CONTRA COSTA
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authority

ORIGINAL

RESOLUTION 15-03-A

RE: APPROVAL OF THE AUTHORITY'S DEBT POLICY

WHEREAS, the Contra Costa Transportation Authority (Authority) is a local transportation authority duly organized and existing under the laws of the State of California and has the discretion to issue debt to construct transportation improvements within Contra Costa County, such transportation improvements being more fully described the Expenditure Plan of the Authority; and

WHEREAS, the Authority is a member organization of the Government Finance Officers Association (GFOA) of the United States and Canada and GFOA promulgates best practices for governmental accounting, financial reporting, auditing, budgeting, investments, banking and debt administration; and

WHEREAS, the primary objective of a debt policy is to organize and formalize debt issuance policies and procedures, maintain cost-effective access to capital markets through prudent yet flexible policies to moderate debt service obligations, while also preserving the highest practical bond credit rating; and

WHEREAS, the Authority adopted Resolution 05-08-A, Revised on November 16, 2005, consistent with GFOA's debt policy best practices and guidelines and an update is now recommended to reflect changes in federal law and regulations arising from the Dodd-Frank Wall Street Transparency and Accountability Act of 2010; and

WHEREAS, a current debt policy is evidence to financial markets and participants of the Authority's commitment to sound financial management and controlled borrowing practices, and is regarded as a positive factor in the evaluation of the Authority's creditworthiness to holders, and potential holders, of Authority bonds; and

WHEREAS, the Authority and its financial advisor, Public Financial Management, has reviewed the Debt Policy adopted on November 16, 2005 and recommends amendments thereto to ensure that such policies are current and provide for reasonable safeguards for the issuance of debt; and

NOW THEREFORE BE IT RESOLVED the Contra Costa Transportation Authority hereby adopts its revised Debt Policy as included in Exhibit 1 to this resolution.

Kevin Romick, Chair

This RESOLUTION was entered into at a meeting of the Contra Costa Transportation Authority held January 21, 2015 in Walnut Creek, California

Attest: ______________________

Danice J. Rosenbohm, Executive Secretary

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Exhibit 1

DEBT POLICY

I. INTRODUCTION

The purpose of this debt policy ("Debt Policy") is to establish the policies and procedures related to debt of the Contra Costa Transportation Authority (the "Authority"). The Debt Policy and practices of the Authority are subject to, and limited by, applicable provisions of state law, and to prudent financial management principles.

II. DEBT POLICY OBJECTIVE

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

- Through effective financial planning and project cash management in coordination with Authority project sponsors, moderate debt principal and debt service payments;
- Establish the standards and practices for Authority debt issues and obligations;
- Maintain the highest practical credit ratings;
- Maintain cost-effective access to the capital markets; and
- Establish parameters for the use of derivative products, including interest rate swaps.

III. SCOPE AND DELEGATION OF AUTHORITY

This Debt Policy shall guide the issuance and management of all debt funded from the capital markets, including the selection and management of related financial services and products, and the investment of bond proceeds. Should there be any inconsistencies between this Debt Policy and any bond, swap or other related documents approved by the Authority, the provisions of such documents shall prevail.

This Debt Policy is reviewed and updated as needed and approved by the Authority Board at a public meeting. Any changes to the policy will also be considered by the Authority Board at a public meeting. Responsibility for administration of this Debt Policy shall lie with the Authority Board. Responsibility for implementation of the Debt Policy, and day-to-day responsibility and authority for structuring, implementing, and managing the Authority's debt and finance program, shall lie with the Chief Financial Officer. The adoption of the annual budget does not, in and of itself, constitute authorization for debt issuance for any capital projects. This Debt Policy requires that the Authority Board specifically authorize each debt financing.

While adherence to this Debt Policy is required in applicable circumstances, the Authority recognizes that changes in the capital markets, agency programs and other unforeseen circumstances may from time to time create situations that are not covered by the Debt Policy and will require modifications or exceptions to achieve policy goals.

In these cases, management flexibility is appropriate, provided specific authorization from the Authority Board is obtained.

IV. ETHICS AND CONFLICTS OF INTEREST

Officers and employees of the Authority involved in the debt management program will not engage in any personal business activities that could 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

The Authority originally received revenue from the Measure C half-cent countywide sales tax which sunset on March 31, 2009. In November 2004, voters in the County approved the extension of the sales tax with the passing of the Measure J 25-year, countywide half-cent sales tax (Measure J). Measure J came into effect on April 1, 2009. Revenues from this sales tax serve as the source of security for any future debt financing. The Authority maintains a capital expenditure plan which identifies projects eligible for funding from the Measure C and Measure J sales taxes.

VI. STANDARDS FOR USE OF DEBT FINANCING

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

A. Credit Quality.

All Authority debt management activities will be conducted to receive the highest credit ratings possible, consistent with the Authority's debt management objectives, and to maintain or improve the current credit ratings assigned to the Authority's debt by the major credit rating agencies.

