



RESOLUTION APPROVING THE REVISED RULES OF ORDER AND THE REVISED DEBT, FISCAL, AND PROCUREMENT POLICIES, AND RATIFYING THE INVESTMENT POLICY

WHEREAS, The Transportation Authority develops and implements policies and procedures to organize and formalize agency activities, and to ensure compliance with current statutes and Transportation Authority objectives; and

WHEREAS, The Transportation Authority is required to review its Debt Policy annually to maintain prudent debt management principles and to maximize the Transportation Authority's debt capacity; and

WHEREAS, While the Transportation Authority is not required to review its Fiscal, Investment and Procurement policies, it is good management practice to do so on a regular basis, and

WHEREAS, The Rules of Order establish procedures to ensure that Board and Committee meetings are conducted in a clear and efficient manner, and in compliance with current statutes and Transportation Authority policies and objectives; and

WHEREAS, The Debt Policy establishes guidance for debt issuance to support the cost-effective and timely delivery of the Prop K program of projects; and

WHEREAS, The Fiscal Policy guides decisions pertaining to internal fiscal management, including day-to-day operations, annual budget development and sales tax revenue allocation requirements; and

WHEREAS, The Procurement Policy guides the decisions pertaining to procurement, including the modes, methods and procedures for acquiring the materials, equipment and services; and



WHEREAS, The Investment Policy reflects the requirements in state and federal law regarding the administration of investments by public agencies, and establishes rules for the investment of all funds directly administered by the Transportation Authority; and

WHEREAS, With assistance and guidance from the Transportation Authority's bond counsel, financial advisors and legal counsel, Transportation Authority staff are revising existing policies to keep the policies consistent with applicable Government Codes, to provide clarifications, as well as to ensure compliance with current statutes and Transportation Authority objectives; and

WHEREAS, At its September 25, 2013 meeting, the Citizens Advisory Committee considered the revised Debt Policy and the current Investment Policy and unanimously adopted a motion of support for the staff recommendation; and

WHEREAS, At its January 14, 2014 meeting, the Finance Committee considered the subject request and unanimously recommended approval of the staff recommendation; now, therefore, be it

RESOLVED, That the Transportation Authority hereby adopts the Rules of Order as presented in Attachment 1; and be it further

RESOLVED, That the Transportation Authority hereby adopts the Debt Policy as presented in Attachment 2; and be it further

RESOLVED, That the Transportation Authority hereby adopts the Fiscal Policy as presented in Attachment 3; and be it further

RESOLVED, That the Transportation Authority hereby adopts the Procurement Policy as presented in Attachment 4; and be it further

RESOLVED, That the Transportation Authority hereby adopts the Investment Policy as presented in Attachment 5; and be it further

RESOLVED, That the Executive Director is hereby authorized to communicate the policies to all relevant parties.



Attachments:

1. Rules of Order
2. Debt Policy
3. Fiscal Policy
4. Procurement Policy
5. Investment Policy

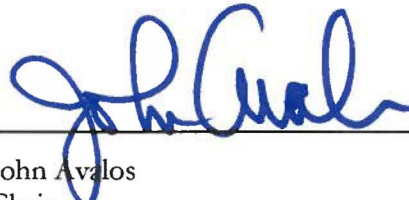


The foregoing Resolution was approved and adopted by the San Francisco County Transportation Authority at a regularly scheduled meeting thereof, this 28<sup>th</sup> day of January, 2014, by the following votes:

