STAFF REPORT FOR CALENDAR ITEM NO.: 8.3
FOR THE MEETING OF: November 9, 2023

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Annual review and approval of updated versions of the following financial policies: Board Policy No. 017, Debt Management Policy, and Board Policy No. 009, Investment Policy.

EXPLANATION:

Debt Management Policy:

A debt management policy is a recommended financial best practice, as it proactively safeguards public agencies from making unsuitable debt-related decisions and establishes an effective management mechanism for post-issuance disclosure and tax compliance.

The TJPA Board adopted Board Policy No. 017, Debt Management Policy, in 2014. The Board annually reviews the policy, and periodically makes amendments to the policy; the Board completed the last such review and amendment on November 10, 2022.

There are two annual action items in the policy if TJPA has any derivatives instruments outstanding:

- Section V. A. 3 requires that TJPA monitor the performance of each Qualified Independent Representative (QIR) that TJPA has contracted with in accordance with CFTC regulations, and request a certification at least annually from each QIR.
- Section V. E requires the TJPA Chief Financial Officer (CFO) to prepare a report summarizing derivative exposure at least annually.

  TJPA currently has no derivative instrument.

Staff recommends minor changes to the Debt Management Policy to streamline language, correct typographical errors, and clarify the Executive Director's authority to delegate certain authorities related to implementation of the policy, as reflected in the attached redline and clean forms. There is currently no legal requirement for regular or periodic review of a debt policy by a local agency board; however, TJPA's Debt Management Policy shall continue to be reviewed by the Board on at least an annual basis.

Investment Policy:

The Government Finance Officers Association recommends that all governmental investors develop written investment policies that are reviewed and updated annually, and the State of California also recommends that an investment policy be in place.

The TJPA Board adopted Board Policy No. 009, Investment Policy, in 2006. The Board annually reviews the policy, and periodically makes amendments to the policy; the Board completed the last such review November 10, 2022 and last amended the policy November 18, 2021. The Investment Policy ensures that TJPA cash balances are safe, sufficiently liquid to meet cash flow needs, and maximize investment earnings. The policy sets forth the scope of funds to be invested; establishes safety, liquidity and return on investment as primary objectives, in that priority order;

and sets forth permitted investment instruments. Permitted investment instruments are a subset of those allowed by California state law. The Investment Policy applies to investments of funds held by TJPA prior to expenditure, such as unrestricted assets and land sales proceeds. The policy does not apply to investment of employee retirement or OPEB funds (invested by CalPERS or, for defined contribution plans, at the direction of the employee) or debt proceeds (invested as allowed by the debt documents).

The policy does not describe actual investment practices or procedures, which may change over time and shall be summarized for the Board as part of this annual policy review. In practice, TJPA currently adheres to the policy by maintaining a cash balance in checking accounts sufficient to meet short-term project and payroll obligations, and investing the California Local Agency Investment Fund investment pools. TJPA also has trust accounts established for net tax increment and land sales proceeds, and the Trustee is required to adhere to all elements of the policy. Investments are made from these accounts in permitted investments. TJPA typically utilizes a buy and hold strategy, holding all securities until maturity, regardless of fluctuations in the market. TJPA also conservatively only places its money market investments in money market mutual funds that are invested in U.S. Treasuries and government securities and repurchase agreements for those securities. As each investment matures, TJPA staff reviews investment options and forecasted cash flow needs to choose an appropriate investment vehicle. The monthly and quarterly investment transaction reports are regularly sent to the Board and posted on the TJPA website.

Staff recommends minor changes to the Investment Policy, including to clarify the Executive Director's authority to delegate certain authorities related to implementation of the policy, and to increase the timeline for submission of quarterly reports to the Board as allowed under current law, as reflected in the attached redline and clean forms. There is no legal requirement for regular or periodic review of an investment policy by a local agency board; however, TJPA's Investment Policy shall continue to be reviewed by the Board on at least an annual basis.

ENCLOSURES:

1. Resolution
2. Board Policy No. 017: Debt Management Policy – clean and redline versions
3. Board Policy No. 009: Investment Policy – clean and redline versions

TRANSBAY JOINT POWERS AUTHORITY
BOARD OF DIRECTORS

Resolution No. _____________

WHEREAS, The Transbay Joint Powers Authority (TJPA) is a joint powers agency organized and existing under the laws of the State of California; and

WHEREAS, Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (the "Agreement"), the TJPA has the authority to receive, collect, invest and disburse moneys, as well as the authority to incur debt; and

WHEREAS, The Agreement also establishes that the Chief Financial Officer will receive, invest, and disburse funds only in accordance with procedures established by the Board and in conformity with applicable law; and

WHEREAS, The TJPA adopted Board Policy No. 017, Debt Management Policy, which complies with applicable regulations, on May 8, 2014 and approved revisions to that policy on December 10, 2015, December 8, 2016, March 12, 2020, December 10, 2020, November 18, 2021, and November 10, 2022; and

WHEREAS, After conducting an annual review, staff recommends minor changes to the Debt Management Policy to streamline language, correct typographical errors, and clarify the Executive Director's authority to delegate certain authorities related to implementation of the policy; and

WHEREAS, The TJPA adopted Board Policy No. 009, Investment Policy, in conformance with federal, state, and other legal requirements, on February 16, 2006 and approved revisions to that policy on May 15, 2008, May 12, 2011, November 10, 2011, December 10, 2015, December 8, 2016, November 9, 2017, January 30, 2020, December 10, 2020, May 13, 2021, and November 18, 2021; and

WHEREAS, After conducting an annual review, staff recommends minor changes to the Investment Policy to clarify the Executive Director's authority to delegate certain authorities related to implementation of the policy, and allow for an increased timeline for submission of monthly and quarterly investment reports to the Board as allowed under current law; and

WHEREAS, The Investment Policy and the Debt Management Policy shall continue to undergo annual review by the TJPA Board; now, therefore, be it

RESOLVED, That the TJPA Board has conducted its annual review and adopts the revised Board Policy No. 017, Debt Management Policy, in the form presented herewith; and, be it

FURTHER RESOLVED, That the TJPA Board has conducted its annual review and adopts the revised Board Policy No. 009, Investment Policy, in the form presented herewith.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of November 9, 2023.

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Secretary, Transbay Joint Powers Authority

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 017 Category: Financial Matters

DEBT MANAGEMENT POLICY

I. Introduction & Objectives

The purpose of this policy is to set forth debt issuance-related policies and procedures for the Transbay Joint Powers Authority to govern issuance and management of all debt, including the selection and management of related financial and advisory services and products. The primary objectives are to:

- maintain cost effective access to capital markets through prudent debt management policies and practices.
- maintain moderate and sustainable total debt and annual debt service levels with effective long-term planning.
- meet capital needs through debt financing as needed.
- structure long term financing as to minimize transaction specific risk and total debt portfolio risk.
- maintain the highest practical credit ratings to ensure efficient access to capital markets.
- maintain good investor relations through the timely dissemination of material financial information.

This is consistent with examples of debt policies of other comparable local government agencies, Government Finance Officers Association ("GFOA") best practices and rating agency guidelines.

Furthermore, these Policies are intended to comply with applicable regulatory requirements including the California Government Code Section 8855 which requires any issuer of public debt to provide the California Debt Investment Advisory Commission ("CDIAC") with certain reports and information related to the issuance of public debt. California Government Code Section 8855 also requires issuers to certify before any debt is issued, and as part of its report of proposed debt issuance submitted to CDIAC, that it has adopted a debt policy concerning the use of debt proceeds and that the debt policy includes the following:

- The purpose for which the debt proceeds may be used;
- The types of debt that may be issued;
- The relationship of the debt to and integration with the issuer's capital improvement program or budget;
- Policy goals related to the issuer's planning goals and objectives; and
- Internal control procedures that the issuer has implemented to ensure that the proceeds of the debt issuance will be directed to the intended use.

II. Governing Authority

This policy is subject to and limited by applicable provisions of federal and state law and prudent debt management principles.

III. Delegation of Authority

This policy requires that the Board authorize each debt financing. Responsibility for implementation of this policy, and day-to-day responsibility and authority for structuring and managing the TJPA's debt, is hereby delegated to the TJPA Chief Financial Officer or the Executive Director's designee.

While adherence to this policy is required in applicable circumstances, the TJPA recognizes that changes in the public and private debt markets, the Transbay Program, or other unforeseen circumstances may from time to time produce situations that are not covered by the policy or require modifications or exceptions to this policy to achieve policy goals. In such cases, management flexibility is appropriate. The provisions of this policy provide guidance only and any failure to comply with its provisions or any departure therefrom shall not affect the authorization, validity or enforceability of any bonds or other forms of indebtedness that are otherwise issued in accordance with law for TJPA.

DEBT LIMITS & STRUCTURE

IV. Types of Debt

A. Instruments

TJPA may enter into or issue bonds, notes, bond anticipation notes, grant anticipation notes, revenue anticipation notes, tax anticipation notes, revenue bonds, lease revenue bonds, financing leases, installment purchase obligations, certificates of participation, tax increment financing, Mello-Roos financing, U.S. Department of Transportation loans (e.g., TIFIA, RRIF), loans, commercial paper and any other evidence of indebtedness or financing permitted by law.

B. Term and Use

TJPA may issue debt when there is a defined repayment source. TJPA may incur short-term or long-term debt. Short-term debt is debt with a term to maturity of less than five years. Long-term debt has a term to maturity of five years or more. TJPA's long-term debt will be structured such that obligations do not exceed the maturity permitted by law or the average useful life of the capital asset as determined by the Internal Revenue Code, if applicable. Long-term debt may be used to finance the acquisition and construction of capital assets consistent with TJPA's capital

improvement program and capital budget or plan. Long-term debt shall not be used to fund operating costs or operating deficits of the TJPA. Short-term debt may be used to either provide funds to finance cash flow deficits, or provide capital financing.

C. New Money Debt

New money debt issues are those financings that generate additional funding to be available for expenditure on capital projects. These funds will be used for acquisition, construction and major rehabilitation of capital assets. New money debt proceeds may not be used to fund operational activities.

D. Refunding Debt

The TJPA may issue debt to refund the principal of and interest on outstanding bonds and/or other indebtedness of the TJPA in order to (i) achieve debt service savings; (ii) restructure scheduled debt service; (iii) convert from or to a variable or fixed interest rate structure; (iv) change or modify the source or sources of payment and security for the refunded debt; or (v) modify covenants otherwise binding upon the TJPA. Refunding debt may be issued either on a current or advance basis, as permitted by applicable Federal tax laws. The TJPA may also utilize a tender offer process to refund bonds that are not otherwise subject to optional call by the TJPA.

In most cases, refunding debt should be issued solely to achieve debt service savings and should not be issued unless the estimated net present value savings, as determined by the TJPA's external municipal advisors or internal management, are greater than or equal to five percent (5%) of the principal amount of the refunded debt. Non-economic refundings, or ones producing less savings, will be permitted if justified based on other reasons, such as restructuring outstanding debt, changing the type of instruments originally used, retiring a bond issue, removing covenants/pledges that have become restrictive, or retiring debt prior to maturity.

E. Senior Lien Debt

The TJPA may issue debt on parity with outstanding bonds or other indebtedness of the most senior open lien position in order to achieve the most advantageous borrowing costs.

