



Memorandum

AGENDA ITEM 5

DATE: June 18, 2025
TO: Transportation Authority Board
FROM: Cynthia Fong – Deputy Director for Finance and Administration
SUBJECT: 07/08/25 Board Meeting: Approve Revised Debt Policy and Ratify Investment Policy

RECOMMENDATION <input type="checkbox"/> Information <input checked="" type="checkbox"/> Action	
---	--

Approve revised Debt Policy and ratify Investment Policy

SUMMARY

It is the Transportation Authority Board's direction to review all policies periodically to ensure compliance with current statutes and Transportation Authority objectives. We are recommending revisions to the Debt Policy to provide additional clarity and flexibility, and reflect administrative and credit facility changes since the last update. As there have been no changes to applicable law or Transportation Authority objectives that affect the Investment Policy, we are recommending this policy stand as currently adopted. Recommended revisions to the Debt Policy are summarized in Attachment 1 and redlined in the proposed Debt Policy in Attachment 2. The Investment Policy is included as Attachment 3.

- | |
|---|
| <input type="checkbox"/> Fund Allocation
<input type="checkbox"/> Fund Programming
<input type="checkbox"/> Policy/Legislation
<input type="checkbox"/> Plan/Study
<input type="checkbox"/> Capital Project Oversight/Delivery
<input type="checkbox"/> Budget/Finance
<input type="checkbox"/> Contract/Agreement
<input checked="" type="checkbox"/> Other: Policies |
|---|

BACKGROUND

We develop and implement policies and procedures to organize and formalize agency activities, and to ensure compliance with current statutes and our objectives. It is the Transportation Authority Board's direction to review the Debt Policy and Investment Policy annually to ensure compliance with current statutes and Transportation Authority objectives.

Below is a brief description of the Debt and Investment policies that are the subject of this memorandum.



Debt Policy: Organize and formalize debt issuance-related policies and procedures necessary to carry out the operations of our agency.

Investment Policy: Set out policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related procedures.

DISCUSSION

We are recommending revisions to the Debt Policy to provide additional clarity and flexibility and reflect administrative and credit facility changes since the last update. We are recommending ratification of the Investment Policy (i.e., no changes proposed).

The Board last adopted the Debt Policy in June 2024 through Resolution 24-48. At our request, Nixon Peabody LLP and KNN Public Finance, LLC, have reviewed this policy and based on their reviews, we are recommending changes as redlined in the proposed policy in Attachment 2.

FINANCIAL IMPACT

The recommended action would not have an impact on the adopted Fiscal Year 2024/25 budget or proposed Fiscal Year 2025/26 budget, which is agendaized for approval at the June 24, 2025 Board meeting.

CAC POSITION

The Community Advisory Committee will consider this item at its June 25, 2025 meeting.

SUPPLEMENTAL MATERIALS

- Attachment 1 - Summary of Proposed Revisions - Debt Policy
- Attachment 2 - Proposed Debt Policy
- Attachment 3 - Current Investment Policy

Attachment 1 Summary of Proposed Revisions - Debt Policy

SECTION	REVISION	REASON	PAGE
SECTION VIII. FINANCING CRITERIA B. TYPES OF DEBT 1. Long-Term Debt Fixed Rate	c) Special Government Obligations (both tax-exempt and taxable) Other Tax-Advantaged Debt, includes such as the Build America Bond program authorized for calendar years 2009 and 2010, or any other type of existing or new municipal security, tax credit structures or tax credit authorized by the Federal Government to assist local governments in accessing the capital markets. So long as the program's requirements allow the Transportation Authority to adhere to its Debt Policy, the Transportation Authority will evaluate it along with traditional financing structures in order to determine which is the most appropriate for a particular issuance.	Provides clarification and flexibility in sourcing the most cost effective financing solutions.	5
SECTION VIII. FINANCING CRITERIA B. TYPES OF DEBT 2. Short-Term Debt	d) Letters or Lines of Credit or Revolving Credit Agreements shall be considered as an alternative to or credit support for other short-term borrowing options. The Transportation Authority presently has a \$125 million maintains a revolving credit facility. Amounts can may be repaid and reborrowed under the revolving credit facility or another letter or line of credit without further Board action. The average amortization of amounts drawn under the revolving credit facility, letter or line of credit may not exceed 120% of the weighted average useful life of the project being financed or refinanced if the borrowing is intended to be federally tax-exempt and the borrowing must be fully repaid by the earlier of the following: (a) the sunset date of the current Expenditure Plan and (b) forty (40) years from the date of issuance. The repayment of loans under a revolving credit facility or other letter or line of credit is often facilitated by the issuance of long-term bonds or the repaying of principal from cash on hand. If proceeds of long-term bonds are used to repay loans under the revolving credit facility or other letter or line of credit, the amortization and the repayment of the long-term bonds must satisfy the limits set forth above.	Updates the existing revolving credit facility.	6

Attachment 1

Summary of Proposed Revisions - Debt Policy

SECTION	REVISION	REASON	PAGE
SECTION VIII. FINANCING CRITERIA B. TYPES OF DEBT 3. Variable Rate Debt	a) Variable Rate Debt Capacity. Except for the existing \$125 million Transportation Authority's revolving credit facility <u>and modifications and replacements thereof</u> (to which the following requirements of variable rate debt do not apply) or any replacement facility, the Transportation Authority will maintain a conservative level of outstanding variable rate debt in consideration of general rating agency guidelines recommending a maximum of a 20-30% variable rate exposure, in addition to maintaining adequate safeguards against risk and managing the variable revenue stream both as described below:	Provides clarification and updates the existing revolving credit facility.	7
SECTION XI. METHODS OF SALE C. PRIVATE PLACEMENT	C. PRIVATE PLACEMENT. From time to time, the Transportation Authority may elect to privately place its debt or borrow directly from a bank or other financial institution. Such placement or borrowing shall only be considered if this method is likely to result in a cost savings to the Transportation Authority relative to other methods of debt issuance on a net present value basis, using the Transportation Authority's investment rate as the appropriate measure of the discount rate. For the existing \$125 million Transportation Authority's revolving credit facility or any replacement facility <u>(as may be in effect)</u> that is bank purchased , such requirements do not apply.	Provides clarification and updates the existing revolving credit facility.	13



Debt Policy

Resolution 24-48

I. INTRODUCTION

The purpose of this Policy is to organize and formalize debt issuance-related policies and procedures for the San Francisco County Transportation Authority (Transportation Authority) and to establish a systematic debt policy (Debt Policy). The Debt Policy is, in every case, subject to and limited by applicable provisions of state and federal law and to prudent debt management principles.

II. DEBT POLICY OBJECTIVE

The primary objectives of the Transportation Authority's debt and financing related activities are to

- Maintain cost-effective access to the capital markets and other financing alternatives through prudent yet flexible policies;
- Moderate debt principal and debt service payments through effective planning and project cash management in coordination with Transportation Authority project sponsors; and
- Achieve the highest practical credit ratings that also allow the Transportation Authority to meet its objectives.

III. SCOPE AND DELEGATION OF AUTHORITY

This Debt Policy shall govern, except as otherwise covered by the Transportation Authority's adopted Investment Policy and the Transportation Authority's adopted Fiscal Policy, the issuance and management of all Transportation Authority debt issued in the capital markets or through an alternative funding vehicle. The Debt Policy shall also govern the selection and management of related financial and advisory services and products.

This Policy shall be reviewed and updated at least annually and more frequently as required. Any changes to the policy are subject to approval by the Transportation Authority Board of Commissioners (Board) at a legally noticed and conducted public meeting. Overall policy direction of this Debt Policy shall be provided by the Board. Responsibility for implementation of the Debt Policy, and day-to-day responsibility and authority for structuring, implementing, and managing the Transportation Authority's debt and finance program shall lie with the Executive Director. The Board's adoption of the Annual Budget does not constitute authorization for debt issuance for any capital projects. This Debt Policy requires that the Board specifically authorize each debt financing. Each financing shall be presented to the Board in the context of and consistent with the Annual Budget.

