STAFF REPORT FOR CALENDAR ITEM NO.: 9.5
FOR THE MEETING OF: December 12, 2019

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:
Annual review of Board Policy No. 009, Investment Policy and Board Policy No. 017, Debt Management Policy.

SUMMARY:
The TJPA Investment Policy and the TJPA Debt Management Policy both require annual review by the TJPA Board. Both were last reviewed in December 2018. No changes are proposed to the Investment Policy or Debt Management Policy.

INVESTMENT POLICY BACKGROUND:
The Government Finance Officers Association recommends that all governmental investors develop written investment policies, and the State of California also recommends that an investment policy be in place. The investment policy ensures that TJPA cash balances are safe, sufficiently liquid to meet cash flow needs, and maximize investment earnings. Board Policy No. 009 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. The Policy delegates authority over the investment program to the TJPA Chief Financial Officer (CFO) or his/her designee. Permitted investment instruments are a subset of those allowed by California state law. The TJPA 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 TJPA Board approved the Investment Policy in 2006, and approved amendments to the policy in 2008, 2011, 2015, 2016 and 2017. The changes made in 2017 were to incorporate changes in the State code related to rating requirements, and to add a specific retention period for trade confirmations in line with a recommendation of the California Debt and Investment Advisory Commission.

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 U.S. Bank checking accounts sufficient to meet short-term project and payroll obligations and investing the balance with the City & County of San Francisco or California Local Agency investment pools. TJPA also has trust accounts established with U.S. Bank 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 with maturities currently laddered through the middle of calendar year 2020. TJPA 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.

No changes are recommended to the Investment Policy this year. There is currently 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.

DEBT MANAGEMENT POLICY BACKGROUND:
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 Debt Management Policy was developed by staff and financial advisors and legal counsel in 2014, in conjunction with the procurement process that culminated in financial close of the Goldman Sachs/Wells Fargo bridge loan that has since been repaid. Changes were approved in 2016 to comply with California SB 1029. The policy is intended to provide general guidance on debt issuance and also includes procedures required to be in place by the Commodities Future Trading Commission (CFTC) related to interest rate derivative instruments.

There are three annual action items in the policy, compliance with which TJPA staff reports upon here:

- 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. *TJPA has received QIR certifications from Sperry Capital and Swap Financial Group each year.*

- Section V. C requires that TJPA staff entering into discussions or an International Swaps and Derivatives Association (ISDA) master agreement with a swap counterparty acknowledges, agrees and consents that the discussions will be recorded by the swap counterparty and executes an annual acknowledgement form. T*he TJPA Chief Financial Officer has signed such acknowledgements.*

- Section V. E requires the TJPA CFO to prepare a report summarizing derivative exposure at least annually. *TJPA currently has two derivative instruments, both interest rate caps associated with the interim City Financing. The first cap, purchased in January 2017 for $1.26 million and the second cap purchased June 27, 2019 for $15,000. Together both caps limit TJPA's variable interest rate exposure under the City Financing. The cap providers, SMBC Capital Markets for the first cap and Goldman Sachs for the second will make payments to the TJPA to the extent that 1-month LIBOR exceeds 1.75% and 3.00%, respectively. Commencing in April 2018, SMBC Capital Markets commenced making cap payments to TJPA when 1-month LIBOR exceeded and remained above 1.75%. No cap payments have been required or made under the second cap with Goldman Sachs as one-month LIBOR has remained below 3.00% since the purchase date. Cap payments when made are applied each month toward TJPA's interest* *payments due on the City Financing. The SMBC cap had a notional amount schedule that started at $25 million then rose and fell in accordance with the City Financing draw profile as estimated at financial close of the City Financing in January 2017. The current notional amount is $64 million. The second cap was purchased when the notional amount of the SMBC cap fell below the outstanding City Financing balance of $78 million. The second cap has a notional value of $14 million. Both caps total notional amount of $78 million, providing coverage to the interest rate exposure.*

No changes are recommended to the Debt Management Policy this year. 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.

ENCLOSURES:

1. Board Policy No. 009: Investment Policy (no changes)
2. Board Policy No. 017: Debt Management Policy (no changes)
3. Risk Analysis Memo

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 funds and employees' retirement funds, which are outside the scope of this policy. The investment of debt proceeds and retirement funds shall be governed by the relevant documents. All other investments will be managed to insure 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. **<u>Safety</u>**. 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 his/her 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 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 is derived from the TJPA Board of Directors and is hereby delegated to the TJPA Chief Financial Officer or his or her 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 his/her designee
- Chief Financial Officer or his/her 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 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

Banking and investment services will be procured competitively. No public deposits will be made except in a qualified public depository as established by state law. All broker/dealers must be Primary Government Securities Dealers or top-ten banking underwriters of U.S. Agencies (according to Bloomberg Underwriter Rankings, or a similar ratings service). 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 those offices.