F. Subordinate Lien Debt

The TJPA may issue subordinate debt on one or more subordinate lien levels relative to other outstanding bonds or other indebtedness of the TJPA where necessary or desirable, in the determination of the TJPA, to accommodate the particular structure or terms of a given issue, or in circumstances where the issuance of senior lien debt would be limited or restricted.

G. Variable Rate Debt

To maintain a predictable debt service burden, TJPA 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 variable rate debt to reduce forecast interest costs, provide interim financing, and/or improve the match of assets to liabilities. Under no circumstances will TJPA issue variable rate debt solely for the purpose of earning arbitrage. In connection with each issuance of unhedged variable rate debt, TJPA should make a determination that the use of unhedged variable rate debt is not imprudent, taking into consideration the security source for repayment of the variable rate debt and the projected coverage if variable rate debt was to equal the maximum rate permitted under the applicable debt.

TJPA may employ safeguards to protect against the risk of changes in interest rates related to variable rate debt. Adequate safeguards against the risk of adverse impacts from interest rate shifts in variable debt may include, but are not limited to, interest rate swaps, interest rate caps, and the matching of assets and liabilities. Financial strategies may result in a synthetic fixed rate debt, subject to the provisions of this policy regarding derivative products.

V. 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 the project cost. Financial derivative products will only be considered, i) after a thorough evaluation of risks associated therewith, including counterparty credit risk, basis risk, tax risk, termination risk, and liquidity risk; ii) after consideration of the potential impact on the TJPA's ability to refinance debt at a future date; and iii) in compliance with the requirements below.

A. Qualified Independent Representative

1. TJPA will enter into a contract with a firm or firms that will have the qualifications to act as a qualified independent representative ("QIR") to TJPA in accordance with the requirements of Commodity Futures Trading Commission ("CFTC") Regulation §23.450, "Requirements for swap dealers and major swap participants acting as counterparties to Special Entities", and its related safe harbor provisions and in such contract such firm or firms will make representations and provide agreements to satisfy the requirements and safe harbors of CFTC Regulation §23.450 in a manner satisfactory to TJPA.
2. TJPA shall utilize the services of such QIR when (i) entering into a new swap transaction, (ii) modifying, terminating (in whole or in part), transferring or novating an existing swap transaction, or (iii) discussing the possibility of the transactions in (i) and/or (ii) with a swap counterparty.
3. TJPA shall monitor the continued performance of each QIR by requesting certifications at least annually from each QIR restating that the representations and agreements in the contract described in (1) above are true and correct and by requiring in the contract described in (1) above prompt notice by the QIR of any failure of a representation or agreement to be true and correct. If the TJPA does not have any outstanding swap transactions, the annual QIR certification will not be required.

B. Recordkeeping and Retention

TJPA will maintain full records (in the manner specified in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act")) related to interest rate swap agreements, interest rate swap transactions, and similar agreements for at least five years following the final termination of each transaction. Such records must be retrievable within five business days.

C. Consent to Recording

Each employee or representative of TJPA that enters into discussions with a swap counterparty regarding a swap transaction or the International Swaps and Derivatives Association ("ISDA") master agreement (including the related schedule and credit support annex, if applicable) that governs such swap transaction acknowledges and agrees that the discussions will be recorded by the swap counterparty and consents to the recording and agrees to sign an annual acknowledgement form stating that they have notice of and consent to the recording of discussions of swap documentation and transactions.

D. Amendment of Documentation

TJPA will work with legal counsel and a QIR to amend ISDA master agreements entered into with swap counterparties to comply with requirements of the Act and regulations thereunder and any additional legal and/or regulatory requirements relating to swap transactions and ISDA master agreements. TJPA will amend documentation through completion and distribution of applicable ISDA Protocol documentation and/or through direct negotiation of amendments with individual swap counterparties.

E. Counterparty and Contract Guidelines

TJPA will not use derivative contracts that are purely speculative in nature or create extraordinary leverage or risk or lack sufficient price transparency to allow reasonably transparent valuation. TJPA will only work with counterparties (or their guarantors) with a long-term senior, unsecured debt credit rating of at least "A3" or "A-" from at least two of the nationally recognized statistical rating organizations.

No derivative contract will be entered into structured as a terminating transaction with a counterparty or be subject to automatic termination in any circumstance without the explicit approval of the Board.

All termination payments under any contract shall be expressly subordinate to the payment of debt service on the debt being hedged, unless the Board explicitly approves otherwise.

Each counterparty with TJPA must provide collateralization to secure any or all of its payment obligations under the derivative contract under terms and provisions acceptable to TJPA and the QIR, provided that, if any of the counterparty's (or guarantor's) ratings fall below investment grade, the credit support agreement must provide for a zero threshold limit for the initial deposit and for increments or decrements of collateral thereafter.

TJPA will consider diversifying its counterparties so that TJPA does not have an excessive amount of exposure to any counterparty.

The TJPA Chief Financial Officer is required to prepare a report summarizing derivative exposure at least annually to the extent any derivatives are outstanding.

VI. Structuring

Debt issuance shall be planned to achieve relatively rapid repayment of debt while recognizing the useful life of the facilities. Debt issuance should be structured within prudent risk parameters, and including preservation of an appropriate degree of financial flexibility.

A. Capitalized Interest

Certain types of financings may require the use of capitalized interest from the issuance date until the TJPA has constructive use of the financed project and/or until revenue is estimated to be sufficient to cover such interest/debt service payments. Capitalized interest may be funded from the proceeds of TJPA debt.

B. Debt Service Reserve Funds

Reserve accounts shall be maintained per debt requirements and where deemed advisable by the TJPA Board per the Reserve Policy. Debt service reserves shall be structured so that they do not violate Internal Revenue Service arbitrage regulations (if funded with tax-exempt bond proceeds).

The TJPA may issue debt that is secured by amounts on deposit in or credited to a debt service reserve fund or account in order to minimize the net cost of borrowing and/or to provide additional reserves for debt service or other purposes. Debt service reserve funds may secure one or more issues of bonds, and may be funded by proceeds of bonds, other available moneys of the TJPA, and/or by surety policies, letters or lines of credit or other similar instruments. Surety policies, letters or lines of credit or other similar instruments may be substituted for amounts on deposit in a debt service reserve fund.

Amounts in the debt service reserve funds shall be invested, in permitted investments as defined under the TJPA's Indenture and consistent with the TJPA's Investment Policy primary objectives, in order of priority, of (i) safety, (ii) liquidity, and (iii) return on investment. to. Such investments may include forward purchase and sale agreements with respect to permitted investments.

C. Call Provisions

1. *Optional Call Provisions*. The TJPA shall seek to include the shortest practicable optional call rights, with and/or without a call premium, on bonds with a final maturity of more than ten (10) years, consistent with optimal pricing of such bonds. Call premiums, if any, should not be in excess of then prevailing market standards and to the extent consistent with the most advantageous borrowing cost for the TJPA. Non-callable maturities may be considered and used to accommodate market requirements or other advantageous benefits to the TJPA. Capital appreciation bonds are an example of a potential non-callable structure.

2. *Extraordinary Call Provisions*. The TJPA, at its option, may include extraordinary call provisions, including for example with respect to unspent proceeds, damage to or destruction of the project or facilities financed, credit-related events of the TJPA or the user of the project or facilities financed, or other matters, as the TJPA may determine is necessary or desirable.

D. Third Party Credit Enhancement

The TJPA may secure credit enhancement for its debt from third-party credit providers to the extent such credit enhancement is available upon reasonable, competitive and cost-effective terms. Such credit enhancement may include municipal bond insurance ("Bond Insurance"), letters of credit and lines of credit (each a "Credit Facility"), as well as other similar instruments. Credit enhancement providers shall be selected on a competitive basis.

1. *Bond Insurance*. All or any portion of an issue of debt may be secured by Bond Insurance provided by municipal bond insurers ("Bond Insurers") if it is economically advantageous to do so, or if it is otherwise deemed necessary or desirable in connection with a particular debt issuance. The relative cost or benefit of Bond Insurance may be determined by comparing the amount of the Bond Insurance premium to the present value of the estimated interest savings to be derived as a result of the insurance.

2. *Credit Facilities*. The issuance of certain types of debt may require a Credit Facility from a commercial bank or other qualified financial institution to provide liquidity and/or credit support. The types of bonds where a Credit Facility may be necessary include commercial paper, variable rate bondswith a tender option and bonds that could not receive an investment grade credit rating in the absence of such a facility.

The criteria for selection of a Credit Facility provider shall include the following:

a. Long-term ratings from at least two nationally recognized credit rating agencies ("Rating Agencies") preferably to be equal to or better than A2/A/A or equivalent;

b. Short-term ratings from at least two Rating Agencies of at least P-VA-1+ or equivalent;

c. Experience providing such facilities to state and local government issuers;

d. Fees, including without limitation initial and ongoing costs of the Credit Facility; draw, transfer and related fees; counsel fees; termination fees and any trading differential; and

e. Willingness to agree to the terms and conditions proposed or required by the TJPA.

DEBT ISSUANCE

VII. Method of Sale

TJPA will determine, on a case-by-case basis, whether to issue its debt competitively or through negotiation.

In a competitive sale, the transaction shall be awarded to the bidder providing the lowest true interest rate cost as long as the bid adheres to the requirements set forth in the procurement documents. A competitive sale may be the most appropriate when the debt type and structure are conventional, and the issuer has a strong credit rating and is well known to investors. The TJPA recognizes that certain transactions are best handled through negotiation, including situations when sale of the debt will require complex explanations such as TJPA's projects, political structure and support, funding, or credit quality. From time to time, TJPA may elect to privately place its debt with institutional investors. Such placement shall be considered if this method is likely to result in a cost savings or other benefit to the TJPA relative to other methods of debt issuance, whether due to interest rate savings or costs of issuance, or to control aspects of a transaction other than cost.

VIII. Green Bonds

Green bonds typically finance projects that have positive environmental and/or climate benefits. Consistent with the Transbay Program's commitment to reduce greenhouse gases, TJPA capital projects typically may be categorized as green bond eligible. The TJPA shall seek to obtain green bond identification on its debt issuances that finance green bond eligible capital projects. Pursuing green bond identification is in the TJPA's best interests to broaden the potential investor base for the TJPA's debt issuances and possibly lower the borrowing costs for the TJPA.

IX. Capital Planning

The TJPA's borrowing decisions in terms of timing, amount, structure and alternative products will be made in the context of the Transbay Program Capital Improvement Plan and the TJPA Capital Budget. As the Transbay Program Capital Improvement Plan is developed in the context of the TJPA Annual and Long-Term Capital Budgets, borrowing decisions will be made in the appropriate strategic context to ensure that any proposed borrowing is directly supporting the goals and objectives of the TJPA.

X. Professional Services Providers

The TJPA may retain professional services providers as necessary or desirable in connection with (i) the structuring, issuance and sale of debt; (ii) monitoring of and advice regarding its outstanding debt; and (iii) the negotiation, execution and monitoring of related agreements, including without limitation Bond Insurance, Credit Facilities, derivatives and investment agreements; and (iv) other similar or related matters. Professional service providers may include financial advisors, bond counsel, disclosure counsel, TJPA consultants, bond trustees and Federal arbitrage rebate services providers, and may include, as appropriate, underwriters, feasibility consultants, remarketing agents, auction agents, broker-dealers, escrow agents, verification agents and other similar parties.