While adherence to this Policy is required in applicable circumstances, the Transportation Authority recognizes that changes in the capital markets, agency programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and



require modifications or exceptions to achieve the Transportation Authority's policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained.

IV. ETHICS AND CONFLICTS OF INTEREST

Officers, employees, and agents of the Transportation Authority involved in the debt management program will not engage in any personal business activities or investments that would conflict with proper and lawful execution of the debt management program, or which could impair their ability to make impartial decisions.

V. SOURCE OF SECURITY FOR DEBT FINANCING

Beginning in April of 1990, the State of California Board of Equalization (now the California Department of Tax and Fee Administration) started collecting the sales tax revenues for the Transportation Authority as set forth in the San Francisco County Transportation Expenditure Plan (Prop B Expenditure Plan) for a period not to exceed twenty years. In November of 2003, San Francisco voters approved the Proposition K Sales Tax (Prop K) a 30-year Expenditure Plan (Expenditure Plan) that superseded Prop B and continued the one-half of one percent sales tax. In November 2022, San Francisco voters approved the Proposition L Sales Tax (Prop L), a new 30-year Expenditure Plan that supersedes Prop K and continues the one-half of one percent sales tax. The Transportation Authority's current debt obligations are secured by the sales tax revenues generated from the Transportation Authority's one-half cent (0.5%) sales tax collections in the City and County of San Francisco. The sales tax is currently set to expire on March 31, 2053.

VI. STRATEGIC PLAN INTEGRATION

The Transportation Authority's multi-year Strategic Plan, which programs the Expenditure Plan, shall be used in combination with this Debt Policy and the Fiscal Policy to ensure proper allocation and financing of eligible projects. The Strategic Plan sets priorities and strategies for allocating funds under its guiding principles, while the Debt Policy provides policy direction and limitations for proposed financing and the Fiscal Policy provides guidance on decisions pertaining to internal fiscal management. Debt issuance for capital projects shall not be recommended for Board approval unless such issuance has been incorporated into the Strategic Plan.

VII. STANDARDS FOR USE OF DEBT FINANCING

The Transportation Authority's debt management program will promote debt issuance only in those cases where public policy, equity, and economic efficiency favor debt over cash (pay-as-you-go) financing.

A. CREDIT QUALITY.

Credit quality is an important consideration and will be balanced with the Transportation Authority's objectives and the associated size, structure, and frequency of issuances of debt. All Transportation Authority debt management activities for new debt issuances will be conducted in a manner conducive to receiving the highest credit ratings possible consistent with the



Transportation Authority's debt management objectives, and to maintaining or improving the current credit ratings assigned to the Transportation Authority's outstanding debt by the major credit rating agencies.

B. CAPITAL PROJECTS.

The Transportation Authority will issue long-term debt only to finance and refinance capital projects. When the Transportation Authority finances capital projects by issuing bonds, the average principal amortization should not exceed 120% of the weighted average useful life of the project being financed or refinanced if the bonds are intended to be federally tax-exempt and the debt repayment period should not exceed the earlier of the following: (1) the sunset date of the current Expenditure Plan or (2) forty (40) years from the date of issuance. Inherent in its long-term debt policies, the Transportation Authority recognizes that future taxpayers will benefit from the capital investment and that it is appropriate that they pay a share of the asset cost. Long-term debt financing shall not be used to fund operating costs unless such costs qualify as capital expenditures under federal tax law.

C. DEBT FINANCING MECHANISM.

The Transportation Authority will evaluate the use of available financial alternatives including, but not limited to, tax-exempt and taxable debt, long-term debt (both fixed and variable rate), short-term debt; commercial paper, lines of credit, and sales tax revenue and grant anticipation notes; negotiated sale, competitive sale, and private placement and inter-fund borrowing. The Transportation Authority will utilize the most advantageous financing alternative or combination of alternatives, that effectively balances the cost of the financing with the risk of the financing structure to the Transportation Authority.

D. ONGOING DEBT ADMINISTRATION AND INTERNAL CONTROLS.

The Transportation Authority shall maintain all debt-related records for a period of not less than the term of the debt plus three years. At a minimum, this repository will include all official statements, bid documents, ordinances, indentures, trustee reports, continuing disclosure reports, material events notices, tax certificates, information regarding the investment of and project costs paid with bond proceeds, underwriter, and other agreements, etc., for all Transportation Authority debt. To the extent that official transcripts incorporate these documents, possession of a transcript will suffice (transcripts may be in physical or electronic formats). The Transportation Authority developed a standard procedure for archiving transcripts for any new debt. The Transportation Authority developed procedures and controls that will be reviewed periodically. The Transportation Authority has established internal controls to ensure compliance with the Debt Policy, all debt covenants, and any applicable requirements of applicable law.

E. TAX LAW COMPLIANCE, REBATE POLICY, AND SYSTEM.

The use of proceeds of debt issued by the Transportation Authority, the interest on which is intended to be federally tax-exempt, is subject to requirements, restrictions, and limitations in order for the debt to qualify for tax-exemption initially at issuance and to remain tax-exempt on an ongoing basis until such debt is fully repaid. Failure to comply with such requirements, restrictions and limitations could cause such issue of the Transportation Authority's debt to fail to qualify for tax-exemption, retroactive to the date of issuance. The Transportation Authority designates the Executive Director, and their designee, to periodically undertake procedures to



confirm compliance with such requirements, restrictions, and limitations. In furtherance thereof, the Executive Director, and their designee, will consult with the Transportation Authority's bond counsel or others as deemed necessary regarding such periodic procedures or in the event that it is discovered that noncompliance has or may have occurred.

In addition, in furtherance of the above, the Transportation Authority will accurately account for all interest earnings in debt-related funds. These records will be designed to ensure that the Transportation Authority is in compliance with all debt covenants, including covenants related to the preservation of the tax-exempt status of debt issued on such basis, and with all applicable laws. The Transportation Authority will maximize the interest earnings on all funds within the investment parameters set forth in the respective indentures, consistent with consideration of applicable yield limits and arbitrage requirements and as permitted by the Investment Policy. The Transportation Authority will develop a system for reporting interest earnings that relates to and complies with any tax certificate(s) relating to its outstanding debt and Internal Revenue Code rebate, yield limit, and arbitrage rules, and for making any required filings with State and Federal agencies. The Transportation Authority will retain records as required by its tax certificate(s). The Transportation Authority shall have the authority to retain the services of an Arbitrage Rebate Consultant.

VIII. FINANCING CRITERIA

A. PURPOSE OF DEBT.

When the Transportation Authority determines the use of debt is appropriate, such debt may be new money debt or refunding debt.

1. New Money Debt.

New money debt is debt issued to finance capital projects. Capital projects eligible for financing with debt issued by the Transportation Authority include the acquisition, construction, or major rehabilitation of capital assets. Long-term debt proceeds generally may not be used for operating expenses. Capital project funding requirements are outlined in the annual budget, the Strategic Plan, and the Expenditure Plan.

2. Refunding Debt.

Refunding debt is issued to retire all or a portion of an outstanding bond issue or other debt. Refunding issuances can be used to achieve present-value savings on debt service, to modify interest rate risk, or to restructure the payment schedule, type of debt instrument used, or covenants of existing debt. The Transportation Authority must analyze each refunding issue on a present-value basis to identify economic effects before approval. Policies on the administration of refunding financings are detailed further in Section XI: Refinancing Outstanding Debt.

B. TYPES OF DEBT.

When the Transportation Authority determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued.



1. Long-Term Debt.

The Transportation Authority may issue long-term debt (e.g., fixed or variable rate revenue bonds) to finance capital projects when such projects cannot be financed with current revenues or funds. The proceeds derived from long-term debt will not be used to finance current operations or normal maintenance. Long-term debt will be structured such that average principal amortization does not exceed 120% of the weighted average useful life of the project being financed or refinanced if the bonds are intended to be federally tax-exempt and the debt repayment period does not exceed the earlier of the following: (a) the sunset date of the current Expenditure Plan and (b) forty (40) years from the date of issuance.