B. Long-Term Capital Projects.

Debt will be used to provide funding for long-term capital projects, paying for facilities or equipment over their expected useful life and concurrent with the stream of benefits from these facilities. When the Authority finances capital projects by issuing bonds, it will pay back the debt within a period within all applicable requirements. Inherent in its long-term debt policies, the 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 will not be used to fund operating costs.

C. Other Eligible Projects.

Debt may be used in special circumstances other than long-term capital projects in emergency situations, only after careful policy evaluation by the Authority and Board approval.

D. Debt Financing Mechanism.

The Authority will evaluate the use of all financial alternatives available including, but not limited to, long-term debt, short-term debt, commercial paper, sales tax revenue and grant anticipation notes, certificates of participation, private placement, and inter-fund borrowing. The Authority will utilize the most cost advantageous financing alternative available while limiting the Authority's risk exposure.

E. Ongoing Debt Administration And Internal Controls.

The Authority shall maintain all debt-related records. At a minimum, this repository will include all official statements, bid documents, ordinances, indentures, resolutions, trustee reports, etc. for all Authority debt. To the extent that official transcripts incorporate these documents, possession of a transcript will suffice (transcripts may be hard copy or stored on CD-ROM). The Authority will collect all available documentation for outstanding debt and will develop a standard procedure for archiving transcripts for any new debt. The Authority will establish internal controls to ensure compliance with the Debt Policy, all debt covenants and with any applicable requirements of the State Government Codes and federal regulations.

F. Rebate Policy and System.

The Authority will accurately account for all interest earnings in debt-related funds. These records will be designed to ensure that the Authority is in compliance with all debt covenants, and with State and Federal laws. The Authority will maximize the interest earnings on all funds within the investment parameters set forth in each respective indenture. The Authority will develop a system of reporting interest earnings that relate to Internal Revenue Code rebate, yield limits and arbitrage.

VII. FINANCING CRITERIA

A. Purpose of Debt.

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

1. **New Money Financing.**

New money issues are financings that generate funding for capital projects. Eligible capital projects for allocation of Authority funds include the acquisition, construction or major rehabilitation of capital assets. In accordance with the philosophy of the Debt Policy, proceeds are not intended to be used for operating expenses. The funding requirements are outlined in the annual budget and the Expenditure Plan.

2. **Refunding Financing.**

Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Refunding issuances can be used to achieve present-value savings on debt service or to restructure the payment schedule, type of debt instrument used,

or covenants of existing debt. The Authority must analyze the 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.

3. **REIMBURSEMENT BONDS**

A reimbursement bond is a tax-exempt bond the proceeds of which are allocated to prior expenditures originally paid from sources other than bond proceeds. A proper reimbursement allocation results in the proceeds being treated as spent for the governmental purpose of the original expenditures even though the actual moneys are used to replenish the funds originally used to pay the expenditures.

Under federal tax regulations, the proceeds of bonds may be allocated to a prior capital expenditure, but only if a formal declaration of reasonable intention to reimburse the expenditure with the proceeds of a borrowing (a "declaration of official intent") had been properly made within sixty (60) days after the date the expenditure was paid. This declaration of official intent is commonly made via a reimbursement resolution adopted by the Board. If a declaration of official intent has been made, bond proceeds may be allocated to expenditures previously made for a period of up to 18 months after the date the expenditures were made.

B. <u>Types of Debt.</u>

When the 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 Authority may issue long-term debt (e.g. revenue bonds, lease obligations, or variable rate bonds) when capital needs cannot be financed from current revenues. The proceeds derived from long-term borrowing will not be used to finance current operations or normal maintenance. Long-term debt will be structured such that the obligations do not exceed any applicable requirements or the sunset date of the Measure J Expenditure Plan.

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 adjusted to accommodate the market conditions at the time of sale, including changing dollar amounts for principal maturities, offering discount and premium bond pricing, modifying call provisions, utilizing bond insurance, and determining how to fund the debt service reserve fund.

b) *Zero Coupon and Capital Appreciation Bonds* pay interest only when principal matures. Interest continues to accrue on the unpaid interest, therefore representing a more expensive funding option. In the case of zero-coupon bonds, principal and interest, at one coupon rate, is repaid

at maturity. In the case of Capital Appreciation Bonds, the value of the bond accretes until maturity

c) *Transportation Infrastructure Finance Innovation Act (TIFIA) Loan* is a loan provided by the United States Department of Transportation for transportation projects of regional importance. The Authority may elect to apply for a TIFIA loan if it is determined that it is the most cost effective debt financing option available.