The TJPA shall require that its financial advisors, bond and disclosure counsel and other TJPA consultants be free of any conflicts of interest, or that any necessary or appropriate waivers or consents are obtained. All key professional service providers (e.g., underwriters, financial advisors, QIRs, bond counsel) shall be selected in accordance with Board Policy No. 001: Procurement Policy.

The TJPA may retain such other professional services providers, including without limitation verification agents, escrow agents, auction agents, green bond verification agents or other providers as may be necessary or appropriate in connection with its debt.

DEBT MANAGEMENT

XI. Investment of Debt Proceeds

TJPA shall accurately account for all interest earnings in debt-related funds. TJPA will maximize the interest earnings on all funds within the investment parameters set forth in the respective indenture documents, loan agreement or similar documents, or as otherwise permitted by the TJPA Investment Policy. TJPA will implement a system of reporting interest earnings that relates to and complies with any tax certificates relating to its outstanding debt and Internal Revenue Code requirements, and make any required filings with federal and state agencies.

XII. Post-Issuance Compliance Procedures

TJPA will establish and document procedures to ensure compliance with all Internal Revenue Code requirements with respect to tax-exempt debt and obligations so that the interest on the bonds and obligations is and will remain tax-exempt.

XIII. Disclosure

Each publicly offered TJPA debt issuance will meet the disclosure requirements of the Securities and Exchange Commission ("SEC") and other government agencies before and after the debt issuance takes place. Whether a document or other communication is a Disclosure Document ("Disclosure Document"), as defined under SEC Rule 15c2-12 (the "Rule"), shall be determined by TJPA Officers and Staff in consultation with Disclosure Counsel. The TJPA will endeavor to use best practices and uniform procedures, and attorneys, consultants, and other experts, as necessary, to ensure primary and secondary disclosure is timely and completed in full compliance with SEC regulations.

Continuing disclosure information is intended to reflect the financial or operating condition of an issuer as it changes over time, as well as specific events occurring after issuance, which can have an impact on both the ability to pay amounts owed and the market value of the bonds or other debt obligations if bought or sold prior to maturity. Pursuant to the Rule, each new publicly-offered debt issuance will require a written agreement (which the TJPA refers to as a "continuing disclosure certificate" or CDC), between the TJPA and the original purchaser/underwriter for the benefit of holders of municipal securities, to provide certain annual financial information ("Annual Disclosure Reports") and material event notices to the public. In accordance with changes made in 2009 to the Rule, those filings must be made electronically at the Municipal Securities

Rulemaking Board's ("MSRB") Electronic Municipal Market Access ("EMMA") web dissemination portal.

The TJPA will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by the Rule. The TJPA's Chief Financial Officer shall be responsible for providing ongoing disclosure information to the MSRB EMMA system, the central depository designated by the SEC for ongoing disclosures by municipal issuers.

Although the Rule prescribes certain annual information and event-based disclosures that must be filed, issuers may determine that additional information would be of interest to investors. To this end, the TJPA may choose to voluntarily disclose other information to the MSRB that goes beyond the requirements of the Rule. This information may include, but is not limited to, items such as monthly financial reports, updates on issues that could affect the TJPA's budgetary, financial, or economic position, annual/biennial budgets, and changes in rating outlooks.

In addition to continuing disclosure requirements as undertaken pursuant to the TJPA's CDCs, the TJPA also has certain disclosure obligations vis-à-vis specific agreements with certain debt issuance-related entities. These entities include the bond rating agencies, trustee bank, insurers, credit facility providers, commercial paper dealers, private placement lenders and others. At such time that the TJPA no longer has an agreement with such an entity (i.e., through expiration or termination of the agreements), the disclosure requirements with that entity ends.

XIV. Investor Relations

The TJPA's Chief Financial Officer shall maintain the TJPA's relationships and reputation with current and prospective investors in the TJPA's debt obligations, including in particular with its principal institutional investors. Such communications may include, without limitation:

- Timely preparation of the TJPA's audited financial statements and annual report and delivery to the TJPA's bond trustees and other parties;
- Formal written and/or verbal presentations in connection with proposed debt obligations, as deemed necessary or appropriate in consultation with the TJPA's Municipal Advisor(s); and
- Timely compliance with the TJPA's continuing disclosure requirements, consistent with Securities and Exchange TJPA Rule 15c2-12, in connection with each issue of bonds to which such Rule is applicable.

The TJPA basic strategy for communications with rating agencies, bond insurers, credit/liquidity providers, investors and other market participants shall be developed and maintained by the Chief Financial Officer.

XV. Ethics and Conflict of Interest

Officers and employees involved in the debt management process will not engage in personal business activities or investments that could conflict with the proper and lawful execution and management of the debt management program, or that could impair their ability to make impartial decisions. Pursuant to the TJPA's Conflict of Interest code, employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to TJPA's debt.

XVI. Internal Controls

TJPA shall maintain a system of internal controls, which shall be documented in writing. The internal controls shall be provided to and reviewed by the independent auditor. When issuing debt, in addition to complying with the terms of this Debt Management Policy, TJPA shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, tax-exemption, post-issuance compliance, and investment of debt proceeds. TJPA will periodically review the requirements of and will remain in compliance with the following:

1. Any continuing disclosure undertakings under SEC Rule 15c2-12,
2. Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bind issues, and
3. TJPA investment policies as they relate to the investment of proceeds of debt.

Proceeds of debt will be held either (a) by a third-party trustee, which will disburse such proceeds to TJPA upon the submission of one or more written requisitions, or (b) by TJPA, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by TJPA. Such internal controls are incorporated herein by this reference to the same extent as if recited in full.

XVII. Recordkeeping

TJPA shall maintain all debt-related records for a period no less than six years after the final maturity of the debt. At a minimum, these records shall include all official statements, term sheets, bid documents, resolutions, disclosure reports, and consultant agreements.

XVIII. Debt Management Policy Review

TJPA's debt management policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually at a regular meeting of the TJPA Board, or more frequently as required. Any modifications to this policy must be approved by resolution of the TJPA Board.

Glossary of Terms

Arbitrage: The difference between the interest paid on 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 tax-exempt municipal securities.

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 a project.

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

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.

Derivatives: Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying indices or securities, and may include a leveraging factor, or financial contracts based upon notional amounts whose value is derived from an underlying index or security (e.g., interest rates).

Indenture: A legal and binding contract between a debt issuer and the debt holders. The indenture specifies all the important features of the debt, such as its maturity date, timing of interest payments, method of interest calculation, call features, investment requirements, etc.

Municipal Advisor: Section 15B of the Securities Exchange Act defines the term „municipal advisor“ to mean a person that (i) provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues, or (ii) undertakes a solicitation of a municipal entity. Also frequently referred to as a financial advisor.

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

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

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

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

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 017 Category: Financial Matters

DEBT MANAGEMENT POLICY

I. Introduction & Objectives

The purpose of this policy is to set forth debt issuance-related policies and procedures for the Transbay Joint Powers Authority to govern issuance and management of all debt, including the selection and management of related financial and advisory services and products. The primary objectives are to:

- maintain cost effective access to capital markets through prudent debt management policies and practices.
- maintain moderate and sustainable total debt and annual debt service levels with effective long-term planning.
- meet capital needs through debt financing as needed.
- structure long term financing as to minimize transaction specific risk and total debt portfolio risk.
- maintain the highest practical credit ratings to ensure efficient access to capital markets.
- maintain good investor relations through the timely dissemination of material financial information.

This is consistent with examples of debt policies of other comparable local government agencies, Government Finance Officers Association ("GFOA") best practices and rating agency guidelines.

Furthermore, these Policies are intended to comply with applicable regulatory requirements including the California Government Code Section 8855 which requires any issuer of public debt to provide the California Debt Investment Advisory Commission ("CDIAC") with certain reports and information related to the issuance of public debt. California Government Code Section 8855 also requires issuers to certify before any debt is issued, and as part of its report of proposed debt issuance submitted to CDIAC, that it has adopted a debt policy concerning the use of debt proceeds and that the debt policy includes the following:

- The purpose for which the debt proceeds may be used;
- The types of debt that may be issued;
- The relationship of the debt to and integration with the issuer's capital improvement program or budget;
- Policy goals related to the issuer's planning goals and objectives; and
- Internal control procedures that the issuer has implemented to ensure that the proceeds of the debt issuance will be directed to the intended use.

II. Governing Authority

This policy is subject to and limited by applicable provisions of federal and state law and prudent debt management principles.

III. Delegation of Authority

This policy requires that the Board authorize each debt financing. Responsibility for implementation of this policy, and day-to-day responsibility and authority for structuring and managing the TJPA's debt, is hereby delegated to the TJPA Chief Financial Officer or ~~his or her~~the Executive Director's designee.

While adherence to this policy is required in applicable circumstances, the TJPA recognizes that changes in the public and private debt markets, the Transbay Program, or other unforeseen circumstances may from time to time produce situations that are not covered by the policy or require modifications or exceptions to this policy to achieve policy goals. In such cases, management flexibility is appropriate. The provisions of this policy provide guidance only and any failure to comply with its provisions or any departure therefrom shall not affect the authorization, validity or enforceability of any bonds or other forms of indebtedness that are otherwise issued in accordance with law for TJPA.

DEBT LIMITS & STRUCTURE

IV. Types of Debt

A. Instruments

TJPA may enter into or issue bonds, notes, bond anticipation notes, grant anticipation notes, revenue anticipation notes, tax anticipation notes, revenue bonds, lease revenue bonds, financing leases, installment purchase obligations, certificates of participation, tax increment financing, Mello-Roos financing, U.S. Department of Transportation loans (e.g., TIFIA, RRIF), loans, commercial paper and any other evidence of indebtedness or financing permitted by law.

B. Term and Use

TJPA may issue debt when there is a defined repayment source. TJPA may incur short-term or long-term debt. Short-term debt is debt with a term to maturity of less than five years. Long~~-~~-term debt has a term to maturity of five years or more. TJPA's long-term debt will be structured such that obligations do not exceed the maturity permitted by law or the average useful life of the capital asset as determined by the Internal Revenue Code, if applicable. Long-term debt may be used to finance the acquisition and construction of capital assets consistent with TJPA's capital improvement program and capital budget or plan. Long-term debt shall not be used to fund operating costs or operating deficits of the TJPA. Short-term debt may be used to either provide funds to finance cash flow deficits, or provide capital financing.

C. New Money ~~Bonds~~Debt

New money debt issues are those financings that generate additional funding to be available for expenditure on capital projects. These funds will be used for acquisition, construction and major rehabilitation of capital assets. New money ~~bond~~ debt proceeds may not be used to fund operational activities.

D. Refunding ~~Bonds~~Debt

The TJPA may issue debt to refund the principal of and interest on outstanding bonds and/or other indebtedness of the TJPA in order to (i) achieve debt service savings; (ii) restructure scheduled debt service; (iii) convert from or to a variable or fixed interest rate structure; (iv) change or modify the source or sources of payment and security for the refunded ~~bonds~~debt; or (v) modify covenants otherwise binding upon the TJPA. Refunding ~~bonds~~ debt may be issued either on a current or advance basis, as permitted by applicable Federal tax laws. The TJPA may also utilize a tender offer process to refund bonds that are not otherwise subject to optional call by the TJPA.

