Missouri Transportation Finance Corporation
Loan Policy

Purpose

The purpose of this document is to provide written guidelines for the processing of applications and approval of direct loans by the Missouri Transportation Finance Corporation (MTFC) under the Missouri state infrastructure bank program.

Policy

1. Organization

The authority to form and operate the MTFC is initially derived from the Transportation Equity Act for the 21st Century (TEA-21). The MTFC incorporated in August 1996, adopted bylaws and subsequently entered into a Cooperative Agreement (hereinafter "Cooperative Agreement") with the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA), the Federal Railroad Administration (FRA), agencies of the United States Department of Transportation (USDOT) and the Missouri Highways and Transportation Commission (Commission). Under the authority granted initially by TEA-21, as amended by 23 U.S.C. 610, the Missouri Non Profit Corporation Act, Chapter 355, RSMo, and pursuant to the Cooperative Agreement, the Commission organized the MTFC to assist in financing transportation improvements.

The MTFC is administered by an eight member Board of Directors. The Board will consist of three members from the Missouri Department of Transportation, three members of the Missouri Highways and Transportation Commission (MHTC) and two at-large members with knowledge of business or finance. The Board is responsible for the direction of the MTFC and approves all loans. All Board members are voting members.

2. The Purpose of the MTFC

The MTFC provides direct loans for transportation projects within the state of Missouri. Loans are funded from available MTFC resources. The MTFC assistance may be any type authorized by 23 U.S.C. 610.

The following are examples of potential financing options included in 23 U.S.C. 610:
- Primary or subordinated loans
- Credit enhancements
- Debt reserve financing
- Subsidized interest rates
- Purchase and lease agreements for transit projects
- Bond security

While state infrastructure banks have the authority to exercise all finance options included in 23 U.S.C. 610, the MTFC provides only direct loans. Financial Services staff must obtain pre-approval by the Board to pursue other financing options authorized by 23 U.S.C. 610 or the MTFC Articles of Incorporation.

These direct loans must help assist the Commission to achieve continued economic, social and commercial growth of Missouri, act in the public interest, or promote the health, safety and general welfare of Missouri citizens.

3. Source of Capitalization

The MTFC was originally capitalized with a mixture of federal and state funds. The MTFC makes direct loans from its original initiating deposits, principal and interest payments from its loan portfolio and interest earned on investment of the funds. Loans may also be financed by the issuance of bonds by the MTFC, which are secured by a pool of MTFC approved loans.

At the direction of the Board, securitization of the loan portfolio may be used to provide new capital for loans.

4. Accounting Practices

The MTFC accounting structure must maintain separate highway and transportation accounts when funds are provided from Title 23 and Title 49 programs.

- Highway Account - The Commission provided 20 percent state match from MoDOT's state road fund toward the initial capitalization of the MTFC. These funds shall be dedicated to providing direct loans consistent with 23 U.S.C. 610 for highway and bridge projects on the state highway system, permitted under Article IV, Section 30(b) of the Missouri Constitution. Any interest earned in this account from loans and investments can be used for administration expenses of the MTFC.
- Transportation Account - These funds shall be dedicated to providing loans consistent with the Cooperative Agreement for any highway project eligible for federal assistance under Title 23 of the U.S. Code and any transit capital project eligible for federal assistance as defined in Section 5302 of Title 49 of the U.S. Code. Any interest earned in this account from loans and investments can be used for administration expenses of the MTFC.

5. Application Process

The program is open to any public or private entity with a transportation project that meets the 23 U.S.C. 610 eligibility criteria. (See #6 "Types of Eligible Projects")

All entities are required to submit a written application to the MTFC. For all applicants the following is required:

- Written application
- Current budget
- Project plan
- Timing of loan disbursement
- Dedicated revenue stream to repay the loan
- Form of collateral, if required by the Board
- Potential legal claims and/or liabilities pending or a statement that indicates they do not exist

In addition to the items listed above, private entities applying for a direct loan will be required to provide the following documentation:

- Audited financial statements from an independent CPA for the most recently completed business year
- Form of collateral

Financial Services staff will perform a preliminary evaluation of the application and required documentation. The staff will inform the applicant of any initial concerns. The staff may ask the applicant to provide additional documentation to resolve any concerns identified.