Fixed Rate

- a) **Current Coupon Bonds** are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Bond features may be selected at the time of sale to accommodate the market conditions at such time. Bond features that may be selected include the dollar amounts for different principal maturities, discount and premium pricing for each maturity, call provisions, use of bond insurance, funding of the debt service reserve fund, if any, and funding of costs of issuance.
- b) **Zero Coupon and Capital Appreciation Bonds** pay interest that is compounded and paid only when principal matures. These types of bonds typically bear interest at rates that are higher than those on current-coupon bonds, therefore representing a more expensive funding option. In the case of zero-coupon bonds, principal paid at maturity is discounted back to the initial investment amount received at issuance. In the case of capital appreciation bonds (CABs), interest on the bond accretes until maturity. Often, CABs are structured so as not to be callable prior to maturity, even if economic conditions are such that substantial savings could be achieved through refunding the CABs.
- c) ~~Special Government Obligations (both tax-exempt and taxable), such as the Build America Bond program authorized for calendar years 2009 and 2010, or any other type of Other Tax-Advantaged Debt, includes~~ existing or new municipal ~~security, structure or tax credit structures~~ authorized by the Federal Government to assist local governments in accessing the capital markets. So long as the program's requirements allow the Transportation Authority to adhere to its Debt Policy, the Transportation Authority will evaluate it along with traditional financing structures in order to determine which is the most appropriate for a particular issuance.
- d) **Transportation Infrastructure Finance Innovation Act (TIFIA) Loan** is a loan provided by the United States Department of Transportation for certain transportation projects of regional importance. The Transportation Authority may elect to apply for a TIFIA loan if it is determined that it is the most cost-effective debt financing option available.

VARIABLE RATE

- a) **Variable Rate Demand Bonds (VRDBs)** are long-term bonds with a fixed principal amortization, but the interest rate resets at certain established periods such as daily, weekly, monthly, or such other period as the Transportation Authority deems advisable, given current market conditions. VRDBs often require credit enhancement and third-



party liquidity in the forms of Letters or Lines of Credit and/or bond insurance. VRDBs generally allow bondholders to “put” their bonds back to the Transportation Authority on any rate reset date, given certain notice. The Transportation Authority will need to retain an investment bank to remarket bonds that are “put.”

- b) **Indexed Notes** are forms of variable rate debt that do not require Letters or Lines of Credit. These forms of variable rate debt have a fixed spread to a certain identified index such as the Securities Industry and Financial Markets Association. The rate will reset on a weekly, monthly, or other basis.

2. Short-Term Debt.

Short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or anticipated revenues, where anticipated revenues are defined as an assured revenue source with the anticipated amount based on conservative estimates. In the case of the Transportation Authority’s revolving credit facility or any future commercial paper program or replacement revolving credit facility, short-term borrowings may also be utilized for funding of the Transportation Authority’s capital projects. The Transportation Authority will determine and utilize the least costly method for short-term borrowing. The Transportation Authority may issue short-term debt when there is a defined repayment source or amortization of principal, subject to the following policies:

- a) **Commercial Paper Notes** may be issued as an alternative to fixed rate debt, particularly when the timing of funding requirements is uncertain. The Transportation Authority may maintain an ongoing commercial paper program to ensure flexibility and immediate access to capital funding when needed.
- b) **Grant Anticipation Notes (GANs)** are short-term notes that are repaid with the proceeds of State or Federal grants of any type. The Transportation Authority shall generally issue GANs only when there is no other viable source of funding for the project.
- c) **Sales Tax and Revenue Anticipation Notes** shall be issued only to meet sales tax revenue cash flow needs consistent with a finding by bond counsel that the sizing of the issue fully conforms to Federal tax requirements and limitations for tax-exempt borrowings.
- d) **Letters or Lines of Credit or Revolving Credit Agreements** shall be considered as an alternative to or credit support for other short-term borrowing options. The Transportation Authority ~~presently has~~ maintains a ~~\$125 million~~ revolving credit facility. Amounts ~~can~~ may be repaid and reborrowed under the revolving credit facility or another letter or line of credit without further Board action. The average amortization of amounts drawn under the revolving credit facility, letter or line of credit may not exceed 120% of the weighted average useful life of the project being financed or refinanced if the borrowing is intended to be federally tax-exempt and the borrowing must be fully repaid by the earlier of the following: (a) the sunset date of the current Expenditure Plan and (b) forty (40) years from the date of issuance. The repayment of loans under a revolving credit facility or other letter or line of credit is often facilitated by the issuance of long-term bonds or the repaying of principal from cash on hand. If proceeds of long-term bonds are used to repay loans under the revolving credit facility or other letter or



line of credit, the amortization and the repayment of the long-term bonds must satisfy the limits set forth above.

- e) **Grant Anticipation Revenue Vehicle Financing (GARVEE)** are bonds issued by the State and enable entities to fund transportation projects that are secured by certain federal grants. The Transportation Authority may consider the issuance of GARVEEs to meet cash flow shortfalls of grant revenues.

3. Variable Rate Debt.

To maintain a predictable debt service burden, the Transportation Authority may give preference to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is floating or variable rate debt. It may be appropriate to issue short-term or long-term variable rate debt to diversify the Transportation Authority's debt portfolio, reduce interest costs, provide interim funding for capital projects, and improve the match of assets to liabilities. Variable rate debt typically has a lower initial cost of borrowing than fixed rate financing and shorter maturities but carries both interest rate and liquidity risk. Under no circumstances will the Transportation Authority issue variable rate debt solely for the purpose of earning arbitrage. The Transportation Authority, however, may consider variable rate debt in certain instances.

- a) **Variable Rate Debt Capacity.** Except for the ~~existing \$125 million Transportation Authority's~~ revolving credit facility and modifications and replacements thereof (to which the following requirements of variable rate debt do not apply) or any replacement facility, the Transportation Authority will maintain a conservative level of outstanding variable rate debt in consideration of general rating agency guidelines recommending a maximum of a 20-30% variable rate exposure, in addition to maintaining adequate safeguards against risk and managing the variable revenue stream both as described below:
 - 1) **Adequate Safeguards Against Risk.** Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts. Such structures could include, without limitation, interest rate swaps, interest rate caps and the matching of assets and liabilities.
 - 2) **Variable Repayment Amounts.** The amount repaid over time will be variable, and is anticipated to move in the same direction as market-generated variable interest rates. The dedication of revenues allows capacity for variability.
 - 3) **As a Component to Synthetic Fixed Rate Debt.** Variable rate bonds may be used in conjunction with a financial strategy, which results in synthetic fixed rate debt, subject to the provisions of the Debt Policy regarding Financial Derivative Products.

4. Financial Derivative Products.

Financial Derivative Products such as interest rate swaps will be considered appropriate in the issuance or management of debt only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces the risk of fluctuations in expense or revenue, or alternatively where the derivative product will significantly reduce total project cost. Financial Derivative Products shall be considered only: (1) after a thorough evaluation of risks associated therewith, including counterparty credit risk, basis risk, tax risk, termination risk and liquidity risk, (2) after consideration of the potential impact on the



Transportation Authority's ability to refinance bonds at a future date and (3) after the Board has adopted separate policy guidelines for the use of interest rate swaps and other Financial Derivative Products. Derivative products will only be utilized with prior approval from the Board.

IX. TERMS AND CONDITIONS OF BONDS

The Transportation Authority shall establish all terms and conditions relating to the issuance of bonds and other forms of borrowing, and will control, manage, and invest all bond proceeds. Unless otherwise authorized by the Transportation Authority, the following shall serve as bond requirements:

A. TERM.

All capital improvements financed through the issuance of debt will be financed for a period such that average principal amortization of the debt does not exceed 120% of the weighted average useful life of the project being financed or refinanced, if the bonds are intended to be federally tax-exempt, and the debt repayment period does not exceed the earlier of the following: (a) the sunset date of the current Expenditure Plan and (b) forty (40) years from the date of issuance.