In most cases, r~~R~~efunding ~~bonds~~ debt should be issued solely to achieve debt service savings ~~in most cases~~ and should not be issued unless the estimated net present value savings, as determined by the TJPA's external municipal advisors or internal management, are greater than or equal to five percent (5%) of the principal amount of the refunded ~~bonds~~debt. Non-economic refundings, or ones producing less savings, will be permitted if justified based on other reasons, such as restructuring outstanding debt, changing the type of instruments originally used, retiring a bond issue, removing covenants/pledges that have become restrictive, or retiring debt prior to maturity.

E. Senior Lien ~~Bonds~~Debt

The TJPA may issue ~~bonds~~ debt on parity with outstanding bonds or other indebtedness of the most senior open lien position in order to achieve the most advantageous borrowing costs.

F. Subordinate Lien ~~Bonds~~Debt

The TJPA may issue subordinate ~~bonds~~ debt on one or more subordinate lien levels relative to other outstanding bonds or other indebtedness of the TJPA where necessary or desirable, in the determination of the TJPA, to accommodate the particular structure or terms of a given issue, or in circumstances where the issuance of senior lien ~~bonds~~ debt would be limited or restricted.

G. Variable Rate Debt

To maintain a predictable debt service burden, TJPA 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 variable rate debt to reduce forecast interest costs, provide interim financing, and/or improve the match of assets to liabilities. Under no circumstances will TJPA issue variable rate debt solely for the purpose of earning arbitrage. In connection with each issuance of unhedged variable rate debt, TJPA should make a determination that the use of unhedged variable rate debt is not imprudent, taking into consideration the security source for repayment of the variable rate debt and the projected coverage if variable rate debt was to equal the maximum rate permitted under the applicable debt.

TJPA may employ safeguards to protect against the risk of changes in interest rates related to variable rate debt. Adequate safeguards against the risk of adverse impacts from interest rate shifts in variable debt may include, but are not limited to, interest rate swaps, interest rate caps, and the matching of assets and liabilities. Financial strategies may result in a synthetic fixed rate debt, subject to the provisions of this policy regarding derivative products.

V. 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 the project cost. Financial derivative products will only be considered, i) after a thorough evaluation of risks associated therewith, including counterparty credit risk, basis risk, tax risk, termination risk, and liquidity risk; ii) after consideration of the potential impact on the TJPA's ability to refinance debt at a future date; and iii) in compliance with the requirements below.

A. Qualified Independent Representative

1. TJPA will enter into a contract with a firm or firms that will have the qualifications to act as a qualified independent representative ("QIR") to TJPA in accordance with the requirements of Commodity Futures Trading Commission ("CFTC") Regulation §23.450, "Requirements for swap dealers and major swap participants acting as counterparties to Special Entities", and its related safe harbor provisions and in such contract such firm or firms will make representations and provide agreements to satisfy the requirements and safe harbors of CFTC Regulation §23.450 in a manner satisfactory to TJPA.
2. TJPA shall utilize the services of such QIR when (i) entering into a new swap transaction, (ii) modifying, terminating (in whole or in part), transferring or novating an existing swap transaction, or (iii) discussing the possibility of the transactions in (i) and/or (ii) with a swap counterparty.
3. TJPA shall monitor the continued performance of each QIR by requesting certifications at least annually from each QIR restating that the representations and agreements in the contract described in (1) above are true and correct and by requiring in the contract described in (1) above prompt notice by the QIR of any failure of a representation or agreement to be true and correct. If the TJPA does not have any outstanding swap transactions, the annual QIR certification will not be required.

B. Recordkeeping and Retention

TJPA will maintain full records (in the manner specified in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act")) related to interest rate swap agreements, interest rate swap transactions, and similar agreements for at least five years following the final termination of each transaction. Such records must be retrievable within five business days.

C. Consent to Recording

Each employee or representative of TJPA that enters into discussions with a swap counterparty regarding a swap transaction or the International Swaps and Derivatives Association ("ISDA") master agreement (including the related schedule and credit support annex, if applicable) that governs such swap transaction acknowledges and agrees that the discussions will be recorded by the swap counterparty and consents to the recording and agrees to sign an annual acknowledgement form stating that they have notice of and consent to the recording of discussions of swap documentation and transactions.

D. Amendment of Documentation

TJPA will work with legal counsel and a QIR to amend ISDA master agreements entered into with swap counterparties to comply with requirements of the Act and regulations thereunder and any additional legal and/or regulatory requirements relating to swap transactions and ISDA master agreements. TJPA will amend documentation through completion and distribution of applicable ISDA Protocol documentation and/or through direct negotiation of amendments with individual swap counterparties.

E. Counterparty and Contract Guidelines

TJPA will not use derivative contracts that are purely speculative in nature or create extraordinary leverage or risk or lack sufficient price transparency to allow reasonably transparent valuation. ~~,~~ TJPA will only work with counterparties (or their guarantors) with a long-term senior, unsecured debt credit rating of at least "A3" or "A-" from at least two of the nationally recognized statistical rating ~~agencies~~organizations.

No derivative contract will be entered into ~~with a~~ structured as a terminating transaction with a counterparty or be subject to automatic termination in any circumstance without the explicit approval of the Board.

All termination payments under any contract shall be expressly subordinate to the payment of debt service on the debt being hedged, unless the Board explicitly approves otherwise.

Each counterparty with TJPA must provide collateralization to secure any or all of its payment obligations under the derivative contract under terms and provisions acceptable to TJPA and the QIR, provided that, if any of the counterparty's (or guarantor's) ratings fall below investment grade, the credit support agreement must provide for a zero threshold limit for the initial deposit and for increments or decrements of collateral thereafter.

TJPA will consider diversifying its counterparties so that TJPA does not have an excessive amount of exposure to any counterparty.

The TJPA Chief Financial Officer is required to prepare a report summarizing derivative exposure at least annually to the extent any derivatives are outstanding.

VI. Structuring

Debt issuance shall be planned to achieve relatively rapid repayment of debt while recognizing the useful life of the facilities. Debt issuance should be structured within prudent risk parameters, and including preservation of an appropriate degree of financial flexibility.

A. Capitalized Interest

Certain types of financings may require the use of capitalized interest from the issuance date until the TJPA has constructive use of the financed project and/or until revenue is estimated to be sufficient to cover such interest/debt service payments. Capitalized interest may be funded from the proceeds of TJPA debt.

B. Debt Service Reserve Funds

Reserve accounts shall be maintained per debt requirements and where deemed advisable by the TJPA Board per the Reserve Policy. Debt service reserves shall be structured so that they do not violate Internal Revenue Service arbitrage regulations (if funded with tax-exempt bond proceeds).

The TJPA may issue ~~bonds that are~~debt that is secured by amounts on deposit in or credited to a debt service reserve fund or account in order to minimize the net cost of borrowing and/or to provide additional reserves for debt service or other purposes. Debt service reserve funds may secure one or more issues of bonds, and may be funded by proceeds of bonds, other available moneys of the TJPA, and/or by surety policies, letters or lines of credit or other similar instruments. Surety policies, letters or lines of credit or other similar instruments may be substituted for amounts on deposit in a debt service reserve fund.

Amounts in the debt service reserve funds shall be invested, in permitted investments a ~~Investment Securities a~~s defined under the TJPA's Indenture and consistent with the TJPA's Investment Policy primary objectives, in order of priority, of (i) safety, (ii) liquidity, and (iii) return on investment.~~,~~ ~~in order~~ to ~~(i) maximize the rate of return on such amounts; (ii) minimize the risk of loss; (iii) minimize volatility in the value of such investments; and (iv) maximize liquidity so that such amounts will be available if it is necessary to draw upon them~~. Such investments may include forward purchase and sale agreements with respect to permitted investments.

C. Call Provisions

1. *Optional Call Provisions*. The TJPA shall seek to include the shortest practicable optional call rights, with and/or without a call premium, on b~~B~~onds with a final maturity of more than ten (10) years, consistent with optimal pricing of such b~~B~~onds. Call premiums, if any, should not be in excess of then prevailing market standards and to the extent consistent with the most advantageous borrowing cost for the TJPA. Non-callable maturities may be considered and used to accommodate market requirements or other advantageous benefits to the TJPA. Capital appreciation bonds are an example of a potential non-callable structure.

2. *Extraordinary Call Provisions.* The TJPA, at its option, may include extraordinary call provisions, including for example with respect to unspent

proceeds, damage to or destruction of the project or facilities financed, credit-related events of the TJPA or the user of the project or facilities financed, or other matters, as the TJPA may determine is necessary or desirable.

D. Third Party Credit Enhancement

The TJPA may secure credit enhancement for its ~~bonds~~debt from third-party credit providers to the extent such credit enhancement is available upon reasonable, competitive and cost-effective terms. Such credit enhancement may include municipal bond insurance ("Bond Insurance"), letters of credit and lines of credit (~~collectively~~ each a ~~and individually,~~ "Credit Facility~~ies~~"), as well as other similar instruments. Credit enhancement providers shall be selected on a competitive basis.

1. *Bond Insurance*. All or any portion of an issue of ~~bonds~~ debt may be secured by Bond Insurance provided by municipal bond insurers ("Bond Insurers") if it is economically advantageous to do so, or if it is otherwise deemed necessary or desirable in connection with a particular debt issuance~~e of bonds~~. The relative cost or benefit of Bond Insurance may be determined by comparing the amount of the Bond Insurance premium to the present value of the estimated interest savings to be derived as a result of the insurance.

2. *Credit Facilities.* The issuance of certain types of ~~bonds~~ debt may require~~s~~ a Credit Facility from a commercial bank or other qualified financial institution to provide liquidity and/or credit support. The types of bonds where a Credit Facility may be necessary include commercial paper, variable rate bondswith a tender option and bonds that could not receive an investment grade credit rating in the absence of such a facility.

The criteria for selection of a Credit Facility provider shall include the following:

a. Long-term ratings from at least two nationally recognized credit rating agencies ("Rating Agencies") preferably to be equal to or better than A2/A/A or equivalent;

b. Short-term ratings from at least two Rating Agencies of at least P-VA-1+ or equivalent;

c. Experience providing such facilities to state and local government issuers;

d. Fees, including without limitation initial and ongoing costs of the Credit Facility; draw, transfer and related fees; counsel fees; termination fees and any trading differential; and

e. Willingness to agree to the terms and conditions proposed or required by the TJPA.

DEBT ISSUANCE

VII. Method of Sale

TJPA will determine, on a case-by-case basis, whether to issue its debt competitively or through negotiation.

In a competitive sale, the transaction shall be awarded to the bidder providing the lowest true interest rate cost as long as the bid adheres to the requirements set forth in the procurement documents. A competitive sale may be the most appropriate when the debt type and structure are conventional, and the issuer has a strong credit rating and is well known to investors. The TJPA recognizes that certain transactions are best handled through negotiation, including situations when sale of the debt will require complex explanations such as TJPA's projects, political structure and support, funding, or credit quality. From time to time, TJPA may elect to privately place its debt with institutional investors. Such placement shall be considered if this method is likely to result in a cost savings or ~~additional~~ other benefit to the TJPA relative to other methods of debt issuance, whether due to interest rate savings or costs of issuance, or to control aspects of a transaction other than cost.

