State Transportation Assistance Revolving (STAR) Fund Guidelines

The purpose of this document is to provide written guidelines for the processing of applications and approval of loans by the Missouri Highways and Transportation Commission (Commission) under the State Transportation Assistance Revolving (STAR) Fund program.

Policy

1. Organization

The STAR Fund was authorized by the Missouri General Assembly in 1997 under Section 226.191 RSMo.

The Commission administers the STAR Fund program in accordance with the Code of State Regulations, 7 CSR 10-20.010. The Cost Share Committee provides pre-approval of loans prior to being considered for final approval by the Commission. The Cost Share Committee consists of MoDOT's Deputy Director/Chief Engineer, Chief Financial Officer, Assistant Chief Engineer, and two members selected by the Director.

2. The Purpose of the STAR Fund

The STAR Fund provides loans for non-highway transportation projects. Loans are funded from available STAR fund resources.

These 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 STAR Fund was originally capitalized with $2.5 million from the General Revenue Fund. The STAR Fund makes loans from its original initiating deposits, principal and interest payments from its loan portfolio and interest earned on investment of the funds.

4. Application Process

The program is open to any political subdivision of Missouri or to any public or private not-for-profit organization or entity involved in eligible transportation projects serving a public purpose other than highways. (See #5 "Types of Eligible Projects and Activities")

The Multimodal Operations staff works with the applicant to determine the project scope and costs, and provide assistance in preparing the application.

Listed items must be submitted to MoDOT's Financial Services Division by the established deadline. Applications received after the deadline will be considered at the next Cost Share Committee meeting. Application deadlines are posted on the Partnership Development website at http://www.modot.mo.gov/partnershipdevelopment/dates.htm. The application is available online at https://www6.modot.mo.gov/Partnership/login.aspx.

- Signed and completed application
- District Engineer's and Multimodal Division Director's support letters
- Metropolitan Planning Organization's (MPO) or Regional Planning Commission's (RPC) support letter
- Current budget
- Project plan
- Project map
- Timing of loan disbursement
- Dedicated revenue stream to repay the loan
- Form of collateral, if required by the Commission
- 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 loan are 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 performs a preliminary evaluation of the application and required documentation. The staff informs 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 Cost Share Committee, the following are 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 Operations staff to ensure the quality of the project requested in the application.

5. Types of Eligible Projects and Activities

Candidate projects for STAR Fund assistance include transportation projects serving a public purpose other than highways per 7 CSR 10-20.010.

Examples of potential projects include:

- Facilities for transportation by air, water, rail or mass transit
- Vehicles for the transportation of elderly or handicapped persons
- Rolling stock for transit purposes

Eligible activities include:

- Planning, acquisition, development and construction of eligible non-highway transportation projects. Operating expenses are not eligible activities.

6. Loan Amount

The size of a STAR 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.

7. Rates of Interest

The Commission most often sets interest rates equal to municipal borrowing rates for 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

8. Loan Security

Loans will be secured to adequately safeguard the Commission. If the Commission is the sole lender in a project, the Commission will take a first security interest in the collateral pledged. If the Commission is lending in conjunction with other financings, the Commission will consider taking a subordinate security interest in the collateral pledged.

Loans to local governments and other political subdivisions (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 debt for the specific project and for no other purpose whatsoever; (2) the local government issuing its own bonds; (3) as a condition of the loan, the local government agreeing to annually appropriate its contract obligations and to provide annual certification that current revenues plus unexpended balances from prior years are sufficient to meet its obligation to pay Commission. Annual certification and appropriation by the local government are monitored and enforced by Financial Services staff.

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 any other acceptable collateral necessary to adequately safeguard the Commission.

The most important security feature of loans to local governmental jurisdictions and other political subdivisions will be the pledge of revenues to secure the loan. The revenue pledge may be a “gross” or a “net” pledge. A gross revenue pledge means that no other costs have a claim on the revenues prior to debt service, while a net revenue pledge means that other specified costs (usually operating expenses) are paid prior to debt service. Gross revenue pledges are customary when the pledged revenues are sales or property taxes. Net revenue pledges are found when the revenue is a user fee and the adequacy of operating expenses is necessary to maintain the facility which is generating the revenues necessary to pay debt service. An example of a net revenue pledge would be toll fees.

