TCTA
Tulare County Transportation Authority

210 N. Church Street, Suite B
Visalia, California 93291
Phone (559) 623-0450
Fax (559) 733-6720
www.tularecog.org

Addendum

Tulare County Transportation Authority	Date: **Monday, September 21, 2020** Time: **1:00 p.m.** Place: Tulare County Board of Supervisors 2800 W. Burrel Avenue Visalia, CA 93291
Technical Advisory Committee	Date: **Thursday, September 17, 2020** Time: **1:30 p.m.** Place: Tulare County Association of Governments 210 N. Church Street, Suite B (Sequoia Conference Room) Visalia, CA 93291

NOTE: This meeting will allow Board Members and the public to participate in the meeting via Teleconference, pursuant to the Governor's Executive Order N-29-20 (March 17, 2020), available at https://www.gov.ca.gov/wp-content/uploads/2020/03/3.17.20-N-29-20-EO.pdf

Zoom Meeting | Direct Link: https://bit.ly/2Zt4BQY
Toll Free Call in: 1(888) 475-4499 | **Meeting ID:** 744 710 0343 | **Passcode:** 82243742
Call in only instructions:
Enter your meeting ID followed by **#,** Enter **#** for participant ID, Enter the passcode followed by **#**.

In compliance with the Americans with Disabilities Act and the California Ralph M. Brown Act, if you need special assistance to participate in this meeting, including auxiliary aids, translation requests, or other accommodations, or to be able to access this agenda and documents in the agenda packet, please contact the TCAG office at 559-623-0450 at least 3 days prior to the meeting.

Any staff reports and supporting materials provided to the Board after the distribution of the agenda packet are available for public inspection at the TCAG office.

IV. AUTHORITY ACTION/DISCUSSION ITEMS

F. Action: Adoption of Resolution: Approving Addendum to Local Debt Policies

(Pages 00-00)

VI. ADJOURN

The next scheduled Tulare County Association of Governments (TCAG) meeting will be held on **Monday, October 19, 2020 at 1:00 p.m.** at the **Tulare County Board of Supervisors, 2800 W. Burrel Avenue, Visalia, CA 93291**. The Technical Advisory Committee (TAC) will meet on **Thursday, October 15, 2020 at 1:30 p.m.** at the **Tulare County Association of Governments (TCAG), 210 N. Church Street, Suite B, Sequoia Conference Room, Visalia, CA 93291.**

TULARE COUNTY TRANSPORTATION AUTHORITY

BOARD OF GOVERNORS	AGENCY	ALTERNATE
Kuyler Crocker	Tulare County-District 1	*
Pete Vander Poel – Chair	Tulare County-District 2	*
Amy Shuklian	Tulare County-District 3	*
Eddie Valero	Tulare County-District 4	*
Dennis Townsend	Tulare County-District 5	*
Maribel Reynosa	City of Dinuba	Linda Launer
Frankie Alves	City of Exeter	Dave Hails
Paul Boyer	City of Farmersville	Ruben Macareno
Pamela Kimball	City of Lindsay	Brian Watson
Martha A. Flores – Vice-Chair	City of Porterville	Milt Stowe
Terry Sayre	City of Tulare	Carlton Jones
Bob Link	City of Visalia	Phil Cox
Rudy Mendoza	City of Woodlake	Frances Ortiz

***No Alternate (Required to be an elected official)**

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TCAG STAFF

Ted Smalley, Executive Director
Ben Kimball, Deputy Executive Director
Ben Giuliani, Executive Officer- LAFCO
Leslie Davis, Finance Director
Elizabeth Forte, Principal Regional Planner
Roberto Brady, Principal Regional Planner
Mark Hays, Senior Regional Planner
Derek Winning, Senior Regional Planner
Gabriel Gutierrez, Senior Regional Planner
Kasia Poleszczuk, Associate Regional Planner
Steven Ingoldsby, Associate Regional Planner
Giancarlo Bruno, Regional Planner
Gail Miller, Associate Regional Planner-EH
Barbara Pilegard, Associate Regional Planner-EH
Maria Garza, Associate Regional Planner-EH
Michele Boling, TCAG Accountant III
Brideget Moore, TCAG Analyst III
Amie Kane, Administrative Clerk II
Servando Quintanilla, Administrative Clerk