VIII. Green Bonds

Green bonds typically finance projects that have positive environmental and/or climate benefits. Consistent with the Transbay Program's commitment to reduce greenhouse gases, TJPA capital projects typically may be categorized as green bond eligible. The TJPA shall seek to obtain green bond identification on its debt issuances that finance green bond eligible capital projects. Pursuing green bond identification is in the TJPA's best interests to broaden the potential investor base for the TJPA's debt issuances and possibly lower the borrowing costs for the TJPA.

IX. Capital Planning

The TJPA's borrowing decisions in terms of timing, amount, structure and alternative products will be made in the context of the Transbay Program Capital Improvement Plan and the TJPA Capital Budget. As the Transbay Program Capital Improvement Plan is developed in the context of the TJPA Annual and Long-Term Capital Budgets, borrowing decisions will be made in the appropriate strategic context to ensure that any proposed borrowing is directly supporting the goals and objectives of the TJPA.

X. Professional Services Providers

The TJPA may retain professional services providers as necessary or desirable in connection with (i) the structuring, issuance and sale of ~~its bonds~~debt; (ii) monitoring of and advice regarding its outstanding ~~Bonds~~debt; and (iii) the negotiation, execution and monitoring of related agreements, including without limitation Bond Insurance, Credit Facilities, derivatives and investment agreements; and (iv) other similar or related matters. Professional service providers may include financial advisors, bond counsel, disclosure counsel, TJPA consultants, bond trustees and Federal arbitrage rebate services providers, and may include, as appropriate, underwriters, feasibility consultants, remarketing agents, auction agents, broker-dealers, escrow agents, verification agents and other similar parties.

The TJPA shall require that its financial advisors, bond and disclosure counsel and other TJPA consultants be free of any conflicts of interest, or that any necessary or appropriate waivers or consents are obtained. All key professional service providers (e.g., underwriters, financial advisors, QIRs, bond counsel) shall be selected in accordance with Board Policy No. 001: Procurement Policy.

The TJPA may retain such other professional services providers, including without limitation verification agents, escrow agents, auction agents, green bond verification agents or other providers as may be necessary or appropriate in connection with its ~~Bonds~~debt.

DEBT MANAGEMENT

XI. Investment of Debt Proceeds

TJPA shall accurately account for all interest earnings in debt-related funds. TJPA will maximize the interest earnings on all funds within the investment parameters set forth in the respective indenture documents, loan agreement or similar documents, or as otherwise permitted by the TJPA Investment Policy. TJPA will implement a system of reporting interest earnings that relates to and complies with any tax certificates relating to its outstanding debt and Internal Revenue Code requirements, and make any required filings with federal and state agencies.

XII. Post-Issuance Compliance Procedures

TJPA will establish and document procedures to ensure compliance with all Internal Revenue Code requirements with respect to tax-exempt ~~bonds~~ debt and obligations so that the interest on the bonds and obligations is and will remain tax-exempt.

XIII. Disclosure

Each publicly offered TJPA debt issuance will meet the disclosure requirements of the Securities and Exchange Commission ("SEC") and other government agencies before and after the ~~bond sale~~debt issuance takes place. Whether a document or other communication is a Disclosure Document ("Disclosure Document"), as defined under SEC Rule 15c2-12 (the "Rule"), shall be determined by TJPA Officers and Staff in consultation with Disclosure Counsel. The TJPA will endeavor to use best practices and uniform procedures, and attorneys, consultants, and other experts, as necessary, to ensure primary and secondary disclosure is timely and completed in full compliance with SEC regulations.

Continuing disclosure information is intended to reflect the financial or operating condition of an issuer as it changes over time, as well as specific events occurring after issuance, which can have an impact on both the ability to pay amounts owed and the market value of the bonds or other debt obligations if bought or sold prior to maturity. Pursuant to the Rule, each new publicly-offered debt issuance will require a written agreement (which the TJPA refers to as a "continuing disclosure certificate" or CDC), between the TJPA and the original purchaser/underwriter for the benefit of holders of municipal securities, to provide certain annual financial information ("Annual Disclosure Reports") and material event notices to the public. In accordance with changes made in 2009 to the Rule, those filings must be made electronically at the Municipal Securities

Rulemaking Board's ("MSRB") Electronic Municipal Market Access ("EMMA") web dissemination portal.

The TJPA will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by the Rule. The TJPA's Chief Financial Officer shall be responsible for providing ongoing disclosure information to the MSRB EMMA system, the central depository designated by the SEC for ongoing disclosures by municipal issuers.

Although the Rule prescribes certain annual information and event-based disclosures that must be filed, issuers may determine that additional information would be of interest to investors. To this end, the TJPA may choose to voluntarily disclose other information to the MSRB that goes beyond the requirements of the Rule. This information may include, but is not limited to, items such as monthly financial reports, updates on issues that could affect the TJPA's budgetary, financial, or economic position, annual/biennial budgets, and changes in rating outlooks.

In addition to continuing disclosure requirements as undertaken pursuant to the TJPA's CDCs, the TJPA also has certain disclosure obligations vis-à-vis specific agreements with certain debt issuance-related entities. These entities include the bond rating agencies, trustee bank, insurers, credit facility providers, commercial paper dealers, private placement lenders and others. At such time that the TJPA no longer has an agreement with such an entity (i.e., through expiration or termination of the agreements), the disclosure requirements with that entity ends.

XIV. Investor Relations

The TJPA's Chief Financial Officer shall maintain the TJPA's relationships and reputation with current and prospective investors in the TJPA's debt obligations, including in particular with its principal institutional investors. Such communications may include, without limitation:

- Timely preparation of the TJPA's audited financial statements and annual report and delivery to the TJPA's bond trustees and other parties;
- Formal written and/or verbal presentations in connection with proposed debt obligations, as deemed necessary or appropriate in consultation with the TJPA's Municipal Advisor(s); and
- Timely compliance with the TJPA's continuing disclosure requirements, consistent with Securities and Exchange TJPA Rule 15c2-12, in connection with each issue of bonds to which such Rule is applicable.

The TJPA basic strategy for communications with rating agencies, bond insurers, credit/liquidity providers, investors and other market participants shall be developed and maintained by the Chief Financial Officer.

XV. Ethics and Conflict of Interest

Officers and employees involved in the debt management process will not engage in personal business activities or investments that could conflict with the proper and lawful execution and management of the debt management program, or that could impair their ability to make impartial decisions. Pursuant to the TJPA's Conflict of Interest code, employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to TJPA's debt.

XVI. Internal Controls

TJPA shall maintain a system of internal controls, which shall be documented in writing. The internal controls shall be provided to and reviewed by the independent auditor. When issuing debt, in addition to complying with the terms of this Debt Management Policy, TJPA shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, tax-exemption, post-issuance compliance, and investment of debt ~~bond~~ proceeds. TJPA will periodically review the requirements of and will remain in compliance with the following:

1. Any continuing disclosure undertakings under SEC Rule 15c2-12,
2. Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bind issues, and
3. TJPA investment policies as they relate to the investment of ~~bond proceeds~~proceeds of debt.

Proceeds of debt will be held either (a) by a third-party trustee, which will disburse such proceeds to TJPA upon the submission of one or more written requisitions, or (b) by TJPA, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by TJPA. Such internal controls are incorporated herein by this reference to the same extent as if recited in full.

XVII. Recordkeeping

TJPA shall maintain all debt-related records for a period no less than six years after the final maturity of the debt. At a minimum, these records shall include all official statements, term sheets, bid documents, resolutions, disclosure reports, and consultant agreements.

XVIII. Debt Management Policy Review

TJPA's debt management policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually at a regular meeting of the TJPA Board, or more frequently as required. Any modifications to this policy must be approved by resolution of the TJPA Board.

Glossary of Terms

Arbitrage: The difference between the interest paid on 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 tax-exempt municipal securities.

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 a project.

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

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.

Derivatives: Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying indices or securities, and may include a leveraging factor, or financial contracts based upon notional amounts whose value is derived from an underlying index or security (e.g., interest rates).

Indenture: A legal and binding contract between a debt issuer and the debt holders. The indenture specifies all the important features of the debt, such as its maturity date, timing of interest payments, method of interest calculation, call features, investment requirements, etc.

Municipal Advisor: Section 15B of the Securities Exchange Act defines the term „municipal advisor“ to mean a person that (i) provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues, or (ii) undertakes a solicitation of a municipal entity. Also frequently referred to as a financial advisor.

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

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

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

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

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 009 Category: Financial Matters

INVESTMENT POLICY

I. Introduction

The purpose of this policy is to set forth the scope, objectives, standards of care, authorized financial institutions, permitted investment instruments and parameters, and review and reporting requirements for all investments made by the Transbay Joint Powers Authority (TJPA) and its Trustees. It is the policy of the TJPA to invest funds in a manner which will comply with all federal and state laws governing the investment of public funds, preserve capital, meet the daily cash flow demands of the TJPA, and provide investment return.

II. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including applicable provisions of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (Sections 53600 et seq.).

III. Scope

This policy applies to the investment of all funds, excluding the investment of debt proceeds and employees' retirement funds, which are outside the scope of this policy. The investment of debt proceeds and employees' retirement funds shall be governed by the relevant documents. All other investments will be managed to ensure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.

IV. Objectives

The primary objectives, in priority order, for the TJPA's investment activities are:

1. **Safety**. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The safety of the portfolio is provided by investing in high quality securities and enhanced in three ways by maintaining a prudent mix (i.e., diversity) of investments:

   a. Spreading investments over different investment types minimizes the impact that any one industry/investment class can have on the portfolio;
   b. Spreading investments over multiple credits/issuers with an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and
   c. Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates.

   The portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio. Limitation and eligibility as to specific investments are to be determined by the TJPA Chief Financial Officer and the Executive Director, collectively; investments shall be diversified by limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury and federal Agency securities), limiting investments in securities that have higher credit risks, and investing in securities with varying maturities.

2. **Liquidity**. The investment portfolio shall remain sufficiently liquid to meet all cash flow requirements that may be reasonably anticipated. The TJPA will maintain a cash position anticipated to meet short-term obligations.

3. **Return on Investment**. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

V. Standard of Prudence

In managing its overall portfolio, the TJPA shall observe the "Prudent Investor Standard" as stated in California Government Code Section 53600.3. Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the TJPA, that a prudent person acting in a like capacity, and with familiarity of those matters, would use to safeguard the principal and maintain the liquidity needs of the TJPA. Investment officers acting in accordance with state and local law and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

VI. Delegation of Authority

Management's responsibility for the investment program and implementation of this policy is derived from the TJPA Board of Directors and is hereby delegated to the TJPA Chief Financial Officer or the Executive Director's designee. The Board may rescind the delegation pursuant to this section.

The following individuals are authorized to sign investment documents and/or execute cash transfers and make investments of the TJPA's funds:

- Executive Director or their designee
- Chief Financial Officer or their designee

All investment documents and cash transfer authorization forms shall be approved by one of the two signature authorities from the above list. The Board's designees are responsible for the establishment of a system of controls to regulate activities of subordinate employees and their procedures in the absence of the designees.

VII. Ethics and Conflict of Interest

Officers and employees involved in the investment process will not engage in personal business activities that could conflict with the proper and lawful execution and management of the investment program, or that could impair their ability to make impartial decisions. Pursuant to the TJPA's Conflict of Interest code, the Executive Director and Chief Financial Officer (and any designee performing functions under this policy) shall disclose any material interests in financial institutions with which they conduct business in their Annual Statement of Economic Interests. They shall further disclose to the TJPA Board any personal financial/investment positions that could be related to the performance of the TJPA's investment portfolio. Other TJPA Finance staff shall disclose any personal financial/investment positions that could be related to the performance of the TJPA's investment portfolio to the Chief Financial Officer.