2. **Short-Term Debt.**

Short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or near-term capital funding shortfalls, where anticipated revenues are defined as an assured revenue source with the anticipated amount based on conservative estimates. The Authority will determine and utilize the least costly method for short-term borrowing. The 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 Authority may maintain an ongoing commercial paper program to ensure flexibility and immediate access to capital funding when needed. Periodic issuances or retirements of commercial paper notes within the Authority Board-approved program does not require further Authority Board action. Commercial Paper is most commonly retired with the issuance of long-term bonds.

b) *Grant Anticipation Notes (GANs)* are short-term notes that are repaid with the proceeds of State or Federal grants of any type. The Authority shall generally issue GANs only when there is no other viable source of funding for the project and the timing for the receipt of the grant is assured.

c) *Lines of Credit* shall be considered as an alternative to other short-term borrowing options. The lines of credit shall be structured to limit concerns as to the Internal Revenue Code.

d) *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 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 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 Authority debt portfolio, reduce interest costs, provide interim funding for capital projects and

improve the match of assets to liabilities. Under no circumstances will the Authority issue variable rate debt solely for the purpose of earning arbitrage.

a) *Variable Rate Debt Capacity. The 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% un-hedged variable rate exposure, in addition to maintaining adequate safeguards against risk and managing the variable revenue stream both as described below:*

   i) *Adequate Safeguards Against Risk.* Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts; such structures could include, but are not limited to, interest rate swaps, interest rate caps and the matching of assets and liabilities.

   ii) *Variable Revenue Stream.* The revenue stream for repayment is variable, and is anticipated to move in the same direction as market-generated variable interest rates, or where the dedication of revenues allows a capacity for variability.

   iii) *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. Synthetic fixed rate debt may be utilized when the interest rate cost is sufficiently lower than traditional fixed rate debt to warrant the extra risk.

4. FINANCIAL DERIVATIVE PRODUCTS.

Financial Derivative Products 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 it will reduce total project cost. See Section IX below. Financial Derivative Products.

VIII. TERMS AND CONDITIONS OF BONDS

The Authority shall establish all terms and conditions relating to the issuance of bonds, and will control, manage, and invest all bond proceeds. Unless otherwise authorized by the Authority in the Authority Board action authorizing the issuance of bonds, the following shall serve as bond requirements:

A. Term.

All capital improvements financed through the issuance of debt will be financed for a period not to exceed all applicable requirements, but should not exceed the sunset of the Measure J Expenditure Plan.

B. Lien Levels.

Senior and Junior Liens for each revenue source will be utilized in a manner that will maximize the most critical constraint, typically either cost or capacity, thus allowing for the most beneficial use of the revenue source securing the bond.

C. Additional Bonds Test.

Any new senior lien debt issuance must not cause the Authority's debt service to exceed the level at which the incoming sales tax revenues are less than 1.75 times (1.75x) the maximum annual principal and interest and debt service for the aggregate outstanding senior lien bonds including the debt service for the new issuance.

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 and meeting all applicable requirements for the issuance of tax exempt debt. The Authority will amortize its debt within each lien to achieve overall level debt service or may utilize more accelerated repayment schedules after giving consideration to bonding capacity constraints. The Authority shall generally structure debt such that there are level annual debt service payments. As circumstances dictate, the Authority may consider the use of instruments such as capital appreciation bonds (CABs) which produce ascending debt service.

E. Maximum Annual Debt Service (MADS).

The MADS on senior lien debt must not exceed a level at which the Authority's incoming sales tax revenues are less than 1.75 times (1.75x) the total debt service within any year.

F. Call Provisions.

In general, the Authority's securities will include a call feature, which is no later than ten (10) years from the date of delivery of the bonds. The Authority will avoid the sale of non-callable bonds absent careful evaluation by the Authority with respect to the value of the call option.

G. Original Issue Discount

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

H. Deep Discount Bonds

Deep discount bonds may provide a lower cost of borrowing in certain markets. The Authority will carefully consider their value and effect on any future refinancings as a result of the lower-than-market coupon.

I. Derivative Products.

See Section IX. Financial Derivative Products.

IX. FINANCIAL DERIVATIVE PRODUCTS (INTEREST RATE SWAPS)

Interest rate exchange agreements ("swaps") are arrangements whereby two or more parties, the issuer and one or more counterparties, enter into an agreement to exchange periodic interest payments (no principal is involved). Swaps and related financial instruments and derivatives may be appropriate interest rate management tools. Properly used, swaps can increase the Authority's financial flexibility and provide opportunities for interest rate savings. The appropriate application of a derivative product will be evaluated on a case-by-case basis.

A. Objectives

The use of swaps and related financial instruments should balance the Authority's primary objectives of reducing the cost of capital, minimizing interest rate volatility, and gaining flexibility in structuring and managing its debt portfolio over time within the risks associated with these tools and instruments. Valid objectives of interest rate swaps include:

1. Producing net savings to the Authority
2. Capping or hedging variable rate interest payments

Swaps will not be used for speculative purposes such as potential trading gains or in those cases where they may create extraordinary leverage or financial risk.