Office Address
Tulare County Association of Governments
210 N. Church, Suite B
Visalia, CA 93291
P: (559) 623-0450
F: (559) 733-6720
www.tularecog.org
www.tcmeasurer.com

Tulare County Association of Governments
Sitting as the Tulare County Transportation Authority

AGENDA ITEM IV-F

September 21, 2020
Prepared by Leslie Davis, TCAG Staff

SUBJECT:

Action: Adoption of Resolution: Approving Addendum to Local Debt Policies

BACKGROUND:

The Authority has previously authorized TCTA staff and counsel, Bond Counsel, and Financial Advisor to move forward with the steps necessary for the issuance of additional Measure R Sales Tax Revenue Bonds needed to deliver Measure R projects. One of the required steps is the adoption of local debt policies meeting the requirements of Government Code section 8855(i). Proposed local debt policies are attached for your consideration and adoption.

DISCUSSION:

California Government Code section 8855(i), as amended in 2016, requires local agencies, including TCTA, to submit an electronic report of a proposed debt issuance, such as the proposed 2020 Series of Measure R Sales Tax Revenue Bonds, to the California Debt and Investment Advisory Commission no later than 30 days before the sale of any debt issue. The report must include a certification by the issuer that it has adopted local debt policies concerning the use of debt and that the contemplated debt issuance is consistent with those local debt policies. A local debt policy shall include all of the following:

A. The purposes for which the debt proceeds may be used.
B. The types of debt that may be issued.
C. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
D. Policy goals related to the issuer's planning goals and objectives.
E. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

On February 24, 2020 the Debt Policy was approved with Resolution No.2020-102. Attached for your consideration is the addendum to the approved Debt Policies with the recommended statement*: The Authority shall limit the issuance of bonds and other indebtedness secured on a senior lien by Measure R sales taxes so that the combined maximum annual debt service of all outstanding senior parity bonds immediately following an issuance is no more than 50% of total Measure R revenues received by the Authority.*

The proposed addendum, which was prepared in draft form and has been reviewed and is recommended for approval by our financial advisor KNN, and Bond Counsel.

RECOMMENDATIONS:

It is recommended that the Board of Governors adopt a Resolution approving the addendum to the proposed local debt policies for TCTA and provide copies of the adopted Resolution and policies to Bond Counsel, Financial Advisor, County Counsel, and County Auditor-Controller/Treasurer-tax Collector for their information and use.

FISCAL IMPACT:

Adoption of the proposed addendum to the local debt policies in and of itself will have no fiscal impact on TCTA or the Measure R program. Each proposed debt issuance would be analyzed and potential fiscal impacts reported to the Board before the Board would be asked to consider approval of the debt issuance.

ATTACHMENTS:

1. Resolution: Approving Tulare Transportation Authority (TCTA) Addendum to Local Debt Policy
2. Tulare County Transportation Authority Debt Policy

Work Element: 700.01 Measure R

BEFORE THE
TULARE COUNTY TRANSPORTATION AUTHORITY
COUNTY OF TULARE, STATE OF CALIFORNIA

In the matter of:

APPROVE TULARE TRANSPORTATION AUTHORITY (TCTA) ADDENDUM TO LOCAL DEBT POLICY	)))	Resolution No. [ ]

WHEREAS, on November 7, 2006, the citizens of Tulare County approved Measure R and the Measure R Expenditure Plan; and

WHEREAS, the Measure R Expenditure Plan serves as a guide for the use of transportation funds that will be generated through the Tulare County half-cent transportation sales tax over the next thirty years; and

WHEREAS, the Measure R Strategic Work Plan is the master plan for the delivery of Measure R Projects in the upcoming five-year period; and

