

Alameda County Transportation Commission
Debt Policy
July 2016

I. Introduction

The purpose of the Debt Policy is to establish guidelines for the issuance and management of Alameda CTC debt. This Debt Policy confirms the commitment of the Commission, 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
- Maintain strong credit ratings and good investor relations
- Achieve the lowest cost of capital
- Preserve future program flexibility
- Maintain ready and cost-effective access to the capital markets

II. Scope and Authority

This Debt Policy shall govern 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 required. Any changes to the policy are subject to approval by the Commission at a legally noticed and conducted public meeting. Overall policy direction of this Debt Policy shall be provided by the Commission. Responsibility for implementation of the Debt Policy and day-to-day responsibility and authority for structuring, implementing, and managing Alameda CTC debt and finance program, shall reside with the Executive Director and Deputy Executive Director of Finance and Administration. This Debt Policy requires that the Commission specifically authorize each debt financing.

While adherence to this Debt Policy is required in applicable circumstances, Alameda CTC recognizes that changes in the capital markets, Alameda CTC programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Debt Policy and require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Commission is obtained.

III. Capital Budgeting and Planning for Debt Issuance

Alameda CTC's Capital Investment Plan (CIP), which programs and allocates all of the fund sources which are administered by Alameda CTC, shall be used in combination with Alameda CTC's Debt Policy to ensure proper allocation and financing of Alameda CTC sponsored projects. The CIP sets priorities and strategies for allocating Alameda CTC administered funds under its guiding principles, while the Debt Policy provides policy direction and limitations for proposed financings. Debt issuance for capital projects shall not be recommended for Commission approval unless such issuance has been incorporated and approved by the Commission in the CIP.

IV. Standards For and Appropriate Use of Debt Financing

The philosophy of the Alameda CTC carried over from its predecessor agency is to fund all projects in the Transportation Expenditure Plan on a pay-as-you-go basis for as long as feasibly possible. This strategy minimizes borrowing costs and maximizes tax dollars for projects. The agency will consider the issuance of debt when capital program cash flow demand exceeds projected annual revenue capacity over a specified period of time.. The issuance of debt will be considered only on a programmatic basis and will not be driven by an individual project. The agency has limited debt capacity and as broad-based borrowing needs arise, they will be evaluated in terms of their impact on remaining borrowing capacity and the agency’s ability to deliver the full program in a reasonable timeframe.

Additionally, as the issuer of bonds the agency has the responsibility to manage the expenditure of bond proceeds in a manner that satisfies state and federal regulations, including IRS regulations, as well as industry best practices. The agency is best positioned to manage the expenditure of bond proceeds on projects for which the Alameda CTC is the project sponsor. For those projects, the agency can manage all aspects of project delivery that can impact the timely spend-down of bond proceeds; an issue of significant importance to the IRS. If Alameda CTC is not the project sponsor and therefore not the project manager, the agency would not have control over project cash flow and would have no mechanism to control the drawdown of bond funds. In general, it is the agency’s policy to issue bonds for broad-based program needs and on projects for which the Alameda CTC is the project sponsor. This is consistent with both the economic as well as the program management objectives of the agency.

As borrowing needs are identified, Alameda CTC will evaluate the nature of the capital investment (e.g., the purpose and useful life of the asset) to decide if either long or short-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: Debt should be used to finance capital projects on a programmatic basis 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 pledged 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 debt.

- B. Debt Financing Mechanism: Alameda CTC will evaluate the use of financial alternatives available including, but not limited to, long-term debt, short-term debt, commercial paper, direct bank loan, line of credit and inter-fund borrowing. Alameda CTC will utilize the most cost advantageous financing alternative consistent with limiting Alameda CTC’s risk exposure.

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

V. Purpose of Financing

The general purpose of debt 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 within the last 18 months. These purposes are described in more detail below.

