requirements relative to the yield curve
- Method of underwriter compensation--discount or premium coupons
- Use of true interest cost (TIC) versus net interest cost (NIC)
- Use of bond insurance
- Deep discount bonds
- Variable rate bonds
- Call provisions

REFUNDING

The District shall consider refunding debt whenever an analysis indicates the potential for present value savings of approximately 5 percent of the principal being refunded or at least \$200,000. The District will not refund less than 5 percent of its outstanding debt at one time except in unusual circumstances, such as when it intends to change bond covenants.

Private activity bonds may be refunded in a current refunding only.

CAPITAL LEASING

Capital leasing or lease/purchase agreements are an option for the acquisition of a piece or package of equipment costing less than \$500,000.

Whenever a lease is arranged with a private sector entity, a tax-exempt rate shall be sought. Whenever a lease is arranged with a government or other tax-exempt entity, the District shall strive to obtain an explicitly defined taxable rate so that the lease will not be counted in the District's total annual borrowings subject to arbitrage rebate.

The lease agreement shall permit the District to refinance the lease at no more than reasonable cost should the District decide to do so. A lease that can be called at will is preferable to one that merely can be accelerated.

Since the market for lease financings is relatively inefficient, the interest rates available at any one time may vary widely. Therefore, the District shall obtain at least three competitive proposals for any major lease financing. The net present value of competitive bids shall be compared, taking

into account whether payments are in advance or in arrears and how frequently payments are made. The purchase price of equipment shall be bid competitively, as well as the financing cost.

The advice of the District's Bond Counsel shall be sought in any leasing arrangement and when federal tax forms 8038 are prepared to ensure that all federal tax laws are obeyed.

The District may consider issuing certificates of participation to finance a very large project. Care should be taken because financing costs may be greater than for other types of financing.

OTHER TYPES OF FINANCING

From time to time, other types of financing may become available. Examples of these options are debt pools with other entities and low-interest loans from state agencies. The Finance Manager will prepare a written analysis of such options. This report will include consideration of the advice of the District's Bond Counsel and Financial Advisor.

OFFICIAL STATEMENT

The Official Statement is the disclosure document prepared by or on behalf of the District for an offering of securities.

Responsibility

The preparation of the Official Statement is the responsibility of the Finance Manager. Information for the Official Statement is gathered from departments/divisions throughout the District.

Timing

The Finance Manager or designee will begin assembling the information needed to update the Official Statement in October or as soon as the Comprehensive Annual Financial Report (CAFR) for the preceding June 30 year-end is complete. Capital budget information from the current-year budget process will be included. After all information has been gathered and assembled, it will be held for the next anticipated bond sale. If the next anticipated bond sale is expected to be more than seven months after fiscal year-end, then the prior year's audited financial statement information must be updated using unaudited figures.

Auditor's Involvement

The District will include a review of its Official Statement in the contract for services with its external audit.

RATINGS

The District's goal is to establish and maintain a respectable bond rating. Toward that end, prudent financial management policies will be adhered to in all areas.

Full disclosure of operations shall be made to the bond rating agencies. The District staff, with the assistance of the Financial Advisors and Bond Counsel, will prepare the necessary materials for a presentation to the rating agencies.

The District shall maintain lines of communication with the rating agencies (Moody's, Standard and Poor's, and Fitch), informing them of major financial events in the District as they occur. The CAFR shall be distributed to the rating agencies after it has been accepted by the Board of Directors.

The rating agencies also will be notified either by telephone or through written correspondence when the District begins preparation for a debt issuance. After the initial contact, a formal ratings application will be prepared and sent, along with the draft of the Official Statement relating to the bond sale, to the rating agencies. This application and related documentation should be sent several weeks prior to the bond sale to give the rating agencies sufficient time to perform their review.

A personal meeting with representatives of the rating agencies will be scheduled as needed upon the recommendations of the Financial Advisor.

CREDIT ENHANCEMENTS

Credit enhancements are mechanisms that guarantee principal and interest payments. They include bond insurance and a line or letter of credit. A credit enhancement, while costly, usually will bring a lower interest rate on debt and a higher rating from the rating agencies, thus lowering overall costs.

During debt issuance planning, the Financial Advisor will advise the District whether or not a credit enhancement is cost effective under the circumstances and what type of credit enhancement, if any, should be purchased. In a negotiated sale, bids will be taken during the period prior to the pricing of the sale. In a competitive sale, bond insurance may be provided by the purchaser if the issue qualifies for bond insurance.

CONTINUING DISCLOSURE

The District is committed to continuing disclosure of financial and pertinent credit information relevant to the District's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure.

The CFO/Finance Manager will be designated "Compliance Officer" for disclosure requirements.

Copies of the CAFR and updated tables from the Official Statement are submitted to all nationally recognized municipal information depositories (NRMSIRs) and state information depositories (SIDs) within six months of fiscal year-end.

ARBITRAGE LIABILITY MANAGEMENT

It is the District's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law.

General

Federal arbitrage legislation is intended to discourage entities from issuing tax-exempt obligations unnecessarily. In compliance with the spirit of this legislation, the District will not issue obligations except for identifiable projects with very good prospects of timely initiation.

Responsibility

Because of the complexity of arbitrage rebate regulations and the severity of noncompliance penalties, the advice of Bond Counsel and other qualified experts will be sought whenever questions about arbitrage rebate regulations arise.

Internal Interim Financing

In order to defer the issuance of obligations, when sufficient nonrestricted reserve funds are on hand, consideration shall be given to appropriating them to provide interim financing for large construction contracts or parts of contracts. When the appropriations are subsequently re-financed with the proceeds of obligations or other resources, the nonrestricted reserve funds shall be repaid. When expenditures are reimbursed from debt issuances, applicable state law and the Internal Revenue Service rules on reimbursements will be complied with so that the reimbursements may be considered expenditures for arbitrage purposes. Requirements in general are as follows:

- The District shall declare its intention to reimburse an expenditure with debt proceeds before paying the expenditure and will exclude costs such as design and engineering fees or cost of issuance.
- Reimbursement bonds must be issued and the reimbursement made within one year after the expenditure was made or the property financed by the expenditure was placed in service, whichever is later.
- The expenditure to be reimbursed must be a capital expenditure.

MODIFICATION TO POLICY

This policy and its provisions will be reviewed annually by the LTD Board Finance Committee. The Committee may approve minor changes of a housekeeping nature. Significant policy changes will be presented to the Board of Directors for confirmation.

Board Adoption: _____, 2001.

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