WHEREAS, it is recommended to proceed with potential funding source review in order to procure additional funding as needed to keep projects moving forward; and

WHEREAS, on October 21st, 2019 TCTA, with resolution no. 2019-111, selected the law firm of Hawkins, Delafield and Wood, LLP, Los Angeles, CA, and its partner Arto Becker, nationally-recognized bond counsel, served as this Authority's bond and disclosure counsel for its issuance of Measure R Sales Tax Revenue Bonds in 2014, and so are familiar with the Authority and Measure R, and are willing and able to serve in those roles to issue additional bonds; and

WHEREAS, California Government Code section 8855(i), as amended in 2016, requires local agencies, including TCTA, to submit an electronic report of a proposed debt issuance, such as the proposed 2020 Series of Measure R Sales Tax Revenue Bonds, to the California Debt and Investment Advisory Commission no later than 30 days before the sale of any debt issue; and

WHEREAS, On February 24, 2020, with Resolution No. 2020-120 the Debt Policies were adopted; and

WHEREAS, Attached for your consideration is the addendum to the approved Debt Policies with the recommended statement: *The Authority shall limit the issuance of bonds and other indebtedness secured on a senior lien by Measure R sales taxes so that the combined maximum annual debt service of all outstanding senior parity bonds immediately following an issuance is no more than 50% of total Measure R revenues received by the Authority.* The proposed addendum, which was prepared in draft form and has been reviewed and is recommended for approval by our financial advisor KNN, and Bond Counsel; and

WHEREAS, It is recommended that the Board of Governors adopt a Resolution approving the proposed addendum to the local debt policies for TCTA and provide copies of the adopted Resolution and policies to Bond Counsel, Financial Advisor, County Counsel, and County Auditor-Controller/Treasurer-tax Collector for their information and use.

NOW, THEREFORE, BE IT RESOLVED that the Transportation Authority of the County of Tulare approves the recommended addendum to the Local Debt Policies for TCTA.

The foregoing Resolution was adopted upon motion of Member _______, seconded by Member ___________, at a regular meeting held on the 21st day of September 2020, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

TULARE COUNTY TRANSPORTATION AUTHORITY

____
Pete Vander Poel III
Chair, TCTA

____
Ted Smalley
Executive Director, TCTA

Tulare County Transportation Authority

Debt Policy

February 24, 2020

Addendum September 21, 2020

I. Introduction

The purpose of this Debt Policy is to establish guidelines for the issuance and management of the current and future debt of the Tulare County Transportation Authority ("TCTA" or the "Authority"). This Debt Policy confirms the commitment of the Board, management, staff, and other decision makers to adhere to sound financial management practices. Priorities of the Debt Policy are as follows:

- Effectively manage and mitigate financial risk
- Preserve future program flexibility
- Maintain strong credit ratings and good investor relations
- Achieve the lowest cost of capital
- Maintain ready and cost-effective access to the capital markets

II. Scope and Authority

This Debt Policy shall guide the issuance and management of all debt funded through the capital markets, including the selection and management of related financial and advisory services and products.

This Policy shall be reviewed periodically and updated as needed. Any changes to the policy are subject to approval by the Authority's Board of Governors ("Board") at a public meeting. Overall policy direction of this Debt Policy shall be provided by the Board. Responsibility for implementation of the Debt Policy, and day-to-day responsibility and authority for structuring, implementing, and managing the Authority's debt and finance program, shall reside with the Authority's Executive Director and Finance Director. This Debt Policy requires the Board to specifically authorize each debt financing.

Authority debt issuances shall comply with all applicable Federal, State, local and securities and tax laws, and these policies. While adherence to this Policy is required in applicable circumstances, the Authority recognizes that changes in the capital markets, Authority programs, and other unforeseen circumstances may from time-to-time produce situations that are not covered by the Debt Policy and so require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained.

Government Code section 53635.7 requires that all borrowing in the amount of $100,000 or more be placed on an Authority Board agenda as a separate item of business for discussion, consideration, and deliberation and in accordance with the Brown Act provisions otherwise applicable to Board meetings.