**Ayes:** Commissioners Avalos, Breed, Campos, Chiu, Cohen, Farrell, Kim, Mar, Tang, Wiener and Yee (11)

**Nays:** (0)

**Absent:** (0)

 1/29/14  
\_\_\_\_\_  
John Avalos Date  
Chair

ATTEST:  1/29/14  
\_\_\_\_\_  
Tilly Chang Date  
Executive Director



## CHAPTER 1. DEFINITIONS

- Rule 1.1** As used in these Rules, the following words and phrases shall have the meanings receptively ascribed to them by Rules 1.2 through 1.18.
- Rule 1.2** “Administrative Code” shall mean the San Francisco County Transportation Authority’s Administrative Code.
- Rule 1.3** “Adopted” in connection with proposed resolutions or ordinances, shall mean and include adoption of such proposed resolutions of ordinances by the Transportation Authority.
- Rule 1.4** “Transportation Authority” shall mean the San Francisco County Transportation Authority.
- Rule 1.5** “Board” shall mean the Board of Commissioners of the San Francisco County Transportation Authority.
- Rule 1.6** “Chair” shall mean the Chair of the Transportation Authority or in the absence of the Chair, the Vice-Chair acting as Chair.
- Rule 1.7** “Code” shall mean the California Public Utilities Code, Section 131000 et seq., under which the Transportation Authority was created.
- Rule 1.8** “Clerk” shall mean the Clerk of the Transportation Authority.
- Rule 1.9** “Committee” shall mean a committee of Transportation Authority, including select as well as standing committees.
- Rule 1.10** “Communication” shall mean any matter, other than the measure, in whatsoever form addressed to the Board for consideration or action by the Board or its committees.
- Rule 1.11** “Measure” shall mean and include a proposal, in whatsoever form presented, fulfillment of the purpose of which requires action of the Transportation Authority by Code, amendment, ordinance, resolution or motion, other than a motion designed to accomplish an action strictly parliamentary in character.
- Rule 1.12** “Member” shall mean a member of the Board of Commissioners.
- Rule 1.13** “Ordinances” shall mean procedures for establishing all rules of conduct affecting third parties under the jurisdiction of the Transportation Authority and of a permanent nature and shall include but not be limited to the Administrative Code and employment rules.
- Rule 1.14** “Précis” shall mean a summary of a measure prepared by staff and presented as a part of the Board or committee folder.
- Rule 1.15** “Presiding Officer” shall mean the Chair or acting chair.
- Rule 1.16** “Previous Question” shall be a call to end debate on a matter.
- Rule 1.17** “Resolution” shall mean the procedures for establishing all expressions of opinion of the Transportation Authority which may or may not be of a permanent nature or affect third parties under the Transportation Authority’s jurisdiction.
- Rule 1.18** “Rules” shall mean the Rules of Order of the San Francisco County Transportation Authority.



## CHAPTER 2. ORGANIZATION AND MEETINGS

- Rule 2.1 Adoption of Rules of Order.** The Rules of Order (Rules) shall be adopted by motion carried by an affirmative recorded vote of a majority of the members of the Board. When adopted, such Rules shall remain in effect unless suspended or amended as provided herein. The Chair or committee chair may adopt temporary rules to address a specific situation or point of order in the Board meeting.
- Rule 2.2 Suspension of Rules.** Except this rule and Rules which are restatements of other applicable law and which are designated in these Rules by an asterisk, any rule may be suspended by the affirmative vote of eight (8) members unless there be less than eight (8) members present, in which case the unanimous consent of the members present, but not less than six (6) shall be required. A motion to suspend the rules is not debatable.
- Rule 2.3 Amendment to Rules.** All proposed amendments to the Rules shall be referred to the Finance Committee for consideration and recommendation to the Board for adoption.
- Rule 2.4 Parliamentary Authority.** On any question or point of order not contained in these Rules, the Chair shall issue a ruling.
- Rule 2.5 Organization and Election of Chair.** Annually at the first meeting of the Board in January, the newly elected and continuing members of the Board of Commissioners shall elect the Chair and Vice-Chair of the Transportation Authority. The newly appointed Chair shall immediately preside following his or her election at the same meeting (Section 131260 of the Code).
- Rule 2.6 Meetings and Rules of Procedures.** \*All proceedings of the Transportation Authority shall be in conformance with the provisions of the Bay Area Traffic and Transportation Funding Act [Sections 131000 et seq. of Division 12.5 of the California Public Utilities Code], the San Francisco County Transportation Reauthorization Authority Ordinance, as amended by Resolution 486-03 (Article 14, commencing with Section 1401 of the Business and Tax Regulations Code of the City and County of San Francisco), the Transportation Authority's Administrative Code, and the Transportation Authority New Transportation Expenditure Plan for San Francisco adopted together with Resolution 485-03 of the Board of Supervisors by the voters on November 4, 2003 as Proposition K.
- Except as otherwise determined by the Board, regular meetings of the Board shall be held at 11:00 a.m. on the fourth Tuesday of each month in the Legislative Chamber of City Hall. However, when that day is a holiday, the meeting shall be held on the following business day. Committee meetings shall be held in Room 263 of City Hall.
- \*The acts of the Board shall be expressed by motion, resolution or ordinance (Section 131263 of the Code).
- \*All meetings of the Board shall be conducted in the manner prescribed by the Ralph M. Brown Act (Chapter 9 commencing with Section 54950 of Part 1 of Division 2 of Title 5 of the Government Code) and the Transportation Authority's Sunshine Policy.
- Rule 2.7 Temporary Meeting Place.** In the event of the regular meeting place is unavailable, the Chair shall designate some other appropriate place as its temporary meeting place.