B. CAPITALIZED INTEREST.

The nature of the Transportation Authority's revenue stream is such that funds are generally continuously available, and the use of capitalized interest should not normally be necessary. However, certain types of financings may require the use of capitalized interest from the issuance date until the project sponsor has constructive use of the financed project. Unless otherwise required, including as may be required by statute with respect to the deposit of original issue premium, the Transportation Authority will avoid the use of capitalized interest so as to not unnecessarily increase the bond issuance size. Interest shall not be funded (capitalized) beyond three (3) years, unless required by statute with respect to the deposit of original issue premium, or a shorter period if further restricted by statute. The Transportation Authority may require that capitalized interest on the initial series of bonds be funded from the proceeds of the bonds. Interest earnings may, at the Transportation Authority's discretion and, if permitted under applicable federal tax law, be applied to extend the term of capitalized interest but in no event beyond the authorized term.

C. LIEN LEVELS.

Senior, Parity, and Subordinate Liens have been established under the Transportation Authority's Indenture governing the Transportation Authority's sales tax revenue bonds. The Transportation Authority may utilize any of these lien levels in a manner that will maximize the beneficial use of sales tax revenues securing the series of bonds, given the applicable critical constraint of such funds, such as cost or capacity.

D. DEBT SERVICE STRUCTURE.

Debt issuance shall be planned to achieve relatively rapid repayment of debt while still matching debt service to the useful life of facilities. The Transportation Authority will amortize its debt within each lien level to achieve overall level debt service (although principal may be deferred in the early years of a bond issue to maximize the availability of pay-as-you-go dollars during that



time) or may utilize more accelerated repayment schedules after giving consideration to bonding capacity constraints. The Transportation Authority shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to level existing debt service.

E. CALL PROVISIONS.

In general, the Transportation Authority's securities will include a call feature, based on market conventions, which is typically at par no later than ten and one-half (10.5) years from the date of delivery of tax-exempt bonds. In 2017, tax law was amended such that tax-exempt bonds can be refunded on a tax-exempt basis only if the refunding bonds are issued no more than 90 days before the call date. The Transportation Authority may determine that a shorter call or premium feature is appropriate based on market dynamics and/or the desire for increased future optionality.

F. ORIGINAL ISSUE DISCOUNT AND ORIGINAL ISSUE PREMIUM.

An original issue discount or original issue premium applicable to a particular maturity of any series of Transportation Authority bonds will be permitted only if the Transportation Authority determines that such discount or premium results in a lower true interest cost on such series of bonds and that the use of an original issue discount or original issue premium will not adversely affect the project identified by the bond documents.

G. DEEP DISCOUNT BONDS.

Deep discount bonds may provide a lower cost of borrowing in certain markets though they may also limit opportunities to refinance at lower rates in the future. The Transportation Authority will carefully consider their value and the effect on any future refinancings as a result of the lower-than-market coupon.

H. DERIVATIVE PRODUCTS.

The Transportation Authority will consider the use of derivative products only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces risk of fluctuations in expense or revenue, or alternatively, where the derivative product will reduce the total project cost. If interest rate swaps are considered, the Transportation Authority shall develop and maintain an Interest Rate Swap Policy governing the use and terms of these derivative products. For derivatives other than interest rate swaps, the Transportation Authority will undertake an analysis of early termination costs and other conditional terms given certain financing and marketing assumptions. Such analysis will document the risks and benefits associated with the use of a particular derivative product. Derivative products will only be utilized with prior approval from the Board.

I. MULTIPLE SERIES.

In instances where multiple series of bonds are to be issued, the Transportation Authority shall make a final determination as to which allocations are of the highest priority. Projects chosen for priority financing, based on funding availability and proposed timing, will generally be subject to the earliest or most senior of the bond series.



X. CREDIT ENHANCEMENTS

The Transportation Authority will consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings or positive impact on overall debt capacity can be shown shall enhancement be considered. The Transportation Authority will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement.

A. BOND INSURANCE.

The Transportation Authority shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest expense on insured bonds versus uninsured bonds.

B. DEBT SERVICE RESERVES.

When required, a reserve fund equal to not more than the least of ten percent (10%) of the original principal amount of the bonds, maximum annual debt service or one-hundred-and-twenty-five (125%) percent of average annual debt service (Reserve Requirement) shall be funded from the proceeds of each series of bonds, subject to Federal tax regulations and in accordance with the requirements of credit enhancement providers, if any, rating agencies, and investors.

The Transportation Authority shall have the authority to purchase reserve equivalents (i.e., the use of a reserve fund surety) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

C. LIQUIDITY FACILITIES AND LETTERS OF CREDIT.

The Transportation Authority shall have the authority to enter liquidity facility and letter-of-credit arrangements when such arrangements are deemed prudent and advantageous. The Transportation Authority may enter into such arrangements only with those financial institutions that have short-term ratings of not less than VMIG 1/P1, A-1, or F1, by Moody's Investor Service, Standard & Poor's Global Ratings, or Fitch Ratings, respectively, and have ratings from at least two of the three aforementioned ratings agencies.

X. REFINANCING OUTSTANDING DEBT

The Transportation Authority shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or financial advisory firms. The Transportation Authority will consider the following issues when analyzing possible refunding opportunities:

A. DEBT SERVICE SAVINGS.

The Transportation Authority has established a minimum present value savings threshold goal of three (3) percent of the principal amount of the refunded bond, unless there are other compelling reasons for undertaking the refunding. Additionally, the Transportation Authority has established a minimum present value savings threshold goal of five (5) percent of the principal



amount of the refunded bond for refinancings involving derivative products such as the issuance of synthetic fixed rate refunding debt service, unless there are other compelling reasons for undertaking the refunding. For this purpose, the present value savings will be net of all costs related to the refinancing. The decision to take savings on an upfront or deferred basis must be explicitly approved by the Board.

B. RESTRUCTURING.

The Transportation Authority will refund debt when in its best interest to do so. Refunding purposes may include but are not limited to: restructuring to meet unanticipated revenue expectations, terminating swaps, achieving cost savings, mitigating irregular debt service payments, releasing reserve funds, removing unduly restrictive bond covenants, or any combination of purposes beneficial to the Transportation Authority.

C. TERM OF REFUNDING ISSUES.

Except for commercial paper and loans under a line of credit (including the current revolving credit facility), the Transportation Authority generally will refund bonds without extending the maturity beyond that of the originally issued debt. However, the Transportation Authority may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The Transportation Authority may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

D. ESCROW STRUCTURING.

The Transportation Authority shall utilize the least costly securities available in structuring refunding escrows. The Transportation Authority will examine the viability of an economic versus legal defeasance on a net present value basis. A certificate from a third-party agent, who is not a broker-dealer, is required stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Securities (SLGS) (this is required only if SLGS are then available for purchase), and that the price paid for the securities was reasonable within Federal guidelines. Such certificate shall not be required in the case of SLGSs purchased directly from the U.S. Treasury. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Transportation Authority from its own account.

E. ARBITRAGE.

The Transportation Authority shall take all necessary steps (permitted under Federal tax law when tax-exempt debt is involved) to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

F. COMMERCIAL PAPER PROGRAM, REVOLVING CREDIT FACILITY.

The requirements of this Section XI and of Section VIII.A.2 shall not apply to or restrict the issuance of commercial paper notes for the purpose of refunding maturing commercial paper notes, or of borrowing under a revolving credit facility for the purpose of repaying prior loans under the facility or under a prior facility, nor shall this Section XI or Section VIII.A.2 apply to long-term refinancing of commercial paper or of loans under a revolving credit facility, subject to limitations otherwise contained in this policy.



XI. METHODS OF SALE

The Transportation Authority will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation, including a direct placement or similar transaction.

A. COMPETITIVE SALE

In a competitive bond sale, the Transportation Authority's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the "winning" bid and the bidding process also adheres to the requirements set forth in the official notice of sale. Conditions under which a competitive sale would be preferred are as follows (not all conditions need be present/satisfied):

- a) Bond prices are stable and/or demand is strong
- b) Market timing and interest rate sensitivity are not critical to the pricing
- c) Participation from DBE firms is "best effort" and not required for winning bid;
- d) There are no complex explanations required during marketing regarding the Transportation Authority's projects, media coverage, political structure, political support, funding, or credit quality;
- e) The bond type and structure are conventional;
- f) Bond insurance is included or pre-qualified (available);
- g) The transaction size is manageable;
- h) The Transportation Authority has strong credit rating(s); and
- i) The Transportation Authority is well known to investors.