III. Capital Budgeting and Planning for Debt Issuance

A. Measure R

On November 7, 2006 the voters of Tulare County approved Measure R, a 1/2 cent sales tax for transportation within Tulare County. An expenditure plan reflects the transportation needs of the Region and is developed collaboratively with the incorporated cities and Tulare County to spend the tax revenue in the manner prescribed by the tax measure.

Originally it was anticipated that Measure R would generate $652 million over its 30 year life span. Recent projections estimate the number to reach $1 billion. Collectively, over $400 million of funds have been collected to date.

B. Expenditure Plan

The voter approved Measure R Expenditure plan serves as a guide for the use of Measure R funds and provides a detail plan to leverage state and federal funds.

C. Policies and Procedures

The Policies and Procedures manual provides direction for the administration of the program and includes details on the implementation of the Expenditure Plan. A major component of the Policies and Procedures are the Cooperative and Supplemental agreements which typically include project scope, cost and schedule.

D. Citizens Oversight Committee

The Citizens Oversight Committee consists of 16 members who meet quarterly to advise the Authority Board, provide funding oversight, and inform the public of important Measure R issues.

E. Finance Committee

The Board's Finance Committee was formed to review and make recommendations for complex financial arrangements used to maximize Measure R potential. Typical issues handled by the committee include: bonding, borrowing, financial consultant selection, and other financial issues that develop.

F. Strategic Work Plan

The 2018 Measure R Strategic Work Plan is the master plan for the delivery of Measure R projects in the upcoming five year period (FY 2017/18 to FY 2022/23). The Strategic Work Plan is updated every two years to evaluate scope, cost and schedule of all projects in the plan. The 2018 Measure R Strategic Work Plan is currently being funded through a combination of pay-as-you-go and bond financing capacity to deliver projects on an accelerated basis through bond financing. The Strategic Work Plan is reviewed by the Board and reflects the Board's project prioritization. The Strategic Work Plan is developed to be consistent with the Measure R Expenditure Plan and any debt service constraints.

Borrowing needs are evaluated on a periodic basis within the context of the Authority's Measure R Expenditure Plan and Strategic Work Plan. As noted previously, this Debt Policy requires that the Board specifically authorize each debt financing.

IV. Standards For and Appropriate Use of Debt Financing

As borrowing needs are identified, the Authority will evaluate the nature of the capital investment (*e.g.*, the purpose and useful life of the asset) to ensure that long-term debt is the appropriate financing mechanism to meet the funding need. Standards for the appropriate use of debt financing will include those described below.

A. Long Term Capital Projects: Long-term debt should be used to finance essential capital projects where it is cost effective and fiscally prudent. The debt repayment period should not exceed 120% of the useful life of the project being financed or the term of the current sales tax Measure. The ability or need to expedite or maintain the programmed schedule of approved capital projects will be a factor in the decision to issue long-term debt. Long-term debt will not be issued for current operational costs or for recurring uses. Revenue surpluses may be used to pay debt off early to save interest charges.

B. Debt Financing Mechanism: The Authority will evaluate the use of financial alternatives available including, but not limited to, long-term debt, short-term debt, commercial paper, direct bank loans, private placement, and inter-fund borrowing. TCTA will utilize the most cost advantageous financing alternative consistent with limiting the Authority's risk exposure. The Authority shall limit the issuance of bonds and other indebtedness secured on a senior lien by Measure R sales taxes so that the combined maximum annual debt service of all outstanding senior parity bonds immediately following an issuance is no more than 50% of total Measure R revenues received by the Authority.

C. Credit Quality: Credit quality is an important consideration for the Authority. All TCTA debt management activities for new debt issuances will be conducted in a manner conducive to receiving the highest credit ratings possible consistent with the Authority's debt management and project delivery objectives.