B. Authority for Entering into Swap Agreements

The use of swaps is limited to the Authority's debt, and does not apply to, and are not authorized for, use in conjunction with the Authority's investment portfolio (covered by a separate annual Investment Policy resolution). The Authority's Chief Financial Officer, in consultation with the Authority's Financial Advisor and swap advisor subject to the approval of the Authority's Executive Director, shall be responsible for determining if and when it is in the Authority's overall best financial interests to recommend that the Authority enter into a swap or related financial arrangement covered by this Debt Policy. All proposals to enter into swap agreements must be approved by the Authority Board.

C. Swap Risk Analysis/Considerations

The Authority, and the Authority's financial advisor, bond counsel and swap advisor, shall evaluate all financial products with respect to the unique risks that swap transactions bear. A specific determination must be made that the proposed or expected benefits exceed the identified risks by an adequate margin over those available in the traditional cash or fixed

rate market. The Authority will retain a swap advisor to assist in assessing these risks. The Authority will rely on the advice of its swap advisor together with its own independent judgment with respect to transactions authorized pursuant to this Debt Policy and not rely on recommendations, if any, presented by any counterparty with respect to transactions authorized pursuant to this Debt Policy;

The following types of risks shall be evaluated in connection with each proposed transaction:

- **Market or Interest Rate Risk**: Does the proposed transaction hedge or create exposure to fluctuations in interest rates? If so, what factors might affect such rates?
- **Tax Law Risk**: Is the proposed transaction subject to rate adjustments, extraordinary payments, termination, or other adverse consequences in the event of a future change in Federal Income Tax Policy? Is the proposed transaction subject to receipt of funds from the Federal Government?
- **Termination Risk**: Under what circumstances might the proposed transaction be terminated? At what cost? Does the Authority have sufficient liquidity to cover this exposure? Does the financing structure have elements to deal with unanticipated termination?
- **Risk of Uncommitted Funding (Put risk)**: Does the transaction require or anticipate a future financing action? Is that action dependent upon third party participation? What commitments can be or have been secured for such participation? What policies or procedures does the Authority have in place to deal with this risk?
- **Legal Authority**: Is there any uncertainty regarding the legal authority of any party to participate in the transaction?
- **Counterparty Credit Risk**: What is the creditworthiness of the counterparty? What provisions have been made to mitigate exposure to adverse changes in their credit standing?
- **Ratings Risk**: What exposure does the Authority have to ratings of third parties? What effect would a change in an Authority debt rating have on the transaction? Will the execution of the transaction have a negative impact on any one participant's credit rating?
- **Basis Risk**: Does the anticipated payments that the Authority would make or receive under the interest rate Swap match the payments or receipts that it seeks to hedge?
- **Tax Status of Agency Debt**: Does the transaction comply with all tax law requirements with respect to the Authority outstanding bonds?
- **Accounting Risk:** Does the proposed transaction create any accounting issues that could have a detrimental effect on the Authority's financial statements? Would the proposed transaction have any effect on compliance with bond covenants? How are any such effects addressed or mitigated?

- **Administrative Risk:** Can the proposed transaction be readily administered and monitored by the Authority's finance staff or team consistent with the requirements outlined in this policy?
- **Subsequent Business Conditions:** Does the proposed transaction or its benefits depend upon the continuation or realization of specific industry or business conditions?
- **Credit Enhancement Provider Risk:** Does the financial strength and credit ratings of the Credit Enhancement provider (if any) affect the business terms of the interest rate Swap? Does a credit downgrade trigger events that affect the economics of the interest rate Swap?
- **Credit risk:** Is it expected that credit support, if needed, will be available and exist at a reasonable cost over the term of any interest rate Swap?

D. <u>Qualified Counterparties and Swap Procurement</u>

1. Qualified Counterparties

The Authority shall be authorized to enter into interest rate swap transactions only with qualified swap counterparties. At the time a swap agreement is entered into, counterparties (or their guarantors) must have a rating of at least "A1" or "A+" from one of the three major rating agencies (Moody's, Standard and Poor's, or Fitch), and no lower than "A3" or "A-" from the other agencies or such more restrictive ratings that the Authority Board shall approve. In addition, each counterparty must have a demonstrated record of successfully executing swap transactions. Each counterparty shall have a minimum capitalization of at least $500 million. (If the ratings were to be downgraded after the execution of the swap, the Authority may choose to terminate the swap, or to continue with the agreement based on business and economic considerations.)

2. Swap Procurement

On a product-by-product basis, the Authority will have the authority to negotiate the procurement of financial instruments that have customized or specific attributes designed on its behalf. An independent swap advisor should be retained to assist the Authority in evaluating the proposed pricing of swaps or other derivative financial instruments.

E. <u>Swap Documentation and Standards</u>

The Authority will use standard International Swaps and Derivatives Association ("ISDA") official swap documentation, including the Schedule to the Master Agreement and a Credit Support Annex unless otherwise specifically authorized by the Authority Board.

The terms and conditions of any swap shall be negotiated for the best interests of the Authority subject to the applicable legal provisions and this Debt Policy. The Swap agreements entered into between the Authority and each counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions and provisions, in consultation with Authority legal counsel and its swap advisor, as it deems necessary or desirable.