- Rule 2.8 Special Meetings of the Board.** A special meeting of the Board of Commissioners may be called, subject to the Brown Act, by the Chair.
- Rule 2.9 Attendance at Meetings.** All members of the Transportation Authority shall be in their respective seats at the hour appointed for each regular, special or recessed meeting of the Board or one of its committees. The Clerk shall keep a record of the attendance of the members and shall report such record in the minutes.
- Rule 2.10 \*Quorum.** A majority of the members of the Board constitutes a quorum for the transaction of business, and all official acts of the Transportation Authority require the affirmative vote of a majority of the members of the Board (Section 131262 of the Code).
- Rule 2.11 Rights of the Members Less Than Quorum.** In the absence of a quorum no information may be presented and no official action shall be taken by the members present except to order a call of the Board or committee, to reschedule the same meeting, to recess or to adjourn.
- Rule 2.12 Call of the Board or Committee.** Whether there be a quorum or not, upon a call of the Board or one of its committees, those absent members shall be sent for by the Board or committee chair and be brought to the Legislative Chamber or to Room 263 for committee meetings by special messengers appointed for the purpose.
- When the Board or one of its committees is under call, no member shall leave the Chamber or Room 263 without an announcement from the Chair or committee Chair that the member is excused.
- During a call of the Board or one of its committees, when there is a quorum present, business may be transacted as usual, except that no action shall be taken with respect to the matter in connection with which the call was made.
- Rule 2.13 Permission to Leave Meeting.** No member shall leave the Board or committee meeting while in session if the departure would cause the loss of a quorum.
- Rule 2.14 \*Power and Duties of Chair and Vice-Chair of the Board.** The Chair shall possess the following powers and duties:
- To preside at all meetings;
  - To appoint the membership and the Chair and Vice-Chair of the committees of the Transportation Authority, except for the Citizens Advisory Committee;
  - To decide the agenda of Board meetings;
  - To sign contracts, deeds, and other instruments on behalf of the Transportation Authority; and
  - To perform such additional duties as may be designated by the Transportation Authority.
- The Vice-Chair shall perform the duties of the Chair in the absence or incapacity of the Chair (Section 3 of the Administrative Code).
- Rule 2.15 Permission to Remove Disruptive Persons.** The Board or committee Chair shall possess the power and duty to order removed from the meeting room any person who commits the



following acts in respect to a regular or special meeting of the Board or a standing or select committee:

Disorderly, contemptuous or insolent behavior toward the Board or committee or any member thereof, tending to interrupt the due and orderly course of said meeting.

A breach of the peace, boisterous conduct or violent disturbance tending to interrupt the due and orderly course of said meeting;

Disobedience of any lawful order of the presiding officer, which shall include an order to be seated or to refrain from addressing the Board or committee, and

Any other unlawful interference with the due and orderly course of said meeting.

Any person so removed shall be excluded from further attendance at the meeting from which removed, unless permission to attend be granted upon motion adopted by a majority vote of the Board or committee, and such exclusion shall be effected by attendant law enforcement officer or officers upon being so request by the presiding officer.