Prior to making recommendations to the Board, the following will be evaluated when reviewing the application:

- Whether the borrower is a public or private entity
- Term of the loan
- Credit quality of the applicant
- Security pledged
- Dedicated revenue source
- Borrower's repayment ability
- Funds available in the bank
- Financial feasibility of the project
- Reasonable cost estimate of the project
- Project benefit to statewide transportation needs

Financial Services staff coordinates with MoDOT district and Multimodal Division personnel to ensure the quality of the project requested in the loan application.

The Chief Counsels' Office shall prepare a legal opinion for each loan application. The opinion shall be sent to Financial Services staff for its information. In the case of a loan that is unique, sensitive or potentially controversial, the Chief Counsel's Office legal opinion shall be presented to the Executive Director and then to the Board when the Board considers whether to approve or deny a loan.

6. Types of Eligible Projects and Activities

Candidate projects for MTFC assistance include any highway project eligible for federal assistance under Title 23 of the U.S. Code and any transit capital project eligible for federal assistance as defined in Section 5302 of Title 49 of the U.S. Code. The MTFC can provide financial support to both public and private sponsors of eligible transportation projects, and can assist in financing any stage of the project's development. There are no federal share restrictions on the cost of the projects eligible to receive MTFC assistance. All loans are subject to federal requirements.

- All FHWA functionally classified highways are MTFC eligible except for local or rural minor collectors.
- All bridges within the state that are included within the FHWA's bridge inventory are also eligible.
- All mass transportation capital projects that would otherwise be eligible to receive federal funding are MTFC eligible projects.

Examples of potential projects could include:

- Road and bridge construction, reconstruction, rehabilitation, resurfacing, restoration and operational improvements for highways and bridges.
- Capital projects involving mass transportation.

7. Loan Loss Reserve Account

The MTFC has determined a loan loss reserve account is not necessary. The Corporation has no liabilities to depositors and has no need to offset a portion of this type of risk through a loan loss reserve account. Historically, the Corporation has not incurred loan losses and does not foresee loan losses as a significant potential risk in the future based upon the quality of loan applicants and the security provided.

8. Loan Amount

The size of an MTFC loan is dependent upon the amount of capital available, other demands for capital at the time of the loan application and the amount needed for the project. The minimum loan amount is $50,000. Financial Services staff may accept loan applications for loan requests of $10,000,000 or less. Any loan requests greater than $10,000,000 require pre-approval by the Executive Director, prior to acceptance of the loan application.

9. Rates of Interest

Section 23 U.S.C. 610 requires interest to be at or below market rates. The MTFC most often sets interest rates equal to municipal borrowing rates for both rated and non-rated entities. When determining which rating to use for non-rated entities, consideration is given to the debt coverage ratio, the number of dedicated revenue streams and the term of the loan.

Other factors considered in determining the interest rate include:

- Whether the borrower is a public or private entity
- Security pledged
- Availability of a dedicated revenue source for the length of the loan
- Borrower's repayment ability
- Length of time between loan approval and disbursement
- History of revenue collections, including during periods of economic stress
- Sensitivity of the revenues to changes in economic conditions
- Reliance on growth in the revenues to service debt

10. Loan Repayment Sources

The Borrower shall disclose the revenues the Borrower has available and intends to pledge to use as loan repayment source(s) on its application. The revenue pledge to pay the debt service on the subject loan may be a "gross" or a "net" pledge. A gross revenue pledge means that the Borrower stipulates that no other costs have a claim on the revenues prior to debt service, while a net revenue pledge means that the Borrower stipulates that other specified costs (e.g., operating expenses) are paid prior to the revenue being available to pay debt service.

Examples of gross revenue pledges are the revenues from sales, property or other taxes that are not encumbered by any expenses necessary to generate the income. Examples of net revenue pledges are the revenues from user fees, such as toll fees or rent income revenues that are encumbered by the operating expenses necessary to maintain the facility which is generating the revenues.