F. Limitations on Counterparty Exposure

In order to diversify the Authority's counterparty credit risk, and to limit the Authority's credit exposure to any one counterparty, limits will be established for each counterparty based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing and proposed swap transaction. The standards below provide general termination exposure guidelines with respect to whether the Authority should enter into an additional transaction with an existing counterparty. Such standards do not mandate or otherwise force automatic termination by the Authority or the counterparty. The standards below generally conform to the Authority's outstanding swap documents.

The Authority will set limits on individual counterparty exposure based on existing as well as new or proposed transactions. The sum of the current market value and the projected exposure shall constitute the Maximum Net Termination Exposure. For outstanding transactions, current exposure will be based on the market value as of the last quarterly swap valuation report provided by the Financial Advisor or swap advisor. Projected exposure shall be calculated based on the swap's potential termination value, taking into account possible adverse changes in interest rates as implied by historical or projected measures of potential rate changes applied over the remaining term of the swap.

The exposure thresholds, which will be reviewed periodically by the Authority to ensure that they remain appropriate, will also be tied to credit ratings of the counterparties and whether or not collateral has been posted as shown in the table below. If a counterparty has more than one rating, the lowest rating will govern for purposes of the calculating the level of exposure. A summary table is provided below.

Counterparty Credit Exposure Recommended Limits

Credit Ratings	Maximum Collateralized Exposure	Maximum Uncollateralized Exposure	Maximum Net Termination Exposure
Aaa/AAA	$50 million	$50 million	$50 million
Aa/AA Category	$40 million	$40 million	$40 million
A/A Category	$20 million	$20 million	$20 million
Below A3/A-		None	None

If the exposure limit is exceeded by the counterparty, the Authority shall conduct a review of the exposure limit per counterparty. The Authority, in consultation with its Swap Counsel, Financial Advisor and swap advisor, shall explore remedial strategies to mitigate this exposure. The Authority's swap exposure to any single counterparty will be limited to 25% of the counterparty's capitalization.

G. Benefits Expectation

Financial transactions, using swaps or other derivative products, intended to produce the effect of a synthetic advanced refunding, must generate 10.0% greater present value savings than the benefit threshold then in effect for fixed- rate bonds.

The higher savings target reflects the greater complexity and higher risk of derivative financial instruments, and should include a risk adjustment for other factors. For example, if the bonds are callable and the swap is not, or if tax risk is included in the proposed swap transaction then the comparison should include a risk adjustment for these factors.

In calculating the prospective savings against the target for implementing a fixed-to-variable swap, the cost of remarketing, in addition to the cost of credit and liquidity fees, must be added to the variable rate representing the ten-year average of comparable variable rate securities.

H. Termination Provisions

All swap transactions shall contain provisions granting the Authority the right to optionally terminate a swap agreement at any time over the term of the agreement. In general, exercising the right to terminate an agreement produces a benefit to the Authority, either through the receipt of a payment from a termination, or if the termination payment is made by the Authority, in conjunction with a conversion to a more beneficial (desirable) Authority debt obligation, as determined by the Authority. Termination payments by the Authority would be payable on a subordinate basis.

I. Monitoring and Reporting

On a periodic basis, or as requested by the Authority Board, the Chief Financial Officer shall prepare a report describing the various swaps and financial arrangements entered into by the Authority, including the mark-to-market of any outstanding swaps pursuant to this Debt Policy that are in effect as of the date of the report's publication. If collateral is being posted in relation to any swap or group of swaps, the Authority should independently verify the value of swaps and the collateral on at least a monthly basis.

At the end of each fiscal year, in conjunction with the annual audit, the Chief Financial Officer shall provide to the Authority's auditor all information required for financial

reporting under GASB and will comply with ongoing reporting and disclosure requirements as needed.

J. Conformance with Dodd-Frank Act

It is the intent of the Authority to conform to the requirements relating to legislation and regulations for over-the-counter derivatives transactions under Title VII of the Dodd-Frank Wall Street Transparency and Accountability Act of 2010, as supplemented and amended from time to time (herein collectively referred to as "Dodd-Frank"). It is the policy of the Authority that: (i) each swap advisor engaged or to be engaged by the Authority will function as the designated qualified independent representative of the Authority, ("Designated QIR"); (ii) each swap advisor agrees to meet the requirements specified in Commodity Futures Trading Commission Regulation 23.450(b)(1) or any successor regulation thereto (herein referred to as the "QIR Regulation"); (iii) each swap advisor will provide a written certification to the Authority to the effect that such swap advisor agrees meets the requirements specified in the QIR Regulation; (iv) the Authority will monitor the performance of each swap advisor consistent with the requirements specified in the QIR Regulation; (v) the will Authority exercise independent judgment in consultation with its swap advisor in evaluating all recommendations, if any, presented by any counterparty with respect to transactions authorized pursuant to this Debt Policy; (vi) the will Authority rely on the advice of its swap advisor with respect to transactions authorized pursuant to this Debt Policy and not rely on recommendations, if any, presented by any counterparty with respect to transactions authorized pursuant to this Debt Policy; and (vii) the Authority will comply with all recordkeeping, reporting and certification requirements for end-users as applicable under the Commodity Exchange Act ("CEA")

X. CREDIT ENHANCEMENTS

The 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 can be shown shall enhancement be considered. The Authority will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement.