All persons, broker/dealers, financial institutions, and advisors providing investment services shall disclose to the TJPA Chief Financial Officer all fee sharing, fee splitting, and commission arrangements with other entities or persons prior to TJPA agreeing to purchase an investment.

VIII. Authorized Financial Institutions and Dealers

No public deposits will be made except in a qualified public depository as established by state law. All broker/dealers and custodial Trustees must annually review and abide by this Investment Policy.

TJPA will not do business with a firm which has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board (MSRB), and any other relevant MSRB rules that may be promulgated, to the City & County of San Francisco Treasurer, any member of the TJPA Board, or any candidate for an office that may become either the City & County of San Francisco Treasurer or any member of the TJPA Board.

TJPA may choose a Trustee to hold custody of moneys gained by the sale of formerly State-owned land parcels, tax increment proceeds, and other moneys as deemed necessary by the Executive Director and the Chief Financial Officer. Moneys held by the Trustee shall be invested and reinvested by the Trustee solely at the direction of the TJPA in those certain investment securities listed in "Exhibit A" hereto entitled "Permitted Investments".

IX. Permitted Investment Instruments

California Government Code Section 53601 governs and limits the investments permitted for purchase by local governments. Within those limitations, the TJPA further restricts eligible investments to the following types of investments below, as more fully described in Exhibit A:

1. U.S. Treasury Obligations
2. U.S. Agency Obligations
3. State of California and California Local Agency Obligations and Bonds
4. Bankers Acceptances
5. Commercial Paper (domestic)
6. Negotiable Certificates of Deposit
7. Non-negotiable Certificates of Deposit
8. Repurchase Agreements
9. Medium-Term Notes

10. Money Market Mutual Funds
11. Collateralized Bank/Time Deposits
12. City & County of San Francisco Pooled Investment Fund
13. Local Agency Investment Fund (LAIF)
14. Supranational Obligations
15. Public Bank Obligations

The maximum percentage share of investments in these instruments as a share of the TJPA's portfolio, the credit quality and the maximum maturities of investments shall conform to the restrictions in Exhibit A, based primarily on California Government Code, and shall be domestic investments only. Percentage holding limits apply at the time the security is purchased. Investment pools and mutual funds shall be investigated and assessed prior to investing and on a continual basis. All funds under management shall be combined for the purpose of evaluating portfolio limits.

X. Ineligible Investments

The following investments are either prohibited by law, or authorized by law but prohibited by this policy:

Prohibited by Law

1. Securities not listed in California Government Code
2. Inverse floaters
3. Range notes
4. Interest only strips derived from a pool of mortgages
5. Unregistered securities
6. Any security that could result in zero- or negative-interest accrual if held to maturity; the TJPA may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. The TJPA may hold these instruments until their maturity dates until January 1, 2026.

Prohibited by TJPA Investment Policy

1. Securities not listed in Section IX, Permitted Investment Instruments
2. Local agency (outside of California) obligations and bonds
3. Placement service deposits and certificates of deposit
4. Reverse repurchase agreements and securities lending agreements
5. Mortgage pass-through securities
6. Joint Powers Authority pool
7. Voluntary Investment Program fund

XI. Collateralization

Collateral for certificates of deposit (both negotiable and non-negotiable) and repurchase agreements must comply with the various relevant California Government Code sections. If a certificate of deposit is not FDIC insured, collateral posted by the depository institution is required to be valued at 110 percent or greater of principal. Collateral required to be posted by the depository institution for repurchase agreements is required to be valued at 102 percent of principal.

California banks and savings and loan associations are required to secure TJPA deposits by pledging eligible securities as collateral, pursuant to California Government Code Section 53651. In accordance with California Government Code Section 53652, the fair value of the pledged securities must equal at least 110 percent of the TJPA's deposits. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the TJPA's total deposits.

As a matter of TJPA policy, all deposits of the TJPA are secured by the pledge of eligible securities equal to 110 percent of the TJPA's deposits.

In accordance with California Government Code Section 53653, the TJPA Chief Financial Officer may waive the 110 percent collateral requirement for deposits which are insured up to $250,000 by the FDIC.

XII. Safekeeping and Custody

To protect against fraud, embezzlement, or potential losses caused by collapse of individual securities dealers, all securities purchased by the TJPA shall be held in safekeeping by a third-party bank trust department, acting as an agent for the TJPA, in compliance with California Government Code Section 53608. All trades executed by a dealer will settle delivery vs. payment (DVP) through the TJPA's safekeeping agent.

XIII. Internal Controls; Record-keeping

TJPA shall maintain a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in the financial markets, or imprudent actions by employees and officers of the TJPA. The internal control procedures include explicit designation of authority to persons responsible for investment transaction, as well as references to compliance monitoring and safekeeping. No person may engage in an investment transaction except as provided under the terms of this policy and the internal controls. The internal controls shall be provided to and reviewed by the independent auditor to assure compliance with this policy and the controls.

Trade confirmations shall be kept for a minimum of six years.

XIV. Performance Standard

TJPA's investment strategy is passive, with the aim of holding securities until maturity. Purchases of investments, other than deposits in financial institutions and pooled investment funds, are made from land sales and debt proceeds that are anticipated to be fully liquidated with completion of construction of the Transbay Transit Center. For this reason, a rate of return benchmark is not being utilized by TJPA at this time.

XV. Review of Investment Portfolio and Reporting Requirements

The TJPA Chief Financial Officer shall submit a list of investment holdings and an investment report to the TJPA Board of Directors on a quarterly basis. The report will include, at a minimum, investment types, issuer, maturity, par value, dollar amount invested, market value as of the date of the report and the source of the valuation, and accrued interest. In addition, the investment report shall state compliance of the portfolio with the investment policy and a statement noting the ability of TJPA to meet expenditure requirements for the next six months in accordance with California Government Code Section 53646 (b) (2) and (3).

The TJPA Chief Financial Officer shall also submit a monthly report of investment transactions to the TJPA Board. Both quarterly and monthly reports shall be submitted to the Board within 45 days of the quarter end or month end.

The securities held by TJPA must be in compliance with the above Section IX Permitted Investment Instruments at the time of purchase. Since some securities may not comply subsequent to the date of purchase, the TJPA Chief Financial Officer shall review the portfolio at least monthly to identify any securities that do not comply. Any major incidents of non-compliance and any realized losses identified by the Chief Financial Officer shall be reported to the Board.

XVI. Social and Environmental Concerns

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 and deferred deposit (payday-lending) businesses.

XVII. Investment Policy Review

TJPA's investment policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually at a regular meeting of the TJPA Board. Any modifications to this policy must be approved by resolution of the TJPA Board.

EXHIBIT A

Permitted Investments

Per State of California Government Code (As of January 1, 2023) [i]

Investment Type	Maximum Maturity	Maximum Specified Percentage of Portfolio	Minimum Quality Requirements
U.S. Treasury Obligations	5 years	None	None
U.S. Agency and GSE Obligations	5 years	None	None
TJPA Obligations	5 years	None	None
California Local Agency Obligations	5 years	None	”AA” rating or above
Banker’s Acceptances	180 days	40% [ii]	None
Commercial Paper (CP)	270 days	25% [iii]	Highest letter and number rating by an NRSRO; if the issuer has issued debt other than CP it must be rated “A” or its equivalent
Negotiable Certificates of Deposit	5 years	30% [v,vi]	None
Non-negotiable Certificates of Deposit	5 years	None [vi]	None
Repurchase Agreements[vii]	1 year	None	None
Medium-Term Notes[viii]	5 years	30%	“A” rating or equivalent
Money Market Mutual Funds [x]	n/a	20% [ix]	Multiple [iv]
Collateralized Bank/Time Deposits	5 years	None	None
City & County of San Francisco Pooled Investment Fund [xi]	n/a	None	None
Local Agency Investment Fund (LAIF) [xii]	n/a	None	None
Supranational Obligations [xiii]	5 years	30%	”AA” rating or above
Public Bank Obligations [xiv]	n/a	None	”AA” rating or above

Prohibited investments include securities not listed above, as well as inverse floaters, range notes, and interest only strips derived from a pool of mortgages, and any security that could result in zero interest accrual if held to maturity (except as noted in California Government Code Section 53601.6(b)(2) until January 1, 2026). [xv]

See endnotes next page.

[i] Sources: California Government Code Sections 16429.1, 16430, 53601, 53601.6(b)(2), 53601.8, 53635, 53635.2, 53635.8 and 53638.

[ii] No more than 30 percent of the agency's money may be in Banker's Acceptances of any one commercial bank.

[iii] No more than 10 percent of the agency's money may be invested in the commercial paper of any one corporate issuer.

[iv] Issuing corporation must be organized and operating within the U.S. and have assets in excess of $500,000,000.

[v] No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8 and 53601(i).

[vi] Per TJPA policy: individual CD purchases limited to $250,000 from each financial institution to take advantage of FDIC coverage.

[vii] Repurchase agreements collateralized by U.S. Treasuries of Agency securities with any registered broker/dealer subject to the Securities Investors Protection Act or any commercial banks insured by FDIC

[viii] "Medium-term notes" are defined in California Government Code Section 53601 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 U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."

[ix] No more than 10 percent of the agency's total funds may be invested in any one mutual fund.

[x] A mutual fund or a money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration with assets under management in excess of $500 million who has not less than five years' experience investing in instruments authorized by Sections 53601 and 53635 (mutual funds) or experience in managing the types of instruments that can be purchased by money market funds as specified in SEC Regulation 2a-7 (money market funds). Mutual funds must abide by the same investment restrictions and regulations that apply to public agencies in California (Section 53601(a-k, m-o)). Money market funds must follow regulations specified by the SEC under the investment company act of 1940 (15 USC Section 80a-1, et seq.)

[xi] Not a permitted investment for Trustee Accounts.

[xii] Not a permitted investment for Trustee Accounts. Maximum account balance is capped by LAIF at $65 million.

[xiii] Only those US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the International Finance Corporation or the Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the US.

[xiv] Commercial paper, debt securities or other obligations of a public bank

[xv] Zero interest accrual means the security has the potential to realize zero interest depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level below the face value are legal because their value does increase.

Glossary of Terms

Accrued Interest: Interest accumulated since the last interest payment.

Banker's Acceptance (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Basis Point: 1/100th of 1 percent of yield. If a yield increases from 1.25% to 1.50%, the difference is referred to as a 25 basis point increase.

Bond: A debt obligation of a firm or public entity. Represents the agreement to repay the debt in principal and, typically, interest on the principal.

Book Value: The value at which an asset is carried on a balance sheet.

Broker: A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account. The term does not include a dealer bank.

Broker/Dealer: A general term for a securities firm that is engaged in both purchasing and selling securities on behalf of customers as well as on its own account. The term does not include a dealer bank.

Buy and Hold Strategy: A strategy based on holding all securities until maturity, regardless of fluctuations in the market.

Certificate of Deposit (CD): A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender (purchaser) at the end of the loan period. Certificates of Deposit differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

Negotiable Certificates of Deposit: Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by the FDIC up to $250,000, but they are not collateralized beyond that amount.