B. NEGOTIATED SALE.

The Transportation Authority recognizes that some securities are best sold through negotiation. Conditions under which a negotiated sale would be preferred are as follows (not all conditions need be present/satisfied):

- a) Bond prices are volatile;
- b) Demand is weak, or supply of competing bonds is high;
- c) Market timing is important, such as for refunding's;
- d) The Transportation Authority has lower or weakening credit rating(s);
- e) The Transportation Authority is not well known to investors;
- f) Sale and marketing of the bonds will require complex explanations about the Transportation Authority projects, media coverage, political structure, political support, funding, or credit quality;
- g) The bond type and/or structural features are non-standard, such as for a forward delivery bond sale or the issuance of variable rate bonds, or where there is the use of derivative products;
- h) Bond insurance is not available or not offered;



- i) Early structuring and market participation by underwriters are desired;
- j) The par amount for the transaction is significantly larger than normal;
- k) Demand for the bonds by retail investors is expected to be high; and
- l) Participation from DBE firms is required

C. PRIVATE PLACEMENT.

From time to time, the Transportation Authority may elect to privately place its debt or borrow directly from a bank or other financial institution. Such placement or borrowing shall only be considered if this method is likely to result in a cost savings to the Transportation Authority relative to other methods of debt issuance on a net present value basis, using the Transportation Authority's investment rate as the appropriate measure of the discount rate. For the ~~existing \$125 million Transportation Authority's revolving credit facility or any replacement facility that is bank purchased, (as may be in effect),~~ such requirements do not apply.

D. ISSUANCE METHOD ANALYSIS.

The Transportation Authority shall evaluate each method of issuance based on the factors set forth above.

XII. MARKET RELATIONSHIPS

A. RATING AGENCIES.

The Executive Director shall be responsible for maintaining the Transportation Authority's relationships with Moody's Investors Service, Standard & Poor's, nationally recognized rating agencies. The Transportation Authority's debt is rated by S&P Global Ratings and Fitch Ratings. Depending on the particulars of a transaction, the Transportation Authority may choose to seek ratings from one or more rating agencies with a preference toward maintaining its relationship with its existing rating providers.

B. INVESTOR OUTREACH.

The Transportation Authority shall participate in informational meetings or conference calls with institutional investors in advance of bond or note sales to the extent such meetings are advantageous to the sale of such bonds or notes. Ad-hoc information requests and inquiries from investors that hold the Transportation Authority's bonds should be met to the extent the requested information is publicly available. The provision of any information to investors shall be discussed with the Deputy Director Finance and Administration prior to the release of any information.

C. TRANSPORTATION AUTHORITY COMMUNICATION.

The Executive Director shall include in the annual report to the Board feedback from rating agencies and/or investors regarding the Transportation Authority's financial strengths and weaknesses and recommendations for addressing any weaknesses.

D. DISCLOSURE.

The Transportation Authority shall comply with the terms of its continuing disclosure undertakings (CDUs). Material noncompliance with any CDU must be reported to the Municipal



Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access system ("EMMA") and disclosed in bond offering documents, which could reflect negatively on the Transportation Authority. The Executive Director will take all reasonable steps to ensure that the Transportation Authority files timely annual reports and "listed event" notices with EMMA, and that all such filings are (i) complete and accurate under the law and (ii) clear, concise, and readable for the investing community. The Transportation Authority's existing CDUs contain 15 listed events, including the requirement that the Transportation Authority give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in its CDUs. Amendments to Rule 15c-12 effective (i.e., applicable to CDUs entered into by the Transportation Authority after) February 27, 2019, added two more "listed events" relating to a debt issuer's "material financial obligations" and to changes to primary documents relating to such obligations that could impact bond holders. The Transportation Authority may consider establishing guidelines for making the determination as to whether a financial obligation is material or whether a change to a document relating to a material financial obligation is, in itself, material. The Transportation Authority may also, from time to time, evaluate using the services of a dissemination agent, such as the Transportation Authority's Financial Adviser or Digital Assurance Certification, LLC, to assist with CDU compliance.

From time to time, the Transportation Authority prepares disclosure documents. Disclosure documents include offering documents for Transportation Authority bonds (e.g., preliminary and final Official Statements), (b) annual continuing disclosure reports filed with EMMA, (c) event notices and any other filings with EMMA, (d) the Transportation Authority's audited financial statements and (e) any other documents that are reasonably likely to reach investors or the securities markets, including but not limited to press releases, web site postings, and other communications required to be certified as representations of the City's financial condition to investors or the securities markets.

To help ensure that the Transportation Authority's disclosure documents comply with all applicable federal securities laws and promote best practices regarding the preparation and review of the disclosure documents, the Transportation Authority promotes communication among its departments so that disclosure documents/filings are being reviewed by the staff persons who have the knowledge and ability to assess the accuracy and completeness of the document. The Executive Director or the Deputy Director for Finance and Administration may develop additional disclosure procedures including record retention policies. The Transportation Authority may engage with an external disclosure counsel to provide additional guidance and training.

E. REBATE REPORTING.

The use of bond proceeds and their investments must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate annual rebates related to any bond issues, with rebate paid every five years and as otherwise required by applicable provisions of the Internal Revenue Code and regulations. Therefore, the Executive Director shall take all reasonable steps to ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculation, and timely rebates, if necessary.



F. OTHER JURISDICTIONS.

From time to time, the Transportation Authority may issue bonds on behalf of other public entities. While the Transportation Authority will make every effort to facilitate the desires of these entities, the Executive Director will take all reasonable steps to ensure that only the highest quality financings are done and that the Transportation Authority is insulated from all risks. The Transportation Authority shall require that all conduit financings achieve a rating at least equal to the Transportation Authority's ratings (including, where necessary, through the use of credit enhancement).

G. FEES.

The Transportation Authority will charge recipients of debt issuance proceeds an administrative fee equal to the recipient's pro rata share of administrative costs incurred by the Transportation Authority in issuing debt.

XIII. CONSULTANTS

The Transportation Authority shall select its primary consultant(s) by competitive qualifications-based process through Request for Proposals.

A. SELECTION OF FINANCING TEAM MEMBERS.

The Executive Director will make recommendations for all financing team members, with the Board providing final approval.

B. FINANCIAL ADVISOR.

The Transportation Authority shall utilize a financial advisor to assist in its debt issuance and debt administration processes as prudent. Selection of the Transportation Authority's financial advisor(s) shall be based on, but not limited to, the following criteria:

- a) Experience in providing consulting services to complex issuers
- b) Knowledge and experience in structuring and analyzing complex issues
- c) Experience and reputation of assigned personnel
- d) Fees and expenses

Financial advisory services provided to the Transportation Authority shall include, but shall not be limited to:

- e) Evaluation of risks and opportunities associated with debt issuance;
- f) Monitoring marketing opportunities;
- g) Evaluation of proposals submitted to the Transportation Authority by investment banking firms;
- h) Structuring and pricing;
- i) Preparation of request for proposals for other financial services such as trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.;



- j) Advice, assistance, and preparation for presentations with rating agencies and investors; and
- k) Assisting in preparation of official statements.

The Transportation Authority also expects that its financial advisor will provide the Transportation Authority with objective advice and analysis, maintain the confidentiality of Transportation Authority financial plans, and be free from any conflicts of interest.

C. BOND COUNSEL.

Transportation Authority debt will include a written opinion by legal counsel affirming that the debt is a valid and binding obligation, and stating the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by nationally recognized counsel with extensive experience in public finance and tax issues. Counsel will be selected by the Transportation Authority through its request for proposal process.

The services of bond counsel may include, but are not limited to:

- a) Rendering a legal opinion with respect to authorization and valid issuance of debt obligations including whether the interest paid on the debt is tax exempt under federal and State of California law;
- b) Preparing all necessary legal documents in connection with authorization, sale, issuance and delivery of bonds and other obligations;
- c) Assisting in the preparation of the preliminary and final official statements and or commercial paper memorandum;
- d) Participating in discussions with potential investors, insurers, and credit rating agencies, if requested; and
- e) Providing continuing advice, as requested, on the proper use and administration of bond proceeds under applicable laws and the indenture, particularly arbitrage tracking and rebate requirements.