A. Bond Insurance.

The 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 on insured bonds versus uninsured bonds. If applicable, the Authority shall also consider insurance for any derivative products it may choose to use.

B. Debt Service Reserves.

When beneficial to the Authority, a reserve fund 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 and/or rating agencies.

The 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. Letters of Credit.

The Authority shall have the authority to enter into a letter-of-credit agreement when such an agreement is deemed prudent and advantageous. Only those financial institutions with long-term ratings greater than or equal to A3/A-/A- and short-term ratings of VMIG 1/A-1 /F1, by Moody's Investor Services, Standard & Poor's and Fitch IBCA, respectively, may participate in Authority letter of credit agreements unless otherwise authorized by the Authority Board.

XI. REFINANCING OUTSTANDING DEBT

The 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 Authority will consider the following issues when analyzing possible refunding opportunities:

A. Debt Service Savings.

The Authority has established a minimum savings threshold goal of three (3%) percent of the refunded bond principal amount unless there are other compelling reasons for defeasance including cash flow savings. The present value savings will be net of all costs related to the refinancing.

B. Restructuring.

The Authority will refund debt when in its best interest to do so. Refundings will include restructuring to meet unanticipated revenue expectations, terminate swaps, achieve cost savings, mitigate irregular debt service payments, release reserve funds or remove unduly restrictive bond covenants.

C. Term of Refunding Issues.

The Authority anticipates that it will refund bonds within the term of the originally issued debt. However, the Authority may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The 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 Authority shall utilize the least costly securities available in structuring refunding escrows. The Authority will examine the viability of an economic versus legal defeasance on a net present value basis. All certifications required to comply with applicable IRS regulations shall be provided in connection with the procurement of any escrow services. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Authority from its own account.

E. Arbitrage.

The Authority shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

XII. METHODS OF ISSUANCE

The Authority will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

A. Competitive Sale

In a competitive sale, the Authority's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale. Conditions under which a competitive sale would be preferred are as follows:

a) Bond prices are stable and/or demand is strong
b) Market timing and interest rate sensitivity are not critical to the pricing
c) If DBE policy is applicable for funding, participation from DBE firms meets Good Faith requirements
d) There are no complex explanations required during marketing regarding issuer'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 (if available)
g) Manageable transaction size
h) Authority has strong credit rating
i) Authority is well known to investors

B. Negotiated Sale.

The Authority recognizes that some securities are best sold through negotiation. Conditions under which a negotiated sale would be preferred are as follows:

a) Bond prices are volatile
b) Demand is weak or supply or competing bonds is high

c) Market timing is important, such as for refundings

d) Authority has lower or weakening credit rating

e) Authority is not well known to investors

f) Sale and marketing of the bonds will require complex explanations about the 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, issuance of variable rate bonds, or where there is the use of derivative products

h) Bond insurance is not available or not offered at a reasonable premium

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

C. Private Placement.

From time to time the Authority may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to result in cost savings, increased flexibility or risk reduction to the Authority relative to other methods of debt issuance.

D. Issuance Method Analysis.

The Authority shall evaluate each method of issuance on a net present value basis, using the Authority's investment rate as the appropriate measure of the discount rate.

XIII. MARKET RELATIONSHIPS

A. Rating Agencies and Investors.

The Authority shall maintain relationships with Standard & Poor's, Fitch IBCA and other relevant bond credit rating agencies. The Authority may, from time-to-time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the Executive Director and Chief Financial Officer shall: (1) meet with credit analysts at such intervals as the Executive Director shall deem appropriate, and (2) prior to each competitive or negotiated sale, offer conference calls with agency analysts in connection with the planned sale.

B. Authority Communication.

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

C. Continuing Disclosure.

The Authority shall remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within the time period specified in the Continuing Disclosure agreements. The inability to make timely filings must be disclosed and is a negative reflection. While there is reliance on timely audit and preparation of the Authority's annual report, the Chief Financial Officer will ensure that the Authority's timely filing with the Municipal Securities Rulemaking Board.

D. 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. Therefore, the Chief Financial Officer shall ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculation, and timely rebates, if necessary.

E. Fees.

The Authority may charge an administrative fee equal to direct costs to reimburse its administrative costs incurred in debt issuance.

XIV. CONSULTANTS

The Authority shall select its primary consultant(s) by competitive process through a Request for Proposals (RFP).