If the borrower is a city, county, or political subdivision, then, as a condition of the loan, the city, county, or political subdivision shall agree to annually appropriate its contract obligations and to provide annual certification to Financial Services staff that its current pledged revenues, plus unexpended balances from prior years, are sufficient to meet its debt service obligations from its MTFC loan. The annual certification and appropriation by the city, county, or political subdivision shall be monitored and enforced by Financial Services staff.

11. Borrower's Ability to Repay the Loan

The most important element in assessing the Borrower's ability to repay the loan is the Debt Service Coverage Ratio, which shall be calculated by Financial Services staff. The Ratio compares the amount of the cash flow/revenue from the Borrower's loan repayment source(s) that shall be made available to pay the annual interest and principal payments (i.e., the debt service) on the loan. To calculate the Debt Service Coverage Ratio, the amount of cash flow /revenue for the subject loan payment shall take into account any expenses that already encumber the revenue stream. The Debt Service Coverage Ratio shall be equal to or greater than 1.

12. Loan Security

Loans will be secured by collateral with value equal to or greater than the requested loan amount to adequately safeguard the MTFC. If the MTFC is the sole lender in a project, the MTFC will take a first security interest in the collateral pledged. If the MTFC is lending in conjunction with other financings, the MTFC will consider taking a subordinate security interest in the collateral pledged. A borrower shall be solely limited to the collateral expressly authorized for such borrower in this Policy.

A. Cities and Counties

Loans to cities and counties (hereinafter, local government) will be secured by any one, or a combination, of the following: (1) the local government obtaining voter approval of a properly worded ballot issue for a tax dedicated to secure payment of the loan for the specific project and for no other purpose whatsoever, provided the amount of the expected annual revenues from the dedicated tax is equal to or greater than the annual loan debt service and the tax either has no expiration date or the expiration date does not occur until after the last loan payment is due; (2) the local government issuing its own bonds in an amount that is equal to or greater than the total loan amount and paying the bond proceeds into the Local Fund Account or the State Road Fund; (3) the local government dedicating an existing tax revenue source such as sales, property, or other taxes to secure payment of the loan for the specific project, provided the amount of the expected annual revenues from the dedicated tax is equal to or greater than the annual loan debt service and the tax either has no expiration date or the expiration date does not occur until after the last loan payment is due; and/or (4) the local government agreeing, in the event of a default, that MHTC/MTFC attach any federal monies designated for the local government which are administered by MoDOT and apply those funds to the local government's indebtedness.

B. Political Subdivisions

Loans to political subdivisions created for the purpose of financing certain transportation projects, such as Transportation Development Districts (TDD), Transportation Corporations (TC), etc., will be secured by the specific tax revenues, other special assessment revenues and/or an irrevocable standby letter of credit.

C. Private Entities

Loans to private entities will be secured by an irrevocable standby letter of credit.

An irrevocable standby letter of credit is an engagement by a bank made at the request of the bank customer, who is the borrower, that the bank issuer will honor drafts or other demands for payment made by MTFC as a named party upon compliance by MTFC with the conditions specified in the letter of credit.

The MTFC will possess the original letter of credit until the loan is fully repaid.

13. Terms of Loans

23 U.S.C. 610(g)(5) gives the MTFC authority to require loan repayments to begin no later than 5 years after the project has been completed. For any loan repayments beginning more than 12 months after loan disbursement, pre-approval by the Executive Director should be obtained prior to accepting the loan application.

23 U.S.C. 610(g)(6) gives the MTFC authority to make loans with terms of up to 30 years after the date of the first payment on the loan or the useful life of the investment. However, loan terms will be limited to a maximum of 15 years. For any loan to be amortized over a period of time greater than 10 years, pre-approval by the Executive Director should be obtained prior to accepting the loan application.

14. Approval Process

After Financial Services staff reviews the application to ensure project eligibility with 23 U.S.C. 610 requirements and loan repayment ability, staff will make recommendations to approve or deny the loan application. Each of the eight Board members will have one vote, and a quorum will be defined as any five votes.