- A. New Money Financing: New money issues can be long or short-term in nature and are those financings that generate additional funding to be available for expenditure on capital projects. These funds may be used for right-of-way acquisition, design, construction and the acquisition of construction materials, construction support, major rehabilitation of capital assets and utility relocation. New money issues will be proposed in the context of Alameda CTC's CIP and will be consistent with the related Transportation Expenditure Plan (TEP) and Measure B or Measure BB 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 costs. 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 the Commission.

Alameda CTC has established a minimum debt service savings threshold goal of 3.0% of the refunded bond principal amount, on a maturity-by-maturity basis, unless there are other compelling reasons for defeasance. As an exception to this target savings threshold, Alameda CTC 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 calculated net of all costs related to the refinancing.

- 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 reimbursement resolution adopted by the Commission. If a declaration of official intent has been made, bond proceeds may be allocated to expenditures previously paid for a period of up to 18 months after the date the expenditures were paid.

VI. **Types of Debt**

The market for municipal finance is well developed and provides numerous products or types of debt that Alameda CTC will evaluate on a case-by-case basis. Some of the types of debt – long-term, short-term and variable rate – available to Alameda CTC 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 market conditions at the time of sale, including changing dollar amounts for principal maturities, offering discount and premium bond pricing, modifying call provisions, utilizing bond insurance, and determining how to fund the debt service reserve fund.
2. Zero Coupon and Capital Appreciation Bonds: pay interest that is compounded and paid only when principal matures. Interest continues to accrue on the unpaid interest at rates that are typically higher than rates on current-coupon bonds, therefore representing a more expensive funding option. In the case of zero-coupon bonds, principal paid at maturity is discounted back to the initial investment amount received at issuance. In the case of Capital Appreciation Bonds, the value of the bond accretes until maturity.
3. 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. Alameda CTC may elect to apply for a TIFIA loan if it is determined that a project is eligible and it is the most cost effective debt financing option available for the project.

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. Alameda CTC may maintain an ongoing commercial paper program to ensure flexibility and immediate access to capital funding when needed.
2. Grant Anticipation Notes (GANs): are short-term notes that are repaid with the proceeds of State or Federal grants of any type. Alameda CTC shall generally issue GANs only when there is no other viable source of funding for the project.
3. Bond Anticipation Notes (BANs): are short-term notes that are repaid by the proceeds of a future bond issuance. Alameda CTC shall generally issue BANs as part of an overall financing strategy when it is beneficial to do so.
4. Lines of Credit or Bank Loans: shall be considered as an alternative to or credit support for other short term borrowing options.
5. Grant Anticipation Revenue Vehicle Financing (GARVEE): are bonds issued by the State and enable entities to fund transportation projects that are secured by certain federal grants. Alameda CTC may consider the issuance of GARVEEs to meet cash flow shortfalls of grant revenues.

C. Variable Rate Debt

1. 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 or planned debt for the program. Under no circumstances will variable rate debt be issued solely for the purpose of earning interest through arbitrage.

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 minimizing risk to Alameda CTC, maintaining strong credit ratings, addressing investor concerns, 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 shall exceed the expiration date of the sales tax measure pledged to repay the debt.
- 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: Alameda CTC 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. Alameda CTC's debt service structure will be sized within conservative revenue constraints and with the objective of maintaining strong credit ratings.

Debt service and other financing costs will be paid from the capital project funding category of the TEP, which will require each project to pay its fair share of the cost. Each project sponsor must understand that when the decision is made to issue debt on a programmatic basis, some of the funding committed to each project in the TEP will go towards paying for debt service and other financing costs, reducing the amount of sales tax dollars directly available to fund project costs.
- D. Capitalized Interest: Unless otherwise required, capitalized interest will not be employed. This avoids unnecessarily increasing the bond size. Certain types of financings, such as toll revenue bonds, may require that interest on the bonds be paid from capitalized interest until Alameda CTC 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 Alameda CTC's debt service to exceed the level at which prior year revenues are less than one and a half times (1.5x) the maximum annual debt service (MADS) (or 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 Alameda CTC to call outstanding bonds 10-years after the bond delivery date at par (i.e., no call premium).