A. Selection of Financing Team Members.

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

B. Financial Advisor.

The Authority shall utilize a financial advisor to assist in its debt issuance and debt administration processes as prudent. Selection of the 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 Authority shall include, but shall not be limited to the following:

a) Evaluation of risks and opportunities associated with debt issuance
b) Monitoring marketing opportunities

c) Evaluation of proposals submitted to the Authority by investment banking firms
d) Structuring and pricing
e) Preparation of request for proposals for other financial services such as trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.
f) Advice, assistance and preparation for presentations with rating agencies and investors

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

C. Bond Counsel.

Authority debt will include a written opinion by legal counsel which will include a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. The counsel will be selected by the Authority request for proposal process.

XV. UNDERWRITER SELECTION

A. Senior Manager Selection.

The Authority shall have the right to select a senior manager for a proposed negotiated sale. The criteria shall include but not be limited to the following:

a) The firm's ability and experience in managing complex transactions
b) Prior knowledge and experience with the Authority
c) The firm's willingness to risk capital and demonstration of such risk
d) The firm's ability to sell bonds
e) Quality and experience of personnel assigned to the Authority's engagement
f) Financing plan presented

B. Co-Manager Selection.

Co-managers 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 Authority's bonds.

C. Selling Groups.

The Authority may establish selling groups in certain transactions. To the extent that selling groups are used, the Authority at its discretion, 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 Authority debt in which legal counsel is required to represent the underwriter, the lead underwriter will make the appointment.

E. Underwriter's Discount.

a) The Authority will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the 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 fee, expenses and underwriter's counsel will be established and communicated to all parties by the Authority. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated and normally require approval in advance.

F. Evaluation of Financing Team Performance.

The 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 Authority shall provide a post-sale evaluation to the Commissioners the results of the sale.

G. Syndicate Policies.

For each negotiated transaction, the Senior Manager will prepare syndicate policies for approval by the Chief Financial Officer that will describe the designation policies governing the upcoming sale. The Senior Manager shall ensure receipt of 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 Authority's bonds will be net designated, unless otherwise expressly stated. The 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

c) Within 10 working days after the sale date, submit to the Chief Financial Officer a detail of orders, allocations and other relevant information pertaining to the Authority's sale.

I. <u>Disclosure by Financing Team Members.</u>

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, in general terms, no agreements shall be permitted which could compromise the firm's ability to provide independent advice which is solely in the Authority's best interests or which could reasonably be perceived as a conflict of interest.

Glossary

Arbitrage. The difference between the interest paid on the tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

Basis Risk. The risk of a mismatch between an agency's floating rate receipt on the swap and its floating rate paid to bondholders on the underlying debt issue (resulting from different terms or indices being used to determine payments and receipts).

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

Bullet Maturity. Maturity for which there are no sinking fund payments prior to the 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.

Capital Appreciation Bonds. Bonds whose interest payments accrete until the maturity date of the bonds. On the maturity date, the issuer repays the principal plus accreted interest.

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 commonly capitalized for the construction period of the project.

Collateral Assets. Cash or securities designated as credit enhancement for the issuer or counterparty in a swap agreement. The market value of these assets must be evaluated periodically and are place in the custody of a trustee in the event of a default.

Collateralization Risk. The risk that the circumstances under which an agency would have to post collateral pursuant to certain swap agreement provisions will arise in the future.

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.

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 principle that accurate and complete information material to the transaction which potential investors would be likely to consider material in making investment decisions with respect to the securities be made available on an ongoing basis.

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.

Counterparty. A party in a swap transaction. From the agency's perspective, this is the swap provider.

Counterparty Risk. The credit risk that a party to the swap will not be able to meet its financial obligations of the swap.

Credit Support Annex. Document governed by the ISDA Master Agreement which states the provisions of circumstances under which the posting of collateral is required.

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. A financial product whose value is derived from some underlying asset value (such as an underlying issuance of bonds). An example of a financial derivative is an interest rate swap.

Designation Policies. Outline how an investor's order is filled when a maturity in an underwriting syndicate is oversubscribed. The senior managing underwriter and issuer decide show 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 an outstanding issue.

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.

Floating to Fixed (Synthetic) Rate Swap. A swap under which the agency pays a provider a fixed rate in exchange for receiving a floating rate payment, most commonly then used to pay the holders of the agency's floating rate bonds.

Forward Swap. An interest rate swap under which the accrual and exchange of cash flows commences at a later date rather than the current date.

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) are bonds issued by the State and enable entities to fund transportation projects that are secured by certain federal grants.

Hedge. A tactic or financial product used to limit potential losses, or establish gains, associated with a financial position, asset or liability.

ISDA. The International Swaps and Derivatives Association (ISDA) Master Agreement is the standardized legal agreement for all derivative transactions between an agency and a provider that states standardized definitions, terms, and representations governing swap transactions.

LIBOR. London Interbank Offer Rate (LIBOR) is the interest rate that banks charge each other for short-term funds (term up to 1 year). LIBOR is commonly used as the underlying rate for the floating leg of a swap. The British Bankers Association (BBA) sets rates daily.