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. City & County of San Francisco Obligations
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)

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. Any security that could result in zero interest accrual
6. Unregistered securities

Prohibited by TJPA Investment Policy

1. Securities not listed in Section IX, Permitted Investment Instruments
2. State and local agency obligations and bonds, other than City & County of San Francisco
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
8. Supranational obligations

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 equal to 110 percent of principal. Collateral required to be posted by the depository institution for repurchase agreements is required to be equal to 102 percent of principal.

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 days of the quarter 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. Because 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 Government Code (As of January 1, 2017)[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
City & County of San Francisco Obligations	5 years	None	None
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 or higher[iv]
Negotiable Certificates of Deposit	5 years	30% [v, vi]	None
Non-negotiable Certificates of Deposit	5 years	None [vi]	None
Repurchase Agreements	1 year	None	None
Medium-Term Notes[vii]	5 years	30%	"A" rating or equivalent
Money Market Mutual Funds	n/a	20% [viii]	Multiple[ix]
Collateralized Bank/Time Deposits	5 years	None	None
City & County of San Francisco Pooled Investment Fund [x]	n/a	None	None
Local Agency Investment Fund (LAIF) [xi]	n/a	None	None

Prohibited investments include securities not listed above, as well as inverse floaters, range notes, interest only strips derived from a pool of mortgages, and any security that could result in zero interest accrual if held to maturity.[xii]

See endnotes next page.

[i] Sources: Government Code Sections 16429.1, 16430, 53601, 53601.8, 53635, 53635.2, 53635.8 and 53638.

[ii] No more than 30 percent of the agency's money may be in Bankers 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] "Medium-term notes" are defined in 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."

[viii] No more than 10 percent invested in any one mutual fund.

[ix] 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.*)

[x] Not a permitted investment for Trustee Accounts.

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

[xii] 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, Wall Street underwriters, and commercial rating 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.

CUSIP Number: The Committee on Uniform Security Information Procedures (CUSIP) Number refers to a security's identification number assigned to each publicly traded security by the CUSIP Service Bureau operated by Standard & Poor's for the American Bankers Association. The CUSIP Number is a nine-character identifier unique to the issuer, the specific issue, and the maturity.

Custodian: A bank or other financial institution that keeps custody of stock certificates and other assets.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, including underwriting, buying and selling securities, including from his/her 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 (as specified in the California Government Code) with a remaining maturity of five years or less, 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: A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

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. 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 debt and debt service levels with effective long-term planning.
- meet capital needs through debt financing as needed.
- structure long term financings 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.

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 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 are directory only and any failure to comply with its provisions or any departure therefrom shall not affect the validity of any indebtedness or obligation of TJPA.

DEBT LIMITS & STRUCTURE

IV. Types of Debt

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, 1) provide funds to finance cash flow deficits, or 2) provide capital financing.

Rate

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 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.

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.

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, loans, commercial paper and any other evidence of indebtedness or financing permitted by law.

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, 1) after a thorough evaluation of risks associated therewith, including counterparty credit risk, basis risk, tax risk, termination risk, and liquidity risk; 2) after consideration of the potential impact on the TJPA's ability to refinance debt at a future date; and 3) 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.

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 for interest rate swap agreements, interest rate swap transactions, or similar agreements.

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 two of the nationally recognized rating agencies.

No derivative contract will be entered into with a structured terminating 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 payments 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.

VI. Structuring

Debt issuance shall be planned to achieve relatively rapid repayment of debt while recognizing the useful life of the facilities.

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. Capitalized interest is the interest added to the cost of a debt-financed long-term asset. Capitalized interest may be funded from the proceeds of TJPA debt.

Reserve accounts shall be maintained per debt requirements and where deemed advisable by the TJPA Board. Debt service reserves shall be structured so that they do not violate Internal Revenue Service arbitrage regulations.

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.

TJPA recognizes that some transactions are best handled through negotiation, including situations when sale of the debt will require complex explanations about 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 benefit to the TJPA relative to other methods of debt issuance, whether due to interest rate savings or costs of issuance.

VIII. Consultants

All professional service providers (underwriters, financial advisors, QIRs, bond counsel, etc.) shall be selected in accordance with Board Policy No. 001: Procurement Policy.

IX. 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.

DEBT MANAGEMENT

X. 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. The controls shall be designed to ensure compliance with this policy, all debt covenants, and any applicable legal requirements. Such internal controls are incorporated herein by this reference to the same extent as if recited in full.

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 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 and obligations so that the interest on the bonds and obligations is and will remain tax-exempt.

XIII. 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.

XIV. 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: 1) 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 2) 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.

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.