D. DISCLOSURE COUNSEL

For Transportation Authority debt issued and sold through the use of an official statement or offering memorandum, the Transportation Authority may retain disclosure counsel with experience in public finance and securities law issues. Disclosure counsel will be selected by the Transportation Authority through its Request for Proposal (RFP) process.

The services of disclosure counsel may include, but are not limited to:

- a) Assisting the internal due diligence process;
- b) Preparation and/or review of disclosure documents necessary for the sale and delivery of securities, including preliminary and final official statements (or offering memoranda) and continuing disclosure agreements;
- c) Delivery of a negative assurance letter regarding the disclosure document; and



- d) The Transportation Authority may also retain disclosure counsel with experience in public finance and securities law issues to provide advice and support between issuances of debt sold through the use of an official statement or offering memorandum, as determined by the Executive Director.

XIV. UNDERWRITER SELECTION

A. SENIOR MANAGER SELECTION.

The Transportation Authority may select a senior manager for a proposed negotiated sale. The criteria shall include but not be limited to:

- a) The firm's ability and experience in managing complex transactions;
- b) Demonstrated ability to structure debt issues efficiently and effectively;
- c) Prior knowledge and experience with the Transportation Authority;
- d) The firm's willingness to risk capital and demonstration of such risk;
- e) The firm's ability to sell bonds;
- f) Quality and experience of personnel assigned to the Transportation Authority's engagement and
- g) Financing plan presented.

B. CO-MANAGER SELECTION.

Co-managers, if any, will be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the Transportation Authority's bonds.

C. SELLING GROUPS.

The Transportation Authority may establish selling groups in certain transactions. To the extent that selling groups are used, the Transportation Authority may make appointments to selling groups from within the pool of underwriters or from outside the pool, as the transaction dictates.

D. UNDERWRITER'S COUNSEL.

In any negotiated sale of Transportation Authority debt, in which legal counsel is required to represent the underwriter, the lead underwriter will make the appointment, subject to Transportation Authority consent.

E. UNDERWRITER'S DISCOUNT.

- a) The Transportation Authority will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Transportation Authority will determine the allocation of fees with respect to the management fee. The determination will be based upon participation in the structuring phase of the transaction.



- b) All fees and allocation of the management fee will be determined prior to the sale date; a cap on management fees, expenses, and fees and expenses of underwriter's counsel will be established and communicated to all parties by the Transportation Authority. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

F. EVALUATION OF FINANCING TEAM PERFORMANCE.

The Transportation Authority will evaluate each bond sale after its completion to assess the following: costs of issuance, including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

Following each sale, the Transportation Authority shall provide a post-sale evaluation on the results of the sale to the Board.

G. SYNDICATE POLICIES.

For each negotiated transaction, the senior manager will prepare syndicate policies for approval by the Executive Director that will describe the designation policies governing the upcoming sale. The Executive Director shall ensure that the senior manager receives each member's acknowledgement of the syndicate policies for the upcoming sale prior to the sale date.

H. DESIGNATION POLICIES.

To encourage the pre-marketing efforts of each member of the underwriting team, orders for the Transportation Authority's bonds will be net designated, unless otherwise expressly stated. The Transportation Authority shall require the senior manager to:

- a) Equitably allocate bonds to other managers and the selling group;
- b) Comply with MSRB regulations governing the priority of orders and allocations; and
- c) Within 10 working days after the sale date, submit to the Executive Director a detail of orders, allocations and other relevant information pertaining to the Transportation Authority's sale.

I. DISCLOSURE BY FINANCING TEAM MEMBERS.

All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, under no circumstances will agreements be permitted which could compromise the firm's ability to provide independent advice which is solely in the Transportation Authority's best interests, or which could reasonably be perceived as a conflict of interest.



GLOSSARY

Arbitrage. The difference between the interest paid on an issue of tax-exempt debt and the interest earned by investing the debt proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage earned pursuant to the investment of the proceeds of tax-exempt municipal securities.

Balloon Maturity. A maturity within an issue of bonds that contains a disproportionately large percentage of the principal amount of the original issue.

Bullet Maturity. The maturity of an issue of bonds for which there are no principal payments prior to the final stated maturity date.

Call Provisions. The terms of the bond contract giving the issuer the right to redeem all or a portion of an outstanding issue of bonds prior to their stated dates of maturity at a specific price, usually at or above par.

Capitalized Interest. A portion of the proceeds of an issue that is set aside to pay interest on the securities for a specific period of time. Interest is sometimes capitalized for the construction period of the project.

Commercial Paper. Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank that, upon the maturity thereof, successively rolls into other short term promissory notes until the principal thereof is paid by the Transportation Authority.

Competitive Sale. A sale of securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities in contrast to a negotiated sale.

Continuing Disclosure. The ongoing disclosure provided by an issuer to comply with a continuing disclosure undertaking. Generally, includes annual updates of operating and financial information, audited financial statements, and notice of events specifically identified in the undertaking.

Credit Enhancement. Credit support purchased by the issuer to raise the credit rating of the issue. The most common credit enhancements consist of bond insurance, direct or standby letters of credit, and lines of credit.

DBE. Disadvantaged Business Enterprises as defined by the Transportation Authority's current DBE policy.

Debt Service Reserve Fund. The fund in which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements.

Deep Discount Bonds. Bonds that are priced for sale at a substantial discount from their face or par value.



Derivatives. (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or asset (interest rates, foreign exchange rates, equities, or commodities).

Designation Policies. Outline as to how an investor's order is filled when a maturity in an underwriting syndicate is oversubscribed. The senior managing underwriter and issuer decide how the bonds will be allocated among the syndicate. There are three primary classifications of orders, which form the designation policy. The highest priority is given to Group Net orders; the next priority is given to Net Designated orders and Member orders are given the lowest priority.

Escrow. A fund established to hold moneys pledged and to be used to pay debt service on one or more existing obligations.

Expenses. Compensates senior managers for out-of-pocket expenses including: underwriters counsel, DTC charges, travel, syndicate expenses, dealer fees, overtime expenses, communication expenses, computer time and postage.

Grant Anticipation Notes (GANs). Short-term notes issued by the government unit, usually for capital projects, which are paid from the proceeds of State or Federal grants of any type.

Grant Anticipation Revenue Vehicle Financing (GARVEE). Bonds issued by the state and enable entities to fund transportation projects that are secured by certain federal grants.

Letters of Credit. A bank credit facility supporting the payment of bonds wherein the bank agrees to lend a specified amount of funds for a limited term.

Management Fee. The fixed percentage of the gross spread which is paid to the managing underwriter for the structuring phase of a transaction.

Members. Underwriters in a syndicate other than the senior underwriter.

Negotiated Sale. A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

Original Issue Discount. The amount by which the original par amount of an issue exceeds its initial sale price at the time a substantial amount of such issue is sold to the public).

Original Issue Premium. The amount by the initial sale price of an issue exceeds its original par amount at the time a substantial amount of such issue is sold to the public.

Pay-As-You-Go. An issuer elects to finance a project with existing cash flow as opposed to issuing debt obligations.

Present Value. The current value of a future cash flow.



Private Placement. The original placement of an issue with one or a limited number of investors as opposed to being publicly offered or sold.

Rebate. A requirement imposed by the Tax Reform Act of 1986 whereby the issuer of the bonds must pay the IRS an amount equal to the difference between the amount earned from investment of bond proceeds at a yield above the bond yield and the amount that would have been earned at a yield equal to the bond yield, calculated pursuant to federal tax law together with all income earned on the accumulated earnings pending payment, subject to certain exceptions.

Sales Tax and Revenue Anticipation Notes (TRANs). Short-term notes issued by a government unit, usually for operating purposes, which are paid from the proceeds of sales tax or other anticipated revenue sources.

Selling Groups. The group of securities dealers who participate in an offering not as underwriters but rather as those who receive securities less the selling concession from the managing underwriter for distribution at the public offering price.