V. Purpose of Financing

The general purpose of bond financing falls into three general categories: (1) to finance new capital infrastructure, (2) to refinance existing bonds to reduce financing costs, risk or both, or (3) to reimburse an agency for eligible capital expenditures made pursuant to a cooperative agreement between the agency and the Authority. These purposes are described in more detail below:

A. New Money Financing: New money 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 issues will be proposed in the context of TCTA's Plan of Finance and will be consistent with the 2006 Expenditure Plan and Measure R Renewal Ordinance.

B. Refunding Bonds: Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically, this is done to refinance at a lower interest rate to reduce debt service. Alternatively, some refundings are executed for a reason other than to achieve cost savings, such as to restructure the repayment schedule of the debt, to change the type of debt instruments being used, or to retire an indenture in order to remove undesirable covenants. In any event, a present value analysis must be prepared that identifies the economic effects of any refunding being proposed to TCTA.

The Authority has established a minimum debt service present value savings threshold goal of (1) 3.0% of the refunded bond principal amount, for current refundings, unless there are other compelling reasons for defeasance, and (2) 5.0% or more of the refunded bond principal amount for advance refundings. As an exception to these target savings thresholds, the Authority may elect to include bonds maturing in the next 24 months into a larger refunding if those maturities provide some positive savings. The present value savings will be net of all costs related to the refinancing.

Adjustments to savings thresholds for both advance refunding and current refundings may be justified based on:

- The length of time from the call to maturity. The longer the time to maturity, the higher should be the savings threshold. Conversely, a shorter time to maturity may justify a lower savings threshold.
- Interest rates at the time of the refunding relative to historical markets. In low interest rate markets, a lower threshold may be justified while a higher threshold would be justified in high interest rate markets. Generally refunding transactions should not extend the final maturity of the existing financing, net of any reserve fund offset, if applicable. The Authority may consider shortening the term of the originally issued financing to realize greater interest savings.

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

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

VI. Types of Debt

The market for municipal finance is well developed and provides numerous products or types of debt that the Authority will evaluate on a case-by-case basis. Some of the types of debt available to the Authority – long-term, short-term, and variable rate –are described in this section.

A. Long Term Debt

1. Current Coupon Bonds are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Bond features may be adjusted to accommodate the market conditions at the time of sale, including changing dollar amounts for principal maturities, offering discount and premium bond pricing, modifying call provisions, utilizing bond insurance, and determining whether and how to fund a debt service reserve fund.

2. Transportation Infrastructure Finance Innovation Act (TIFIA) Loan is a loan provided by the United States Department of Transportation for certain transportation projects of regional importance. A TIFIA loan may contain comparatively flexible repayment provisions and an interest rate that is tied to the prevailing 30-year US Treasury Bond yield. The Authority may elect to apply for a TIFIA loan if it is determined that it is the most cost effective debt financing option available.

B. Short-Term Debt

1. **Commercial Paper Notes** may be issued as an alternative to fixed rate debt, particularly when the timing of funding requirements is uncertain. The Authority may maintain an ongoing commercial paper program to ensure flexibility and immediate access to capital funding when needed.

2. **Bond Anticipation Notes (BANs)** may be issued to meet near-term needs and refinanced in anticipation of the future issuance of bond proceeds. BANs provide near-term funding with a fixed rate.

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

4. **Lines of Credit** shall be considered as an alternative to credit support for other short-term borrowing options.

C. Variable Rate Debt

It is sometimes appropriate to issue short-term or long-term variable rate debt to diversify the debt portfolio, reduce interest costs, provide interim funding for capital projects, and improve the match of variable rate assets to variable rate liabilities. The amount of unhedged variable rate debt will generally not exceed 20% of all outstanding debt.

Variable rate securities, including floating rate notes, may be used in conjunction with a financial strategy that results in synthetic fixed rate debt. Synthetic fixed rate debt may be utilized when the interest rate cost is sufficiently lower than traditional fixed rate debt or serves as an effective strategy to remove future interest rate risk.

VII. Terms and Structure of Bonds

The terms and structure of a specific bond issuance will be developed within a prudent legal framework and with the objective of maintaining strong credit ratings, addressing investor concerns, minimizing risk to the Authority, and preserving future flexibility in a cost-effective manner. Some of the terms and structural considerations are discussed below.