VIII. Credit Enhancement

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

- A. Bond insurance: Alameda CTC 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.

Debt Service Reserves: When beneficial to Alameda CTC, a reserve fund may be funded at an amount appropriate to the associated financing and market conditions at that time. Any reserve fund shall be funded from the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies.

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

- B. Letters of Credit: Alameda CTC shall have the authority to enter into a letter-of-credit agreement when such an agreement is deemed prudent and advantageous. The long-term and short-term credit ratings of those financial institutions offering letters of credit will be a critical consideration before procuring any letter of credit.

IX. Method of Bond Sale

Alameda CTC 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 their 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 price 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 True Interest Cost (TIC) submitted during a 30-minute bid process. No 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 Request for Proposals (RFP) or Request for Qualifications (RFQ) 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. 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 only be considered if this method is likely to result in a cost savings to Alameda CTC relative to other methods of debt issuance.

X. Investment of Bond Proceeds

When bonds are issued, proceeds are deposited in various accounts, such as a project fund, debt service fund and debt service reserve fund, if applicable. 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 Alameda CTC's investment policy, in order of priority, 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 which 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 will be established for future remittance to the Internal Revenue Service, when required.

XI. Market Relationships

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

- A. Rating Agencies: The Executive Director and the Deputy Executive Director of Finance and Administration shall be primarily responsible for maintaining our relationships with those rating agencies (i.e., S&P Global Ratings, Moody's Investors Service and Fitch Ratings) from whom Alameda CTC requests and holds ratings. Alameda CTC may, from time-to-time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the Executive Director and the Deputy Executive Director of Finance and Administration shall offer conference calls and/or meetings with agency analysts in connection with a planned sale.
- 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 our financial strengths and weaknesses as perceived by the marketplace, information will be provided to the Commission when material information develops.

XII. Continuing Disclosure

It is Alameda CTC's policy to remain in compliance with Title 17 Code of Federal Regulations §240 15c2-12, Municipal Securities Disclosure, by filing annual financial statements and other financial information for the benefit of bondholders within 270 days of the close of the fiscal year and filing material event notices in a timely manner.

XIII. Consultants

Alameda CTC shall select its primary financial consultant(s) via a competitive qualifications-based process through Request for Proposals (RFP) or Request for Qualifications (RFQ).

- A. Selection of Financing Team Members: The Executive Director and the Deputy Executive Director of Finance and Administration will request authorization from the Commission to issue RFPs or RFQs, enter into negotiations with the top ranked firms and execute contracts for the following services.
 - 1. Financial Advisor: Alameda CTC shall utilize a financial advisor to assist in its debt issuance and debt administration processes. Selection of Alameda CTC'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, and (d) fees and expenses.
 - 2. Bond Counsel: Transaction documentation for debt issues shall include a written opinion by legal counsel affirming Alameda CTC is authorized to issue the proposed debt, that Alameda CTC 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. Bond counsel will be selected through a competitive RFP or RFQ process.

3. Disclosure Counsel: When undertaking a bond sale, disclosure 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 be selected through a competitive RFP or RFQ process.
4. Underwriter: Alameda CTC shall have the right to select a senior manager and co-managers for a proposed negotiated sale. The Commission may establish a pool of eligible underwriters, or select firms on an as-needed basis. In either case, underwriters for a particular negotiated transaction will be selected through a competitive RFP or RFQ process.
5. Underwriter Counsel: In any negotiated sale of Alameda CTC debt in which legal counsel is required to represent the underwriter, the lead underwriter will make the appointment, subject to Alameda CTC approval.

XIV. Post-Issuance Compliance Procedures

Alameda CTC has established and documented procedures which were approved by the Commission in January 2014 to ensure that Alameda CTC 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.