Any law enforcement officer or officers on duty and in attendance at the meeting or whose services are requested by the presiding officer shall carry out all orders and instructions given by the presiding officer for the purpose of maintain order and decorum at the Board or committee meeting.

In addition to effecting removal of any person who, in the opinion of the presiding officer, has violated the order and decorum of any meeting, such presiding officer may request any law enforcement officer or officers to place such person under arrest for violation of Section 403 or Section 415 of the California Penal Code, or any other applicable law, and shall cause such person to be prosecuted therefore, the complaint to be signed by such presiding officer.





### CHAPTER 3. BOARD RULES AND PROCEDURES

- Rule 3.1 Call to Order and Roll Call.** The Chair shall preside at all Board meetings, and shall call each regular, adjourned, recessed or special meeting to order at the appointed hour. Immediately after the call to order, the Clerk shall call the roll of the members of the Transportation Authority and shall record those members present and shall enter in the minutes the names of those members present as well as those members who arrive subsequent to the first roll call and those absent. In the absence of the Chair, the Vice-Chair shall preside and in the absence of both the Chair and the Vice Chair, the members present after waiting fifteen (15) minutes from the scheduled onset of the meeting, by an order entered in the minutes, shall elect one of their members to act as Chair pro tempore, who, while so acting, shall have the authority of the Chair. The presiding officer shall proceed with the Order of Business.
- Rule 3.2 Order of Business.** The normal Order of Business for the Board shall be as follows:
1. Roll Call
  2. Approval of Minutes
  3. Chair's Report
  4. Executive Director's Report
  5. Consent Agenda
  6. Old Business
  7. Introduction of New Items
  8. Public Comment
  9. Adjournment
- Rule 3.3 Addressing the Board.** When a member desires to address the Board, the member shall either rise in place or raise his or her microphone, address the presiding officer, and when recognized shall proceed to speak, confining discussion to the question before the Board. Members shall not be recognized when away from their seats.
- Rule 3.4 Member Entitled to Floor.** When two (2) or more members arise at the same time to address the Board, the presiding officer shall designate the member who is entitled to the floor.
- The committee chair, or in his or her absence or forbearance another member of the committee, shall be accorded priority in addressing the Board for the purpose of making a presentation concerning any matter submitted to the Board by the committee.
- Rule 3.5 Calendar.** Prior to preparation of the calendar, the Executive Director shall review and finalize with the Chair all matters to be considered at the meeting. Any member may request of the Chair in writing ten (10) business days prior to the scheduled Board or committee meeting that an item be included on the calendar. The Chair shall either refer the issue to committee within a reasonable time or advise the member why it will not be scheduled.
- Rule 3.6 Calling of Items.** The Chair shall decide whether items may be acted upon individually (or grouped) when the question is called, unless a member requests that they be separate.