Non-negotiable Certificates of Deposit: CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the FDIC up to $250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or Agency securities.

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.

Commercial Paper: An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

Corporate Notes and Bonds: Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years.

County Pooled Investment Funds: The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

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

Credit Rating: Various alphabetical and numerical designations used by institutional investors, investment banks, and nationally recognized statistical rating organizations companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses AAA, AA, A, BAA, BA, B, CAA, CA, and D. Each of the services use pluses (+) and minuses (-), or numerical modifiers to indicate steps within each category. The top four letter categories are considered investment grade ratings.

Credit Risk: The chance that an issuer will default, or otherwise be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of an issuer/borrower's credit will cause the market value of a security to fall, even if default is not expected.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, including underwriting, buying and selling securities, including from their own account.

Default Risk: The risk that issuers/borrowers will be unable to make the required payments on their debt obligations.

Delivery vs. Payment (DVP): The payment of cash for securities as they are delivered and accepted for settlement.

Depository Institutions: These institutions hold agency monies in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts. To be eligible to receive local agency money, a financial institution must receive an overall rating of not less than "satisfactory" from the appropriate federal supervisory agency for meeting the criteria specified in the Community Reinvestment Act of 1977.

Discount: The difference between the cost of a security and the par value of a security, when the cost is below par. Investors purchase securities at a discount when return to the investor (yield) is higher than the stated coupon (interest rate) on the investment.

Diversification: The allocation of different types of assets in a portfolio to mitigate risks and improve overall portfolio performance.

Event Risk: The risk associated with a changing portfolio value due to a market event causing swings in market prices and/or spreads.

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

Government Sponsored Enterprises (GSE): Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government.

Interest: The amount a borrower pays to a lender (investor) for the use of its money.

Interest Rate Risk: The risk that an investment's value will change due to a change in the absolute level of interest rates, spread between two rates, shape of the yield curve, or any other interest rate relationship.

Liquidity: The measure of the ability to convert an instrument to cash on a given date at full face or par value.

Liquidity Risk: The risk that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

Local Agency Investment Fund (LAIF): A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

Local Government Investment Pool: Investment pools that range from the State Treasurer's Office LAIF to county pools.

Market Risk: The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly. Buying and holding a security to maturity eliminates the effects of market risk.

Market Value: The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

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

Medium-Term Note: Corporate or depository institution debt securities meeting certain minimum quality standards sold with maturity of five to ten years, usually issued by corporations organized and operating in the United States.

Money Market: The segment of the financial market in which financial instruments with high liquidity and very short maturities (U.S. Treasury bills, commercial paper, bankers' acceptances, negotiable CDs, etc.) are issued and traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year.

Money Market Mutual Funds (MMF): MMF's are mutual funds that invest exclusively in short-term money market instruments. MMF's seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short term investments.

Nationally Recognized Statistical Rating Organization (NRSRO): 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.

Par Amount or Par Value: The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

Portfolio: Combined holding of more than one bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

Premium: Premium means the difference between the par value of a security and the cost of a security, when the cost is above par. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

Prudent Investor Standard: As stated in California Government Code Section 53600.3., all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity 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 agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law (except as provided in subdivision (a) of California Government Code Section 27000.3).

Repurchase Agreement (RP or REPO): An agreement of one party (for example, a financial institution) to sell securities to a second party (such as the local agency) and simultaneous agreement to repurchase them at a fixed price on demand or at a fixed date.

Rule G-37 of the Municipal Securities Rulemaking Board: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

Safekeeping Service: Offers storage and protection of assets provided by an institution serving as an agent.

Safety: In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

Securities and Exchange Commission (SEC): a federal agency which holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States.

U.S. Agency Obligations: Debt obligations issued by federal agencies and/or U.S. government-sponsored enterprises. Examples include Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Federal Agricultural Mortgage Corporation (Farmer Mac).

U.S. Treasury Obligations: Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more (and thus are not eligible local agency investments).

Weighted Average Maturity (WAM): The weighted average amount of time until the maturities of all the securities that comprise a portfolio, expressed in days or years. The WAM is calculated by computing the percentage value of each instrument in the portfolio. The number of days until the security's maturity is multiplied by the security's percentage of the portfolio, and the sum of the subtotals equals the WAM.

Yield: The current rate of return on an investment security generally expressed as a percentage of the security's current price

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 009 Category: Financial Matters

INVESTMENT POLICY

I. Introduction

The purpose of this policy is to set forth the scope, objectives, standards of care, authorized financial institutions, permitted investment instruments and parameters, and review and reporting requirements for all investments made by the Transbay Joint Powers Authority (TJPA) and its Trustees. It is the policy of the TJPA to invest funds in a manner which will comply with all federal and state laws governing the investment of public funds, preserve capital, meet the daily cash flow demands of the TJPA, and provide investment return.

II. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including applicable provisions of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (Sections 53600 et seq.).

III. Scope

This policy applies to the investment of all funds, excluding the investment of debt proceeds and employees' retirement funds, which are outside the scope of this policy. The investment of debt proceeds and employees' retirement funds shall be governed by the relevant documents. All other investments will be managed to ensure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.

IV. Objectives

The primary objectives, in priority order, for the TJPA's investment activities are:

1. **Safety**. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The safety of the portfolio is provided by investing in high quality securities and enhanced in three ways by maintaining a prudent mix (i.e., diversity) of investments:

   a. Spreading investments over different investment types minimizes the impact that any one industry/investment class can have on the portfolio;
   b. Spreading investments over multiple credits/issuers with an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and
   c. Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates.

   The portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio. Limitation and eligibility as to specific investments are to be determined by the TJPA Chief Financial Officer ~~or their~~

~~designee,~~ and the Executive Director, collectively; investments shall be diversified by limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury and federal Agency securities), limiting investments in securities that have higher credit risks, and investing in securities with varying maturities.

2. **Liquidity**. The investment portfolio shall remain sufficiently liquid to meet all cash flow requirements that may be reasonably anticipated. The TJPA will maintain a cash position anticipated to meet short-term obligations.
3. **Return on Investment**. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

V. Standard of Prudence

In managing its overall portfolio, the TJPA shall observe the "Prudent Investor Standard" as stated in California Government Code Section 53600.3. Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the TJPA, that a prudent person acting in a like capacity, and with familiarity of those matters, would use to safeguard the principal and maintain the liquidity needs of the TJPA. Investment officers acting in accordance with state and local law and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

VI. Delegation of Authority

Management's responsibility for the investment program and implementation of this policy is derived from the TJPA Board of Directors and is hereby delegated to the TJPA Chief Financial Officer or ~~their~~the Executive Director'~~'~~s designee. The Board may rescind the delegation pursuant to this section.

The following individuals are authorized to sign investment documents and/or execute cash transfers and make investments of the TJPA's funds:

- Executive Director or their designee
- Chief Financial Officer or their designee

All investment documents and cash transfer authorization forms shall be approved by one of the two signature authorities from the above list. The Board's designees are responsible for the establishment of a system of controls to regulate activities of subordinate employees and their procedures in the absence of the designees.

VII. Ethics and Conflict of Interest

Officers and employees involved in the investment process will not engage in personal business activities that could conflict with the proper and lawful execution and management of the investment program, or that could impair their ability to make impartial decisions. Pursuant to the TJPA's Conflict of Interest code, the Executive Director and Chief Financial Officer (and any designee performing functions under this policy) shall disclose any material interests in financial institutions with which they conduct business in their Annual Statement of Economic Interests. They shall further disclose to the TJPA Board any personal financial/investment positions that could be related to the performance of the TJPA's investment portfolio. Other TJPA Finance staff shall disclose any personal financial/investment positions that could be related to the performance of the TJPA's investment portfolio to the Chief Financial Officer.

All persons, broker/dealers, financial institutions, and advisors providing investment services shall disclose to the TJPA Chief Financial Officer all fee sharing, fee splitting, and commission arrangements with other entities or persons prior to TJPA agreeing to purchase an investment.

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No public deposits will be made except in a qualified public depository as established by state law. All broker/dealers and custodial Trustees must annually review and abide by this Investment Policy.

TJPA will not do business with a firm which has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board (MSRB), and any other relevant MSRB rules that may be promulgated, to the City & County of San Francisco Treasurer, any member of the TJPA Board, or any candidate for an office that may become either the City & County of San Francisco Treasurer or any member of the TJPA Board.

TJPA may choose a Trustee to hold custody of moneys gained by the sale of formerly State-owned land parcels, tax increment proceeds, and other moneys as deemed necessary by the Executive Director and the Chief Financial Officer. Moneys held by the Trustee shall be invested and reinvested by the Trustee solely at the direction of the TJPA in those certain investment securities listed in "Exhibit A" hereto entitled "Permitted Investments".

IX. Permitted Investment Instruments

California Government Code Section 53601 governs and limits the investments permitted for purchase by local governments. Within those limitations, the TJPA further restricts eligible investments to the following types of investments below, as more fully described in Exhibit A:

1. U.S. Treasury Obligations
2. U.S. Agency Obligations
3. State of California and California Local Agency Obligations and Bonds
4. Bankers Acceptances
5. Commercial Paper (domestic)
6. Negotiable Certificates of Deposit
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8. Repurchase Agreements
9. Medium-Term Notes

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15. Public Bank Obligations

The maximum percentage share of investments in these instruments as a share of the TJPA's portfolio, the credit quality and the maximum maturities of investments shall conform to the restrictions in Exhibit A, based primarily on California Government Code, and shall be domestic investments only. Percentage holding limits apply at the time the security is purchased. Investment pools and mutual funds shall be investigated and assessed prior to investing and on a continual basis. All funds under management shall be combined for the purpose of evaluating portfolio limits.

X. Ineligible Investments

The following investments are either prohibited by law, or authorized by law but prohibited by this policy:

Prohibited by Law

1. Securities not listed in California Government Code
2. Inverse floaters
3. Range notes
4. Interest only strips derived from a pool of mortgages
5. Unregistered securities
6. Any security that could result in zero- or negative-interest accrual if held to maturity; the TJPA may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. The TJPA may hold these instruments until their maturity dates until January 1, 2026.

Prohibited by TJPA Investment Policy

1. Securities not listed in Section IX, Permitted Investment Instruments
2. Local agency (outside of California) obligations and bonds
3. Placement service deposits and certificates of deposit
4. Reverse repurchase agreements and securities lending agreements
5. Mortgage pass-through securities
6. Joint Powers Authority pool
7. Voluntary Investment Program fund

XI. Collateralization

Collateral for certificates of deposit (both negotiable and non-negotiable) and repurchase agreements must comply with the various relevant California Government Code sections. If a certificate of deposit is not FDIC insured, collateral posted by the depository institution is required to be valued at 110 percent or greater of principal. Collateral required to be posted by the depository institution for repurchase agreements is required to be valued at 102 percent of principal.

California banks and savings and loan associations are required to secure TJPA deposits by pledging eligible securities as collateral, pursuant to California Government Code Section 53651. In accordance with California Government Code Section 53652, the fair value of the pledged securities must equal at least 110 percent of the TJPA's deposits. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the TJPA's total deposits.

As a matter of TJPA policy, all deposits of the TJPA are secured by the pledge of eligible securities equal to 110 percent of the TJPA's deposits.

In accordance with California Government Code Section 53653, the TJPA Chief Financial Officer may waive the 110 percent collateral requirement for deposits which are insured up to $250,000 by the FDIC.