Letters of Credit. A bank credit facility 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.

Mark-to-Market. Calculation of the value of a financial instrument based on current market rates

Maximum Net Termination Exposure. Current marked to market value plus potential future peak termination value.

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

Moody's Median. Key financial, debt, economic and tax base statistics with median values for each statistic presented. Moody's uses audits for both rated and unrated cities to ensure that the medians presented are representative of all cities.

Negotiated Bid. Method of entering into a swap agreement (usually with a provider) where the terms, including the rates (which may be constrained) are negotiated between an agency and its financial partner provider, or counterparty.

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 public offering price at the time it is originally offered to an investor.

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 more 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 its profit earned from investment of bond proceeds at a yield above the bond yield calculated pursuant to the IRS code together with all income earned on the accumulated profit pending payment.

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

Securities Industry and Financial Markets Association Municipal Index (SIFMA). SIFMA is a 7-day high-grade market index comprised of tax-exempt Variable Rate Demand Obligations (VRDOs) with certain characteristics. The Index is calculated and published by Bloomberg. The Index is overseen by SIFMA's Municipal Swap Index Committee.

Swap Insurance. Insurance policy purchased to guarantee obligations under the swap.

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

Tax Law risk. The risk that there will be an unanticipated change in tax laws that would impact the spread between tax exempt and taxable rates.

Termination Exposure Should an issuer have more than one swap agreement with a given counterparty, there is an increased likelihood that the issuer may have to make a potentially large termination payment. Issuers will want to determine what level of termination exposure they are willing to undertake with an individual counterparty.

Termination Payment Should a swap be terminated prior to its final date, the swap will be valued in the market at that time and a determination will be made regarding which party deserves a payment to make them whole.

Transportation Infrastructure Finance Innovation Act (TIFIA) Loan. Loans 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.

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Administration and Projects Committee **STAFF REPORT**

Meeting Date: January 8, 2015

Subject	**Approval of Revisions to Authority Debt Policy**
Summary of Issues	The Authority has a debt policy that provides written guidelines, allowances, restrictions and procedures for the issuance and administration of debt. Revisions to the policy are recommended to incorporate changes in federal law, regulations arising from the Dodd-Frank Wall Street Transparency and Accountability Act (Dodd-Frank Act) and to address other relative updates.
Recommendations	Staff seeks approval of Resolution 15-03-A adopting the revised Authority Debt Policy.
Financial Implications	None
Options	Provide other direction.
Attachments ***(See APC Packet dated 1/8/15 for Attachment B.)***	**A.** Resolution 15-03-A **B.** Markup Version to Show Changes from Original 2005 Debt Policy
Changes from Committee	*None*

Background

A debt policy is a best practice recommended by the Government Finance Officers Association (GFOA) of the United States and Canada for the effective issuance and administration of public agency debt and financial products. In 2005 the Authority adopted a debt policy in conjunction with its strategies to issue bonds. The Authority also took steps to accelerate the delivery of Measure J projects by leveraging future sales tax revenues and locking in future borrowing costs by entering into a forward starting interest rate swap (amended in 2009). Since 2005 there have been changes in federal law and regulations arising from the Dodd-Frank Act and updating the Authority's Debt Policy is recommended.

On November 19th the Authority authorized Request for Qualifications (RFQ) 14-4 for investment banking services in anticipation of issuing bonds in 2015. This process will ask banking firms to submit a scope of work, including ideas for how the Authority may restructure its existing debt portfolio, including the 2009 interest rate swap. The Dodd-Frank Act, however, establishes new standards for such market participants as regulated by the Commodities Futures Trading Commission. Market participants are now further regulated on matters when it comes to advising public agencies on financial products, such as the Authority's swap.

Specifically, the Dodd-Frank Act specifies that public agencies should rely upon an independent swap advisor, defined as a Qualified Independent Representative (QIR) under the Act, and that the QIR has a fiduciary responsibility to the public agency in providing advice. The Authority has used an independent swap advisor since 2005 and will now formalize our practice in our debt policy to explicitly comply with the Dodd-Frank Act. Traditional swap counterparties (i.e., investment banks) do not wish to take on fiduciary responsibilities and may request a "safe-harbor" letter from the public agency. It is in the Authority's best interest to revise its debt policy to be consistent with the Dodd-Frank Act, designate our QIR and provide "safe-harbor" letters to investment banks so they may provide their ideas on the Authority's swap during the upcoming RFQ process.

Although the primary purpose of the proposed policy revisions is to incorporate applicable provisions of the Dodd-Frank Act, staff is recommending a general cleanup and update of dated provisions regarding the use of derivative products. The range of risk tolerance and suitability for using derivative products in the public sector has changed significantly since the original policy was adopted in 2005. The proposed policy therefore eliminates most derivative product language except for what is required to conform to the Authority's existing 2009 swap. All other "bells and whistles" of a riskier nature that the 2005 policy permitted are no longer recommended and have been removed.