Syndicate Policies. The contractual obligations placed on the underwriting group relating to distribution, price limitations and market transactions.

Transportation Infrastructure Finance Innovation Act (TIFIA). Loans and loan guaranty program provided by the United States Department of Transportation for transportation projects of regional importance.

Underwriter. A dealer that purchases new issues of municipal securities from the Issuer and resells them to investors.

Underwriter's Discount. The difference between the price at which the Underwriter buys bonds from the Issuer and the price at which they are reoffered to investors.

Variable Rate Debt. An interest rate on a security, which changes at intervals according to an index or a formula or other standard of measurement as stated in the bond contract.



Investment Policy

Resolution 23-46

I. INTRODUCTION

The purpose of this document is to set out policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related procedures.

The investment policies and procedures of the San Francisco County Transportation Authority (Transportation Authority) are, in every case, subject to and limited by applicable provisions of federal and state laws and executive orders and to prudent money management principles. All funds will be invested in accordance with the Transportation Authority's Investment Policy, and applicable provisions of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (Section 53600 et seq.). The investment of bond proceeds (including proceeds of notes issued pursuant to bond documents) will be further restricted by the provisions of relevant bond documents.

II. SCOPE

This policy covers all funds and investment activities under the jurisdiction of the Transportation Authority.

Bond proceeds (including proceeds of notes issued pursuant to bond documents) shall be invested in the securities permitted pursuant to the relevant bond documents, including any tax certificate. If the bond documents are silent as to the permitted investments, bond proceeds will be invested in the securities permitted by this policy. In addition to the securities listed in Section XI below, bond proceeds may also be invested in investment and forward delivery agreements. Notwithstanding the other provisions of this Investment Policy, the percentage or dollar portfolio limitations listed elsewhere in this Investment Policy do not apply to bond proceeds.

III. PRUDENT INVESTOR STANDARD

In managing its investment program, the Transportation Authority will observe the "Prudent Investor" standard as stated in Government Code Section 53600.3, applied in the context of managing an overall portfolio. Investments will be made with care, skill, prudence, and diligence, taking into account the prevailing circumstances, including, but not limited to, the general economic conditions, the anticipated needs of the Transportation Authority, and other relevant factors that a prudent person acting in a fiduciary capacity and familiar with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Transportation Authority.



IV. OBJECTIVES

The primary objectives, in order of priority, for the Transportation Authority's investment activities are:

1. **Safety.** Safety of the principal is the foremost objective of the investment program. Investments of the Transportation Authority will be undertaken in a manner that seeks to ensure preservation of the principal of the funds under its control.
2. **Liquidity.** The Transportation Authority's investment portfolio will remain sufficiently liquid to enable the Transportation Authority to meet its reasonably anticipated cash flow requirements.
3. **Return on Investment.** The Transportation Authority's investment portfolio will be managed with the objective of attaining a market rate of return throughout budgetary and economic cycles commensurate with the Transportation Authority's investment risk parameters and the cash flow characteristics of the portfolio.

V. INVESTMENTS SUBJECT TO FEDERAL AND STATE LAWS AND EXECUTIVE ORDERS

Investments of the Transportation Authority shall be subject to all applicable federal and state laws and executive orders of the President of the United States and Governor of the State of California.

VI. DELEGATION OF AUTHORITY

Management's responsibility for the investment program is derived from the Transportation Authority Board of Commissioners (Board) and is hereby delegated to the Executive Director acting as Transportation Authority Treasurer. Pursuant to the requirements of the California Government Code, the Board may renew the delegation pursuant to this section each year. No person may engage in an investment transaction except as provided under the limits of this policy. The Transportation Authority may retain the services of an investment advisor to advise it with respect to investment decision-making and to execute investment transactions for the Transportation Authority. The advisor will follow the policy and such other written instructions as are provided by the Executive Director.

VII. SOCIAL RESPONSIBILITY

Investment of funds should be guided by the following socially responsible investment goals when investing in corporate securities and depository institutions. Investments shall be made in compliance with the forgoing socially responsible investment goals to the extent that such investments achieve substantially equivalent safety, liquidity and yield compared to investments permitted by state law.



1. Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability, or sexual orientation. Investments are discouraged in entities that manufacture tobacco products, firearms, or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing, deferred deposit (payday lending) businesses and organizations involved in financing, either directly or indirectly, the Dakota Access Pipeline or, as determined by the Transportation Authority, similar pipeline projects. Prior to making investments, the Transportation Authority will verify an entity's support of the socially responsible goals listed above through direct contact or through the use of a third party such as the Investors Responsibility Research Center, or a similar ratings service. The entity will be evaluated at the time of purchase of the securities.
2. Investments are encouraged in entities that promote community economic development. Investments are encouraged in entities that have a demonstrated involvement in the development or rehabilitation of low income affordable housing and have a demonstrated commitment to reducing predatory mortgage lending and increasing the responsible servicing of mortgage loans. Securities investments are encouraged in financial institutions that have a Community Reinvestment Act (CRA) rating of either Satisfactory or Outstanding, as well as financial institutions that are designated as a Community Development Financial Institution (CDFI) by the United States Treasury Department, or otherwise demonstrate commitment to community economic development.

All depository institutions are to be advised of applicable Transportation Authority contracting ordinances, and shall certify their compliance therewith, if required.

VIII. ETHICS AND CONFLICT OF INTEREST

Officers, employees, and agents of the Transportation Authority involved in the investment process will not engage in any personal business activities that could conflict with proper and lawful execution of the investment program, or which could impair their ability to make impartial decisions.

IX. INTERNAL CONTROLS

The Transportation Authority's internal controls ensure compliance with the Investment Policy and with the applicable requirements of the California Government Code. The Deputy Director for Finance and Administration is responsible for developing and managing internal control procedures. The monitoring of ongoing compliance shall be reviewed quarterly.

X. AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The Executive Director will establish and maintain a list of financial institutions and other financial services providers authorized to provide investment services. In addition, the



Transportation Authority will establish and maintain a list of approved security brokers/dealers, selected on the basis of credit worthiness, which are authorized to provide investment services in the State of California. These include primary dealers or regional dealers that meet the net capital and other requirements under Securities and Exchange Commission Rule 15c3-1. No public deposit will be made except in a qualified public depository as established by state law.

XI. PERMITTED INVESTMENT INSTRUMENTS

California Government Code Section 53601 governs and limits the investments permitted for purchase by the Transportation Authority. Within those investment limitations, the Transportation Authority seeks to further restrict eligible investment to the investments listed below. The portfolio will be diversified by security type and institution, to avoid incurring unreasonable and avoidable concentration risks regarding specific security types or individual financial institutions.

Percentage limitations, where indicated, apply at the time of purchase. Rating requirements where indicated, apply at the time of purchase. In the event a security held by the Transportation Authority is subject to a rating change that brings it below the minimum specified rating requirement, the Executive Director will notify the Board of the change. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the rating reduction, prognosis for recovery or further rating reductions and the current market price of the security.

1. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category.
2. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio that may be invested in this category.
3. Repurchase Agreements not to exceed one year duration. There is no limitation as to the percentage of the portfolio that may be invested in this category. The Repurchase Agreements must be secured by U.S. Treasury securities or Federal Agency securities. All securities underlying repurchase agreements must be delivered to the Transportation Authority's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The market value of securities that underlie a repurchase agreement must be valued at 102 percent or greater of the funds borrowed against those securities and the value will be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments



in repurchase agreements will be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

4. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled, or operated by the state or any local agency; provided that the obligations are rated in one of the two highest categories by a nationally recognized statistical-rating organization (NRSRO). There is no limitation as to the percentage of the portfolio that may be invested in this category.
5. Registered treasury notes or bonds of any of the other 49 states of the United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states of the United States, in addition to California, provided that the obligations are rated in one of the two highest categories by a NRSRO. There is no limitation as to the percentage of the portfolio that may be invested in this category.
6. Bankers' Acceptances issued by domestic or domestic branches of foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by a NRSRO. Such Banker's Acceptances may not exceed 180 days maturity or 40 percent of the Transportation Authority's portfolio. No more than 30 percent of the Transportation Authority's portfolio may be invested in the Banker's Acceptances of any one commercial bank.
7. Commercial paper of "prime" quality rated the highest ranking or of the highest letter or number rating as provided by a NRSRO. The entity that issues the commercial paper will meet all of the criteria in either (1) or (2) as follows: (1) the corporation will be organized and operating within the United States as a general corporation, will have assets in excess of five hundred million dollars (\$500,000,000), and will issue debt, other than commercial paper, if any, that is rated "A" or higher by a NRSRO; or (2) the entity will be organized within the United States as a special purpose corporation, trust, or limited liability company, have program-wide credit enhancements including, but not limited to, over collateralizations, letters of credit, or surety bond; and have commercial paper that is rated "A-1" or higher, or equivalent by a NRSRO. Eligible commercial paper may not exceed 270 days' maturity nor represent more than 10% of the outstanding paper of an issuing corporation, or 25% of the Transportation Authority's portfolio.
8. Medium-term corporate notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes will be rated in a rating category "A" or better by a NRSRO. Medium-term notes may not exceed 30 percent of the Transportation Authority's portfolio.
9. FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California. Such time certificates of deposit may not exceed 1 year in maturity or 10 percent of the Transportation Authority's portfolio.



10. To be eligible to receive the Transportation Authority's money, a bank, savings association, federal association, or federally insured industrial loan company must have received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.
11. Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank, a savings association, or a federal association, a state or federal credit union or by a state-licensed branch of a foreign bank. Negotiable certificates of deposit may not exceed 30 percent of the Transportation Authority's portfolio.
12. State of California's Local Agency Investment Fund (LAIF). The LAIF portfolio should be reviewed periodically. There is no limitation as to the percentage of the portfolio that may be invested in this category. However, the amount invested may not exceed the maximum allowed by LAIF.
13. The California Asset Management Program, as authorized by Section 53601 (p) of the California Government Code. The Program constitutes shares in a California common law trust established pursuant to Section 6509.7 of Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by subdivisions (a) to (r) of Section 53601 of the Government Code of California, as it may be amended.
14. Insured savings account or money market account. To be eligible to receive local agency deposits, a financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California communities in its most recent evaluation. There is no limitation as to the percentage of the portfolio that may be invested in this category. Bank deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. The collateralization requirements may be waived for any portion that is insured by the FDIC. The Transportation Authority shall have a signed agreement with any depository accepting Transportation Authority funds per Government Code Section 53649.
15. Placement Service Certificates of Deposit (CDs). Certificates of deposit placed with a private sector entity that assists in the placement of certificates of deposit with eligible financial institutions located in the United States (Government Code Section 53601.8). The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by the FDIC. The combined maximum portfolio exposure to Placement Service CDs and Negotiable CDs is limited to 30%. The maximum investment maturity will be restricted to five years.
16. The San Francisco City and County Treasury Pool. There is no limitation as to the percentage of the portfolio that may be invested in this category. Unless otherwise noted, the maximum maturity from the trade settlement date can be no longer than five years. Any loans or investments of Transportation Authority funds invested in the San Francisco City and County Treasury Pool to agencies of the City and County of San Francisco will specifically require the approval of the Board prior to purchase or acceptance.



17. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment pursuant to this subdivision these companies shall meet either of the following criteria:

- Attain the highest ranking or highest letter and numerical rating provided by not less than two NRSROs.
- Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

The purchase price of shares of beneficial interest purchased will not include any commission that these companies may charge and will not exceed 20 percent of the Transportation Authority's portfolio.

XII. INELIGIBLE INVESTMENTS

The Transportation Authority will not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.

XIII. MAXIMUM MATURITY

Investment maturities will be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the Transportation Authority to meet all projected obligations.

Where this Policy does not specify a maximum remaining maturity at the time of the investment, no investment will be made in any security, other than a security underlying a repurchase agreement, that at the time of the investment has a term remaining to maturity in excess of five years, unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment.

XIV. REPORTING REQUIREMENTS

The Executive Director will submit a quarterly list of transactions to the Board. In addition, the Executive Director will submit to the Board an investment reports each quarter, which will include, at a minimum, the following information for each individual investment:

- Type of investment instrument
- Issuer name
- Purchase date



- Maturity date
- Purchase price
- Par value
- Amortized cost
- Current market value and the source of the valuation
- Credit rating
- Overall portfolio yield based on cost
- Sale Date of any investment sold prior to maturity

The quarterly report also will (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the Transportation Authority's funds, investments or programs that are under the management of contracted parties, and (iii) include a statement denoting the ability of the Transportation Authority to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money may, or may, not be available. For all of the Transportation Authority's investments held in the City and County of San Francisco's Treasury Pool the Executive Director will provide the Board with the most recent investment report furnished by the Office of the Treasurer and Tax Collector.

XV. SAFEKEEPING AND CUSTODY

All security transactions entered into by the Transportation Authority will be conducted on a delivery-versus-payment basis. Securities will be held by an independent third-party custodian selected by the Transportation Authority. The securities will be held directly in the name of the Transportation Authority as beneficiary.

XVI. INVESTMENT POLICY REVIEW

The Executive Director will annually render to the Board a statement of investment policy, which the Board will consider at a public meeting. Any changes to the policy will also be considered by the Board at a public meeting.



GLOSSARY

Agencies. Federal agency securities and/or Government-sponsored enterprises.

Asked. The price at which securities are offered.

Bankers' Acceptance (BA). A draft or bill of exchange issued by a bank or trust company that guarantees payment at a later time.

Bid. The price offered by a buyer of securities. (when you are selling securities, you ask for a bid.) See offer.

Broker. A broker brings buyers and sellers together, for which the broker typically receives a commission for a successful sale.

Certificate of Deposit (CD). A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable.

Collateral. Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Coupon. (a) the annual rate of interest that a bond issuer promises to pay the bondholder on the bond's face value. (b) a certificate attached to a bond evidencing interest due on a payment date.

Dealer. A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Delivery versus Payment. There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Derivatives. (1) financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities, or commodities).

Discount. The difference between the principal amount of a security and its issue price where the issue price is lower than the principal amount.

Discount securities. Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.



Diversification. Dividing investment funds among a variety of securities offering independent returns.

Federal credit agencies. Agencies of the federal government set up to supply credit to various classes of institutions and individuals, e.g., S&Ls, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC). A federal agency that insures bank deposits, currently up to \$250,000 per depositor per insured bank.

Federal reserve system. The central bank of the United States created by Congress and consisting of a seven member board of governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

Liquidity. A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Market value. The price at which a security is trading and could presumably be purchased or sold.

Maturity. The date upon which the principal or stated value of an investment becomes due and payable.

Money market. The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Nationally Recognized Statistical-Rating Organization (NRSRO). A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

Offer. The price asked by a seller of securities. (when you are buying securities, you ask for an offer.) See asked and bid definitions.

Portfolio. Collection of securities held by an investor.

Primary dealer. A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the federal reserve bank of New York and are subject to its informal oversight. Primary dealers include securities and exchange commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Qualified public depository. A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a



value of not less than its maximum liability and which has been approved by the public deposit protection commission to hold public deposits.

Rate of return. The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

Repurchase Agreement (RP or REPO). A purchase of securities by an agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the agency by book entry, physical delivery, or by third-party custodial agreement.

Securities and Exchange Commission (SEC). Agency created by congress to protect investors in securities transactions by administering securities legislation.

Sec Rule 15c3-1. See uniform net capital rule definition.

Treasury bills. A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury bonds. Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury notes. Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Uniform net capital rule. Securities and exchange commission requirement that, subject to certain exceptions, prohibits member firms as well as nonmember broker-dealers in securities from permitting their respective aggregate indebtedness to exceed 1500 percent of its net capital, also called net capital rule and net capital ratio. Indebtedness covers all money owed, including margin loans and commitments to purchase securities. This is one reason new public issues are spread among members of underwriting syndicates. Net capital includes cash and assets easily converted into cash.

Yield. The rate of annual income returns on an investment, expressed as a percentage. (a) income yield is obtained by dividing the current dollar income by the current market price for the security. (b) net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.