XII. Safekeeping and Custody

To protect against fraud, embezzlement, or potential losses caused by collapse of individual securities dealers, all securities purchased by the TJPA shall be held in safekeeping by a third-party bank trust department, acting as an agent for the TJPA, in compliance with California Government Code Section 53608. All trades executed by a dealer will settle delivery vs. payment (DVP) through the TJPA's safekeeping agent.

XIII. Internal Controls; Record-keeping

TJPA shall maintain a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in the financial markets, or imprudent actions by employees and officers of the TJPA. The internal control procedures include explicit designation of authority to persons responsible for investment transaction, as well as references to compliance monitoring and safekeeping. No person may engage in an investment transaction except as provided under the terms of this policy and the internal controls. The internal controls shall be provided to and reviewed by the independent auditor to assure compliance with this policy and the controls.

Trade confirmations shall be kept for a minimum of six years.

XIV. Performance Standard

TJPA's investment strategy is passive, with the aim of holding securities until maturity. Purchases of investments, other than deposits in financial institutions and pooled investment funds, are made from land sales and debt proceeds that are anticipated to be fully liquidated with completion of construction of the Transbay Transit Center. For this reason, a rate of return benchmark is not being utilized by TJPA at this time.

XV. Review of Investment Portfolio and Reporting Requirements

The TJPA Chief Financial Officer shall submit a list of investment holdings and an investment report to the TJPA Board of Directors on a quarterly basis. The report will include, at a minimum, investment types, issuer, maturity, par value, dollar amount invested, market value as of the date of the report and the source of the valuation, and accrued interest. In addition, the investment report shall state compliance of the portfolio with the investment policy and a statement noting the ability of TJPA to meet expenditure requirements for the next six months in accordance with California Government Code Section 53646 (b) (2) and (3).

The TJPA Chief Financial Officer shall also submit a monthly report of investment transactions to the TJPA Board. Both quarterly and monthly reports shall be submitted to the Board within ~~30~~45 days of the quarter end or month end.

The securities held by TJPA must be in compliance with the above Section IX Permitted Investment Instruments at the time of purchase. Since some securities may not comply subsequent to the date of purchase, the TJPA Chief Financial Officer shall review the portfolio at least monthly to identify any securities that do not comply. Any major incidents of non-compliance and any realized losses identified by the Chief Financial Officer shall be reported to the Board.

XVI. Social and Environmental Concerns

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 and deferred deposit (payday-lending) businesses.

XVII. Investment Policy Review

TJPA's investment policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually at a regular meeting of the TJPA Board. Any modifications to this policy must be approved by resolution of the TJPA Board.

EXHIBIT A

Permitted Investments

Per State of California Government Code (As of January 1, ~~2021~~2023) [i]

Investment Type	Maximum Maturity	Maximum Specified Percentage of Portfolio	Minimum Quality Requirements
U.S. Treasury Obligations	5 years	None	None
U.S. Agency and GSE Obligations	5 years	None	None
TJPA Obligations	5 years	None	None
California Local Agency Obligations	5 years	None	”AA” rating or above
Banker’s Acceptances	180 days	40% [ii]	None
Commercial Paper (CP)	270 days	25% [iii]	Highest letter and number rating by an NRSRO; if the issuer has issued debt other than CP it must be rated “A” or its equivalent
Negotiable Certificates of Deposit	5 years	30% [v,vi]	None
Non-negotiable Certificates of Deposit	5 years	None [vi]	None
Repurchase Agreements[vii]	1 year	None	None
Medium-Term Notes[viii]	5 years	30%	“A” rating or equivalent
Money Market Mutual Funds [x]	n/a	20% [ix]	Multiple [iv]
Collateralized Bank/Time Deposits	5 years	None	None
City & County of San Francisco Pooled Investment Fund [xi]	n/a	None	None
Local Agency Investment Fund (LAIF) [xii]	n/a	None	None
Supranational Obligations [xiii]	5 years	30%	”AA” rating or above
Public Bank Obligations [xiv]	n/a	None	”AA” rating or above

Prohibited investments include securities not listed above, as well as inverse floaters, range notes, and interest only strips derived from a pool of mortgages, and any security that could result in zero interest accrual if held to maturity (except as noted in California Government Code Section 53601.6(b)(2) until January 1, 2026). [xv]

See endnotes next page.

[i] Sources: California Government Code Sections 16429.1, 16430, 53601, 53601.6(b)(2), 53601.8, 53635, 53635.2, 53635.8 and 53638.

[ii] No more than 30 percent of the agency's money may be in Banker's Acceptances of any one commercial bank.

[iii] No more than 10 percent of the agency's money may be invested in the commercial paper of any one corporate issuer.

[iv] Issuing corporation must be organized and operating within the U.S. and have assets in excess of $500,000,000.

[v] No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8 and 53601(i).

[vi] Per TJPA policy: individual CD purchases limited to $250,000 from each financial institution to take advantage of FDIC coverage.

[vii] Repurchase agreements collateralized by U.S. Treasuries of Agency securities with any registered broker/dealer subject to the Securities Investors Protection Act or any commercial banks insured by FDIC

[viii] "Medium-term notes" are defined in California Government Code Section 53601 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 U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."

[ix] No more than 10 percent of the agency's total funds may be invested in any one mutual fund.

[x] A mutual fund or a money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration with assets under management in excess of $500 million who has not less than five years' experience investing in instruments authorized by Sections 53601 and 53635 (mutual funds) or experience in managing the types of instruments that can be purchased by money market funds as specified in SEC Regulation 2a-7 (money market funds). Mutual funds must abide by the same investment restrictions and regulations that apply to public agencies in California (Section 53601(a-k, m-o)). Money market funds must follow regulations specified by the SEC under the investment company act of 1940 (15 USC Section 80a-1, et seq.)

[xi] Not a permitted investment for Trustee Accounts.

[xii] Not a permitted investment for Trustee Accounts. Maximum account balance is capped by LAIF at $65 million.

[xiii] Only those US dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the International Finance Corporation or the Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the US.

[xiv] Commercial paper, debt securities or other obligations of a public bank

[xv] Zero interest accrual means the security has the potential to realize zero interest depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level below the face value are legal because their value does increase.

Glossary of Terms

Accrued Interest: Interest accumulated since the last interest payment.

Banker's Acceptance (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Basis Point: 1/100th of 1 percent of yield. If a yield increases from 1.25% to 1.50%, the difference is referred to as a 25 basis point increase.

Bond: A debt obligation of a firm or public entity. Represents the agreement to repay the debt in principal and, typically, interest on the principal.

Book Value: The value at which an asset is carried on a balance sheet.

Broker: A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account. The term does not include a dealer bank.

Broker/Dealer: A general term for a securities firm that is engaged in both purchasing and selling securities on behalf of customers as well as on its own account. The term does not include a dealer bank.

Buy and Hold Strategy: A strategy based on holding all securities until maturity, regardless of fluctuations in the market.

Certificate of Deposit (CD): A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender (purchaser) at the end of the loan period. Certificates of Deposit differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

Negotiable Certificates of Deposit: Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by the FDIC up to $250,000, but they are not collateralized beyond that amount.

Non-negotiable Certificates of Deposit: CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the FDIC up to $250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or Agency securities.

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.

Commercial Paper: An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

Corporate Notes and Bonds: Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years.

County Pooled Investment Funds: The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

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

Credit Rating: Various alphabetical and numerical designations used by institutional investors, investment banks, and nationally recognized statistical rating organizations companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses AAA, AA, A, BAA, BA, B, CAA, CA, and D. Each of the services use pluses (+) and minuses (-), or numerical modifiers to indicate steps within each category. The top four letter categories are considered investment grade ratings.

Credit Risk: The chance that an issuer will default, or otherwise be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of an issuer/borrower's credit will cause the market value of a security to fall, even if default is not expected.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, including underwriting, buying and selling securities, including from their own account.

Default Risk: The risk that issuers/borrowers will be unable to make the required payments on their debt obligations.

Delivery vs. Payment (DVP): The payment of cash for securities as they are delivered and accepted for settlement.

Depository Institutions: These institutions hold agency monies in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts. To be eligible to receive local agency money, a financial institution must receive an overall rating of not less than "satisfactory" from the appropriate federal supervisory agency for meeting the criteria specified in the Community Reinvestment Act of 1977.

Discount: The difference between the cost of a security and the par value of a security, when the cost is below par. Investors purchase securities at a discount when return to the investor (yield) is higher than the stated coupon (interest rate) on the investment.

Diversification: The allocation of different types of assets in a portfolio to mitigate risks and improve overall portfolio performance.

Event Risk: The risk associated with a changing portfolio value due to a market event causing swings in market prices and/or spreads.

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

Government Sponsored Enterprises (GSE): Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government.

Interest: The amount a borrower pays to a lender (investor) for the use of its money.

Interest Rate Risk: The risk that an investment's value will change due to a change in the absolute level of interest rates, spread between two rates, shape of the yield curve, or any other interest rate relationship.

Liquidity: The measure of the ability to convert an instrument to cash on a given date at full face or par value.

Liquidity Risk: The risk that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

Local Agency Investment Fund (LAIF): A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

Local Government Investment Pool: Investment pools that range from the State Treasurer's Office LAIF to county pools.

Market Risk: The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly. Buying and holding a security to maturity eliminates the effects of market risk.

Market Value: The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

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

Medium-Term Note: Corporate or depository institution debt securities meeting certain minimum quality standards sold with maturity of five to ten years, usually issued by corporations organized and operating in the United States.

Money Market: The segment of the financial market in which financial instruments with high liquidity and very short maturities (U.S. Treasury bills, commercial paper, bankers' acceptances, negotiable CDs, etc.) are issued and traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year.

Money Market Mutual Funds (MMF): MMF's are mutual funds that invest exclusively in short-term money market instruments. MMF's seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short term investments.

Nationally Recognized Statistical Rating Organization (NRSRO): 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.

Par Amount or Par Value: The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

Portfolio: Combined holding of more than one bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

Premium: Premium means the difference between the par value of a security and the cost of a security, when the cost is above par. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

Prudent Investor Standard: As stated in California Government Code Section 53600.3., all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity 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 agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law (except as provided in subdivision (a) of California Government Code Section 27000.3).

Repurchase Agreement (RP or REPO): An agreement of one party (for example, a financial institution) to sell securities to a second party (such as the local agency) and simultaneous agreement to repurchase them at a fixed price on demand or at a fixed date.

Rule G-37 of the Municipal Securities Rulemaking Board: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

Safekeeping Service: Offers storage and protection of assets provided by an institution serving as an agent.

Safety: In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

Securities and Exchange Commission (SEC): a federal agency which holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States.

U.S. Agency Obligations: Debt obligations issued by federal agencies and/or U.S. government-sponsored enterprises. Examples include Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Federal Agricultural Mortgage Corporation (Farmer Mac).

U.S. Treasury Obligations: Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more (and thus are not eligible local agency investments).

Weighted Average Maturity (WAM): The weighted average amount of time until the maturities of all the securities that comprise a portfolio, expressed in days or years. The WAM is calculated by computing the percentage value of each instrument in the portfolio. The number of days until the security's maturity is multiplied by the security's percentage of the portfolio, and the sum of the subtotals equals the WAM.

Yield: The current rate of return on an investment security generally expressed as a percentage of the security's current price