Swap Financial Group

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MEMORANDUM

To:	Erin Roseman, CFO Transbay Joint Powers Authority
From:	James Murphy, Managing Director Swap Financial Group
Concerning:	Risk Analysis of "Incremental" Interest Rate Cap
Date:	June 14, 2019

As per the Debt Management Policy (the "Policy") of the Transbay Joint Powers Authority ("TJPA" or the "Authority"), Swap Financial Group ("SFG") has considered various risks associated with the interest rate cap that TJPA intends to purchase, in order to satisfy the requirements of the TIFIA Loan Agreement, dated January 1, 2010, as amended. As detailed in the Authority's memorandum, dated May 8, 2019, to the Build America Bureau Credit Programs Office, this "incremental" cap will supplement an existing interest rate cap, which together will hedge the Authority's floating rate debt (the "City Financing") through the end of 2020. In the evaluation and pending placement of the interest rate cap, SFG is acting as the Authority's Qualified Independent Representative ("QIR") and SFG is professionally knowledgeable of the transaction type described in this memorandum.

The City Financing outstanding balance is $78 million and TJPA anticipates that it will remain at that amount until it is repaid with bond proceeds by the end of 2020. As the notional amount of the current interest rate cap reduces down to $64mm on July 1, 2019, and terminates on July 1, 2020, the incremental cap will cover what would otherwise be the unhedged exposure from July 1, 2019 through the end of 2020. In the placement of this incremental cap, TJPA will pay a one-time premium following the trade date and the cap provider will be responsible for making ongoing payments to TJPA *if and when* the applicable resets for 1-month LIBOR rise above the strike rate of 3.00%.

For the pending interest rate cap, SFG has evaluated the following risks as described in the Policy:

1. Counterparty Credit Risk: Counterparty credit risk is the risk that the hedge provider will become unable to perform on its hedge agreement obligations at some point over

the life of the transaction. In the case of the pending incremental cap, this risk has been mitigated by: (1) transacting only with a highly rated cap provider (as the Policy calls for counterparties with long-term ratings of at least A3/A- and the specific TIFIA requirements here require even higher initial ratings; (2) requiring the counterparty to post collateral if credit ratings fall below a certain rating level; and, (3) requiring the cap provider to replace itself if the counterparty's credit ratings fall below the single-A category. (If the counterparty does not replace itself upon such a downgrade, the Authority can declare an Additional Termination Event to exit the cap and enter into a new cap with another highly-rated counterparty.)

2. Basis Risk: Basis risk is the risk that the floating rate payments received on the hedge fail to offset the floating rate payments on the underlying debt. Because the underlying loan and the incremental cap would both be indexed to 1-month LIBOR, there is no basis risk for this transaction.

3. Tax Risk: Tax Risk is a form of basis risk and typically refers to cases where the underlying floating rate debt takes the form of tax-exempt variable rate demand obligations and the associated hedge is based on a percentage of LIBOR. While both taxable and tax-exempt markets tend to move together, tax-exempt rates are susceptible to changes in tax laws and the relationship between the floating rates on the hedge and the floating rates on the debt could move adversely. In this case, both the cap and loan are tied to 100% of 1-month LIBOR, so there is no tax risk present.

4. LIBOR Discontinuation Risk: With the possible future discontinuation of LIBOR, there is a risk that the fallback rate for the debt may differ from the fallback rate under the hedge. If the new debt rates are higher than the post-LIBOR rates received under the hedge, an issuer would be worse off. Since the regulator of LIBOR, the Financial Conduct Authority, has given the market assurance that the LIBOR panel banks will continue to submit rates through the end of 2021, any LIBOR discontinuation would take place after the incremental cap expires.

5. Termination Risk: Termination risk is the risk that a hedge agreement is involuntarily terminated due to an event beyond the issuer's control. Typically, such an event would be a termination triggered by an issuer credit downgrade. In this case, the hedge will take the form of an interest rate cap, which the Authority will pay in full upfront and there is no ratings-based termination event against the Authority, so there is no termination risk for this hedging transaction.

6. Liquidity Risk: Liquidity risk sometimes refers to 1) the issuer's inability to access or renew a liquidity facility to support hedged variable rate debt obligations or 2) the general liquidity risks surrounding the potential early termination of the hedge agreement itself. Since the former is irrelevant to the transaction at hand, we will only address the latter. Because the cap is being paid for upfront and is relatively short, we do not see a strong likelihood that the cap will need to be terminated prior to its scheduled termination date and thus we do not see liquidity risk being an issue here.

The Policy also asks whether the derivative product would have any impact on the Authority's ability to refinance the debt at a future date and the answer is "no". Because the cap is being paid for upfront, the cap will never require the Authority to make a termination payment, which could potentially impair its ability to refinance the associated debt. Among the risks stated above, counterparty credit risk is the only meaningful risk that is present for the incremental cap and it's a risk that should be manageable for the reasons stated above. As a result, SFG recommends that the Authority proceeds with the procurement of the incremental cap in order to hedge the Authority's floating rate debt and to meet TIFIA's requirements.

SFG is an established derivatives advisor and is professionally knowledgeable of the transaction type described in this memorandum. SFG is a registered municipal advisor with both the Municipal Securities Rulemaking Board and the Securities and Exchange Commission. If you have any questions or require any additional detail on the supporting analysis, please feel free to contact James Murphy at Swap Financial Group at 212-478-3700.

Swap Financial Group LLC

By: James E Murphy

Name: James E Murphy

Title: Managing Director