

Review of Investment Policy and Debt Management Guidelines

June 2021

Cathy Williams and William O'Connell

Investment Policy



Investment Policy Purpose

Purpose

- To set forth the framework regarding the investment of funds under Tollway control and to define the parameters within which funds are to be managed

Applicable Statutes

- The Toll Highway Act (605 ILCS 10/)
- Public Funds Investment Act (30 ILCS 235/)
- Trust Indenture dated as of December 1, 1985, as amended, restated and supplemented

Objectives

- Primary: preservation of principal
- Secondary: sufficient liquidity to meet operating and capital needs
- Secondary: increase return on investments

Authorized investment officers

- Executive Director
- Chief Financial Officer
- Controller
- Deputy Chief of Finance (position currently vacant)



Investment Policy – Allowable Investments

Investment	Trust Indenture	Public Funds Investment Act
Federal Securities ¹	✓	✓
U.S. Agency Securities	✓	✓
Money Market Mutual Funds ²	✓	✓
Certificates of Deposit	✓	✓
Time Deposits	✓	✓
Repurchase Agreements ³	✓	✓
Illinois Funds LGIP managed by Illinois Treasurer ⁸	n/a	✓
Corporate Securities ⁴	✗	✓
Public Housing Bonds ⁵	✓	✗
Municipal Securities ⁶	✓	✗
Other Investment Securities ⁷	✓	✗
Equities	✗	✗

¹Includes obligations unconditionally guaranteed by the U.S., obligations secured by an irrevocable pledge of money or obligation unconditionally guaranteed by the U.S.; certificates of ownership on obligations unconditionally guaranteed by the U.S. held in trust by a commercial bank, and interest obligations of the Resolution Funding Corporation, including interest obligations stripped by the Federal Reserve Bank of New York

²Money Market Mutual Fund portfolios limited to investment in Federal Securities or U.S. Agency Securities

³With respect to the Debt Service Account, Debt Reserve Account and Construction Fund: Repurchase Agreement investments must be continuously secured by Federal Securities and shall have a market value at all times at least equal to the amortized value of such repurchase agreements

⁴Illinois Public Funds Investment Act allows for investment of obligations of corporations organized in the U.S. with assets exceeding \$500MM if (i) obligations are rated by at least 2 rating agencies and mature not later than 3 years from time of purchase, (ii) purchases do not exceed 10% of the corporation's outstanding obligations and (iii) no more than one-third of the public agency's funds may be invested in short-term obligations of corporations

⁵Public Housing Bonds issued by public housing authorities and fully secured by a pledge of annual contributions under contract with the U.S.; and project notes issued by public housing authorities or local public agencies fully secured by a requisition or payment agreement with the U.S.

⁶Any municipal bond which has a rating by each rating agency from which ISTHA has a rating on its bonds, which each such rating is not lower than the ISTHA rating provided by the respective rating agency

⁷Any other investment securities as to which the ISTHA has received written notice from each rating agency that such investment will not result in a reduction of the Tollway's rating by the rating agency (agencies currently do not consider such requests)

⁸Deposits from I-Pass customers; such funds not held under provisions of the Trust Indenture. The Treasurer's "Illinois Funds" is rated AAAM by S&P.



Investment Policy – Investment Alternatives, Frequency of Review

Process to add other investment options

- Amendment of Public Funds Investment Act by General Assembly, Governor
- Amendment of Trust Indenture by holders of at least a majority of the amount of bonds outstanding
 - Trust Indenture amendments for bonds as widely held as the Tollway's typically accomplished by obtaining consents over time as bonds are issued
 - Timeframe would depend on amount of issuance for new money purposes and amount of refunding bonds issued

Investment Policy reviewed periodically

- Last Amended in 2014
- Reviewed in 2016 and 2018 (no changes)



Debt Management Guidelines



Debt Management Guidelines

1. Allowable uses of debt

- Finance capital expenditures
- Refinance prior debt

2. Board approval required

3. Tollway manages debt process; engages Financial Advisors for assistance

- Financial Advisors required to be registered with the SEC and MSRB as Municipal Advisor under the Municipal Advisor Rule from the Dodd-Frank Act

4. Bond sale process

- Option expected to deliver best results (lowest cost)
- Negotiated sale: Underwriters selected pursuant to competitive RFP process; financial advisors, Tollway and underwriters work to structure the bonds to achieve broadest distribution to achieve low cost of capital
- Competitive sale: Broker-dealer with best bid (lowest interest cost) is awarded the bonds; issuance can be divided into multiple tranches and can include diverse-firm goals

5. Firm cannot serve as both Underwriter and Financial Advisor

6. Attorney General provides or appoints counsel for debt issuance

7. Strive to increase participation of diverse firms



Debt Management Guidelines

8. Debt duration not to exceed 120% of the life of assets financed
9. Continue to target Debt Service Coverage of 2X
10. Long-term cashflow projection from Finance to Board at least once annually; last presented at March Board Meeting, and going forward will be presented in connection with the annual budget process
11. Strive to maintain ratings at AA- or equivalent; S&P and Fitch currently at AA-, Moody's 1 notch below; rating agencies require annual updates for years that do not include newly rated issues
12. Comply with continuing disclosure requirements
13. Allowed to repurchase Tollway bonds in the secondary market
14. Comply with arbitrage rebate regulations
15. Comply with Interest Rate Risk Management Guidelines



Debt Management Guidelines - Interest Rate Risk Management

- 1. Purpose: Manage risks related to swaps and/or variable rate bonds and related liquidity agreements**
- 2. Assist in assessing risks compared to structure/cost of capital**
- 3. Board Approval Required**
- 4. Assessment of Risk**
 - Liquidity reliance
 - Interest rate
 - Counterparty
 - Termination
- 5. Term of Risk Management Agreement may not exceed term of Debt**
- 6. Targeted Maximum Variable Interest Rate Exposure**
 - Hedged + Unhedged Variable Rate Debt not to exceed 25% of Outstanding Debt
 - Unhedged Variable Rate Debt not to exceed lesser of 15% of Total Debt or \$300,000,000
- 7. Assessment of Liquidity Facilities**
 - Cost
 - Ratings
 - Counterparty Diversification
 - Term



Thank you