A. Term: All capital improvements financed through the issuance of debt will be financed for a period not to exceed 120% of the expected average useful life of the assets being financed, and in no event should exceed the expiration date of the current sales tax measure.

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

C. Debt Service Structure: The Authority will examine debt service structures in the context of program needs. Combined principal and interest payments for any particular bond issue will first be examined as a level payment structure. Deferred principal can create increased program and project delivery capacity and will also be examined. The Authority's debt service structure will be sized within programmatic and legal constraints and with the objective of maintaining strong credit ratings.

D. Capitalized Interest: Unless otherwise required, capitalized interest will not be employed. This avoids unnecessarily increasing the bond size. Certain types of financings may require that interest on the bonds be paid from capitalized interest until the Authority has constructive use of the project and project related revenues are expected to be available to pay debt service.

E. Additional Bonds Test: Any new senior lien debt issuance must not cause the Authority's debt service to exceed the level at which the lesser of: i) revenues from any consecutive 12 months out of the last 18 months or ii) sales tax revenues estimated by the Authority for the Fiscal Year in which the debt issued are at least 150 percent (1.50x) of the maximum annual principal and interest for the aggregate outstanding senior lien bonds including the debt service for the new issuance.

F. Call Provisions: In general, fixed rate, tax-exempt bonds will be issued with a provision that allows the Authority to call outstanding bonds 10-years after the bond delivery date at par (i.e., no call premium). Shorter calls may be considered to increase program flexibility based on market conditions at the time of pricing.

VIII. Credit Enhancement

The Authority will consider the cost and benefit of credit enhancement, including the potential funding of a debt service reserve fund, on a case-by-case basis with each separate bond issuance.

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

B. Debt Service Reserves: When beneficial to the Authority, a reserve fund can be funded from the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies. The amount of the reserve fund (*i.e.,* the Reserve Requirement) will be set based on measures of affordability and the benefit gained from both marketing and credit perspectives.

TCTA shall have the authority to purchase reserve equivalents (*i.e.*, the use of a reserve fund surety) when such purchase is deemed prudent and advantageous, subject to all applicable requirements and restrictions as set forth in the Authority's legal bond documents. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

C. Letters of Credit (LOCs): TCTA shall have the authority to enter into a LOC when such an agreement is deemed prudent and advantageous. A LOC provides liquidity in addition to credit enhancement on the bonds. The long-term and short-term credit ratings of those financial institutions offering LOCs will be a critical consideration before procuring any LOC.

IX. Due Diligence

The Authority will conduct "due diligence" meetings with all relevant Authority and related staff prior to the issuance of new bonds and notes. A Preliminary Official Statement will be released to the market only after the completion of the "due diligence" meetings.

X. Method of Bond Sale

The Authority will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation. Generally, there are three methods of sale: competitive, negotiated, and private placement. Each type of bond sale has advantages and the potential to provide the lowest cost given the right conditions.

A. Competitive Sale: A competitive bond sale is used by established issuers, with strong credit ratings during times in which there are stable market conditions. With a competitive sale, an underwriter is not selected prior to the date of sale. The issuer works with its financial advisor and legal counsel to prepare documents, rating strategies, and to notify market participants of the coming bond sale according to a published Notice of Sale. Industry-accepted information outlets as well as phone calls made directly to the desks of underwriting firms are used to notify underwriters of the upcoming sale. The underwriter is selected based solely on the basis of a low True Interest Cost ("TIC") bid on the day of sale when bids are accepted.

A competitive sale allows an issuer to control bidding parameters and select the winning underwriter solely on the lowest TIC submitted during a bid process. No prior input on credit, structure, or other matters is received from underwriters under a competitive sale.

B. Negotiated Sale: In a negotiated bond sale, the issuer selects the underwriter several months before the sale of the bonds through a competitive RFP process. The underwriter is selected based upon relevant experience, recent bond sale performance, and fees, among other factors. The final pricing of the bonds is directly negotiated with the underwriter based upon investor demand and orders received on the day of sale. The issuer generally relies upon the financial advisor during the negotiation process.