Financial Services staff will draft the loan's terms and conditions and will determine from a credit and security point of view, if they are adequate or inadequate. Additionally, the staff will review the loan for overall policy compliance and make a recommendation to approve or deny the loan. Prior to Board approval of the loan, staff will negotiate and seek initial agreement from the borrower of the loan terms. Financial Services staff will notify the applicant in writing whether the loan has been approved or denied.

15. Loan Closings and Standardized Documents

All loan closings shall be performed in accordance with procedures developed by the MTFC. All loan documents shall be prepared on the standardized forms developed by the MTFC.

All loans should be accompanied by the appropriate loan documentation including an ordinance or corporate Board authorization and authorizations by the MTFC Board. A draft loan agreement will be prepared prior to Board approval. Following loan approval by the MTFC Board, a loan agreement will be executed by the borrower within six months to prevent the loan from lapsing, unless an extension is approved by the Executive Director.

16. Loan Files

Each loan file will include an executed loan agreement, promissory note, amortization schedule and other documentation needed to support the transaction. Financial Services staff will be responsible for maintaining adequate and current files.

17. Operating Expenses

The MTFC may budget up to 0.1 percent of net assets to cover operating expenses. These monies will be used for the reasonable and necessary costs of administering the MTFC, as described in 23 U.S.C. 610.

18. Loan Fees

The loan fee will be 0.15 percent of the loan amount for public entities. The maximum amount charged for public entities will be $75,000 and the minimum amount will be $500. The loan fee will be 0.25 percent of the loan amount for private entities. A maximum amount charged is not applied for private entities, but the minimum amount will be $1,000. The difference in fees between a public entity and a private entity is to account for the increase in administrative review and monitoring of a private entity loan. The fee must be paid at the time of application submission and is non-refundable, unless the MTFC has no funds available for loans.

19. Servicing Policies and Procedures

In the event the MTFC decides to contract out the servicing of loans, a competitive bidding process will be used.

All borrowers will be requested to make loan payments through the automated clearinghouse system (ACH).

Loans will be monitored annually for UCC-1 expiration dates, upcoming loan disbursements and compliance with annual budgeting requirements. The borrowers' financial statements will be reviewed annually.

Public entities are required to provide: (1) a letter certifying the current public entity's revenues plus expended balances from prior years are sufficient to meet its obligation to pay the MTFC loan; (2) year-end financial statements; and (3) the entity's most recently approved budget including a separate line item for the payment of its MTFC loan obligation. These documents will be provided annually to the MTFC within 30 days of the approval of the entity's budget.

Private entities are required to provide annually: (1) a letter certifying there are no other security interests attached to the collateral other than MTFC's security interest; (2) audited financial statements prepared by an independent CPA; (3) any other documentation required by any outside party associated with having the collateral in place; and (4) the entity's most recently approved budget including a separate line item or footnote for the payment of its MTFC loan obligation. These documents will be provided annually to the MTFC within 30 days of the completion of the independent audit.

20. Noncompliance and Default

The Board will be notified when the borrower is no longer in compliance with the terms of the loan established by the loan agreement.

These are the steps Financial Services staff will take to address the noncompliance and default of a loan:

- Notify borrower of noncompliance
- Discuss issue and recommend expectation to resolve the problem with the borrower
- If noncompliance becomes default, follow procedures in the loan agreement to cure default
- Proceed to collect security indicated in the loan agreement

21. Late Payment Fees

A loan payment more than 15 days late will be assessed a two percent late payment fee on the amount of payment due.

22. Delegation of Contingent Authority

When a special meeting of the Board is unable to be called to address an unusual and urgent matter related to a loan, the Board delegates its authority to the MTFC Executive Director. The MTFC Executive Director will ensure consultation with the President, or Vice President, if the President is unavailable, prior to acting on behalf of the Board.

This delegation of contingent authority exercised by the MTFC Executive Director shall be subject to ratification by the Board at their next meeting.

23. Policy Review

Financial Services staff will perform a biennial review of the MTFC loan policy and make any recommended changes to the Board for their approval.