Loans to private entities will be secured by acceptable collateral such as (1) an irrevocable standby letter of credit; (2) pledge of cash, deposit account or other marketable securities; (3) pledge on a dedicated revenue stream; (4) or other acceptable collateral proposed by the applicants and acceptable to the Commission, at its sole discretion to adequately safeguard the Commission.

The collateral pledged on the STAR loans will be negotiated individually based on the specific credit quality of the borrower and its resources. Listed below are the preferred types of collateral the Commission considers to secure its loans.

(1) Irrevocable Standby Letter of Credit: The 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 Commission as a named party upon compliance by Commission with the conditions specified in the letter of credit.

(2) Cash, Deposit Accounts or Marketable Securities:
   - Cash/Money is the medium of exchange authorized and adopted by the United States government.
   - Deposit Account is any demand, time, savings, passbook, checking or similar account maintained with a bank in the sole ownership name of the borrower.
   - Marketable Security is a type of Investment Property, defined as a security, whether certificated or uncertificated, security entitlement, securities account, commodity contract or commodity account.

(3) Dedicated Revenue Stream: The borrower’s right to payment of monetary obligation, whether or not earned by performance, related to obligation for property sold/leased/assigned or otherwise disposed; or for the services to be rendered.

Other types of collateral may be considered, but require pre-approval by the Chief

Financial Officer, prior to acceptance of the loan application.

9. Terms of Loans

For any loan to be amortized over a period of time greater than 10 years, pre-approval by the Chief Financial Officer should be obtained prior to acceptance of the loan application. Loan terms will be limited to a maximum of 15 years.

10. Approval Process

After Financial Services staff reviews the application to ensure project eligibility with 7 CSR 10-20.010 requirements and loan repayment ability, Multimodal Operations staff presents a recommendation to the Cost Share Committee.

Financial Services and Multimodal Operations staff rank applications based on the following criteria:

- Economic Development
- Transportation Need
- Public Benefit

The Cost Share Committee approves, denies or requests additional information for each STAR loan application.

Prior to the Cost Share Committee's approval of a loan, Financial Services drafts the loan's terms and conditions and will determine from a credit and security point of view, if they are adequate. Financial Services negotiates and seeks initial agreement from the borrower of the loan terms.

If the Cost Share Committee approves the loan, the loan is then presented to the Commission for final approval. Financial Services notifies the applicant in writing whether the loan is approved or denied by the Commission.

11. Loan Closings and Standardized Documents

All loan closings are performed in accordance with procedures developed by the Commission. All loan documents are prepared on the standardized forms developed by the Commission.

All loans are accompanied by the appropriate loan documentation including an ordinance or corporate Board authorization and authorizations by the Commission. A draft loan agreement is prepared prior to Commission approval. Following loan approval by the Commission, a loan agreement is executed by the borrower within six months to prevent the loan from lapsing, unless an extension is approved by the Chief Financial Officer.

12. Loan Files

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

13. Loan Fees

The loan fee is 0.15 percent of the loan amount for public entities. The maximum amount charged for public entities is $75,000 and the minimum amount is $500. The loan fee is 0.25 percent of the loan amount for private entities. A maximum amount charged is not applied for private entities, but the minimum amount is $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 STAR Fund has no funds available.

14. Loan Disbursements

Funds are provided to borrowers on a reimbursement basis, after receipt of project invoices.

15. Servicing Policies and Procedures

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

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

Loans are monitored annually for UCC-1 expiration dates, upcoming loan disbursements and compliance with annual budgeting requirements. The borrowers' financial statements are 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 STAR 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 STAR loan obligation. These documents are provided annually to the Commission 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 Commission'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 STAR loan obligation. These documents are provided annually to the Commission within 30 days of the completion of the independent audit.

16. Noncompliance and Default

The Commission 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 takes 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

17. Late Payment Fees

A loan payment more than fifteen days late is assessed a 2 percent late payment fee on the amount of payment due.

18. Policy Review

Financial Services performs biennial reviews of this guidance and recommends any necessary changes.