A negotiated sale is common for a new or infrequent issuer or an issuer with a weak bond rating or no bond rating, or a complex financing structure. A negotiated sale can be advantageous during high volatility in the financial markets or during periods of low investor demand. Issuers who desire the underwriter's input on credit rating strategies, deal structure, document preparation, *etc.*, will elect to sell bonds through a negotiated sale.

C. Private Placement: A private placement is a sale that is structured specifically for one purchaser, such as a commercial bank. A direct purchase agreement or revolving credit facility is a form of a private placement. Such placement shall be considered if this method is likely to result in a cost savings, more attractive terms, and conditions to the Authority, or both relative to other methods of debt issuance.

XI. Investment of Bond Proceeds

When bonds are issued, proceeds are deposited in various accounts, such as a construction fund, debt service fund, and debt service reserve fund. Monies deposited in these funds are invested until needed. The investment strategy for each fund depends on federal/state statutes and regulations governing the types of instruments permitted to be used, the yield goals for the fund, requirements from rating agencies or credit enhancement providers, and the anticipated drawdown of bond proceeds.

The primary objectives for the investment activities of these funds will mirror that of the TCTA investment policy, in order of priority, of safety, liquidity, and yield. The investment strategy for these funds will incorporate steps to minimize credit risk, market risk and opportunity risk by establishing guidelines for permitted investments, developing good cash flow estimates and integrating knowledge of prevailing and expected future market conditions with cash flow requirements. The investment of bond proceeds will be made in a manner that ensures legal and regulatory requirements are met, fair market value bids and offers are received, and objectives for the uses of proceeds are attained. An evaluation will be conducted of investment alternatives including individual securities or portfolio of securities, investment agreements, and mutual or pooled investment funds.

Investments will be permitted for bond proceeds as defined in the bond indenture document that will list an array of allowable options such as nonmarketable U.S. Treasury securities sold to state and local governments (SLGS), the Local Agency Investment Fund ("LAIF"), and various other investment alternatives as allowed in the California Government Code, with the goal of earning the maximum arbitrage yield. Arbitrage calculations will be completed on a regular basis to monitor arbitrage rebate liabilities, if any, and a reserve for liabilities may be established for future remittance to the Internal Revenue Service.

XII. Consultants

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

A. Selection of Financing Team Members: The Executive Director and the Finance Director will make recommendations for all financing team members, with the Board providing final approval.

1. Financial Advisor: The Authority shall utilize a financial advisor to assist in its debt issuance and debt administration processes. Selection of the Authority's financial advisor(s) shall be based on, but not limited to, the following criteria: (a) experience in providing consulting services to complex issuers, (b) knowledge and experience in structuring and analyzing complex issues, (c) experience and reputation of assigned personnel, (d) prior experience with the Authority, and (e) fees and expenses.

2. Bond Counsel: Transaction documentation for debt issues shall include a written opinion by legal counsel affirming that the Authority is authorized to issue the proposed debt, that the Authority has met all constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. A nationally recognized bond counsel firm with extensive experience in public finance and tax issues will prepare this approving opinion and other documents relating to the issuance of debt. The bond counsel may be selected through a competitive RFP process.

3. Disclosure Counsel: When undertaking a bond sale, disclosure counsel separate from the bond counsel may be retained to prepare the official statement if additional independence or expertise is needed. Disclosure counsel will be responsible for ensuring that the official statement complies with all applicable rules, regulations, and guidelines. Disclosure counsel will be a nationally recognized firm with extensive experience in public finance. The disclosure counsel will typically be selected through a competitive RFP process.

4. Underwriter: The Authority shall have the right to select a senior manager and co- managers for a proposed negotiated sale. The Authority may establish a pool of eligible underwriters, or select firms on an as-needed basis. In either case, underwriters for a particular transaction may be selected through a competitive RFP process.

5. Underwriter's Counsel: In any negotiated sale of Authority debt in which legal counsel is required to represent the underwriter, the lead underwriter will make the appointment, subject to Authority approval.

6. Other Consultants: Other professional services may include the services of trustees, verification agents, escrow agents, arbitrage consultants, and special tax consultants. The Authority's goal in selecting service providers is to achieve a good balance between cost and service.

XIII. Market Relationships

As an issuer who values cost-effective market-access, the Authority will actively provide requested information and maintain relationships with rating agencies, investors, and other market participants, as needed.

A. Rating Agencies: The Authority's Executive Director and Finance Director shall be primarily responsible for maintaining the Authority's relationships with those rating agencies (*i.e.*, Standard & Poor's, Moody's Investors Service, and Fitch Ratings) from whom the Authority requests and holds ratings. The Authority may, from time-to-time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the Authority's Finance Director shall offer conference calls and/or meetings with agency analysts in connection with a planned sale of securities.

B. Investor Relations: Timely and accurate information shall be provided in response to inquiries from investors in order to maintain positive ongoing investor relations.

C. Board Communication: As a means of providing feedback from rating agencies and/or investors regarding the Authority's financial strengths and weaknesses as perceived by the marketplace, information will be provided to the Board when and if material information develops.

XIV. **Post Issuance Compliance** and **Continuing Disclosure**

The Authority will comply with certain post-debt issuance compliance requirements, including, but not limited to, Continuing Disclosure requirements, as stated in specific financing documents, and arbitrage regulations. Generally, tax-exempt financing issues are subject to IRS arbitrage rebate requirements. These requirements specify that any profit or arbitrage be rebated to the Federal Government. Rebate computations are typically required every five (5) years and upon final redemption, maturity, or refunding of the bonds. Any excess earnings are required to be rebated to the Federal Government. The Authority will also comply with any post-debt issuance reporting requirements of State law, including but not limited to, the annual report to the California Debt and Investment Advisory Commission required by Government Code section 8855(k)(1).

It is the Authority's policy to remain in compliance with Title 17 Code of Federal Regulations §240 15c2-12, Municipal Securities Disclosure, by filing the Authority's annual financial statements and other financial information for the benefit of the Authority's bondholders no later than the last day of the seventh month following the close of the fiscal year and filing material event notices in a timely manner. The Authority may contract with its Financial Advisor or other entity for assistance in making such timely filings.

XV. Internal Control Procedures and Post-Issuance Compliance Procedures

The Authority will establish and document procedures to ensure that it is in compliance with requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied with respect to tax-exempt bonds and other obligations after the bonds are issued so that interest on the bonds is and will remain tax-exempt.

In connection with any new money bond sale, the Authority will ensure that bond proceeds are spent according to the allowable uses outlined in its legal documents and in context of the Measure R Expenditure Plan and the then-current Strategic Work Plan.

Proceeds from refundings will be held at the escrow agent and spent in accordance with the associated defeasance schedule outlined in the escrow agreement. The Authority will not have access to these funds.

XVI. Use of Debt Proceeds

The Authority's Executive Director, Finance Director, and other appropriate Authority personnel shall implement Internal Control procedures outlined below to ensure that the proceeds of a proposed debt issuance will be directed to the intended use:

- Monitor the use of Debt proceeds, the use of Debt-financed assets (*e.g.*, facilities, furnishings, or equipment), and the use of output or throughput of Debt-financed assets throughout the term of the Debt to ensure compliance with covenants and restrictions set forth in applicable Authority resolutions and Tax Certificates. Monitoring will include providing an annual report to the Authority Board;
- Maintain records or contracts identifying the assets or portions of assets that are financed or refinanced with proceeds of each issue of Debt and to document compliance with all covenants and restrictions set forth in applicable Authority resolutions and Tax Certificates. An applicable Record Retention Policy will be maintained by the Authority's Finance Director; and
- Consult with Bond Counsel or other professional expert advisors in the review of any contracts or arrangements involving use of Debt-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable Authority resolutions and Tax Certificates.