- Rule 3.7 Reading Titles.** The Clerk may read abbreviated titles of measures on the calendar when the abbreviated working will clearly express to the members and to the listening public the nature of the measure.
- Rule 3.8 Introduction of Measures.** Unless provided for by the Administrative Code, the Chair shall decide which items shall be referred to which committee or to the Board. The Executive Director shall prepare a précis of each item to be considered by the Board.
- Rule 3.9 \*Measures Not on the Calendar.** Before considering an item of business not on the calendar, the Board shall adopt a motion (i) by majority vote of the full membership of the Board that an emergency exists, as defined in Government Code Section 54956.5; or (ii) by a two-thirds vote of the full membership, or if less than two-thirds of the members are present, a unanimous vote of those members present, determining that there is a need to take immediate action and that the need to take action arose after the calendar was posted (Section 54954.2 of the Government Code).
- Rule 3.10 Action by Motion.** All resolutions, ordinances, parliamentary actions, all recommendations of a committee, actions on matters which concern only the internal functioning of the Board, directives to the staff of the Transportation Authority to perform some specific act in the line of the official duty, adoption of the annual report, inquires, actions of a ceremonial or commemorative nature, and such other actions as may be approved by the Transportation Authority's legal counsel, may be accomplished by motion.
- Unless otherwise provided by these Rules, a motion of a parliamentary nature shall require for adoption the affirmative vote of a majority of the members present, there being present not less than a quorum.
- \*All other motions shall require for adoption the affirmative vote of a majority of all the members of the Transportation Authority, except as otherwise provided by these Rules, the Code, or other applicable law (Section 131262 of the Code).
- Rule 3.11 Motions to be Stated and Seconded.** The Clerk shall state all motions prior to debate. All motions are to be seconded unless provided for otherwise in these Rules. The Chair shall acknowledge members as they make motions and seconds.
- Rule 3.12 Motion Not Required.** The Board shall consider, without the necessity for a motion and a second, all measure recommended to the Board by the Committee.
- Rule 3.13 Division of the Question.** On the demand of any member, the Chair shall order a question divided if it includes propositions so distinct in substance that one being taken away, one of more substantive proposition shall remain for the decisions of the Board. When divided, each proposition shall then be considered and voted upon separately as if it has been offered alone.
- Rule 3.14 Seriatim Consideration.** When a measure under debate includes points which are ultimately connected, any member may have the matter considered by section or paragraphs. Each section or paragraph may be amended while being considered, and the proposition as a whole shall then be voted upon.
- Rule 3.15 The Previous Question.** The previous question shall only be admitted when called for by three (3) members, and if the motion carries, its effect shall be to terminate all debate on the



matter pending, except that the author or mover of the measure, motion or amendment shall have the right to close and the question under discussion shall thereupon be immediately put to a vote.

It shall require a two-thirds vote of the members present to adopt a motion calling for the previous question.

The previous question shall be put in the following form: "Shall the previous question be now put?"

**Rule 3.16** **Withdrawal of Motion.** After the motion has been stated, it shall be in the possession of the Board. Before it is acted upon, a motion may be withdrawn by the mover only with the consent of a majority of the members present.

**Rule 3.17** **Reconsideration.** When a motion has been made and carried or lost, it shall be in order for any member voting with the prevailing side to move to reconsider the vote on that question.

To be recorded as having voted with the prevailing side, in order to move to reconsider the vote on any question, a member may change a vote before the result of the roll call has been announced.

**Rule 3.18** **Rescind.** When a vote has been taken by the Board and carried or lost, it shall be in order at the same meeting for any member to move to rescind that vote unless something has been done as a result of the vote which is impossible to undo.

**Rule 3.19** **\*Voting Requirements and Procedure.** \*Every member present when a measure is put forth shall vote for or against it unless prohibited from voting by applicable law because of a conflict of interest which shall be disclosed (Section 1090 et seq. of the Government Code, Section 87100 et seq. of the Government Code, and all other relevant laws or regulations).

No member shall be permitted to vote upon a question until the roll is called or before the vote is announced.

\*A tie vote on any matter before the Board shall be deemed to be a disapproval (Section 131262 of the Code).

**Rule 3.20** **Vote to be Entered in the Minutes.** After the Board has voted upon any matter, the name of the members who voted for and those who voted against the question shall be entered in the Minutes, and the votes by ayes and noes shall be recorded in the minutes.

**Rule 3.21** **Identification, Filing and Indexing.** The Clerk shall assign to all measures appropriate identification. Thereafter, the Clerk shall maintain a legislative record and index of all measures.

**Rule 3.22** **Disposition of Communications.** Communications shall be time stamped and shall be deemed received by the Clerk when presented to the Transportation Authority's office.

Communications received prior to the printing of the calendar shall be noted on the calendar for the next following Board meeting.

Communications received after the printing of the calendar shall be summarized by the Clerk at the Board meeting.



**Rule 3.23 \*Posting of the Calendar.** The Clerk shall post the calendar and send a copy of the calendar to all persons known or presumed to be interested in the particular measure to be considered, and such notice shall be initiated so as to be reasonably designed to reach notificants not later than seventy-two (72) hours before any regularly scheduled Board meeting and twenty-four (24) hours before any special meeting is scheduled to be considered (Sections 59454.2, 54956 of the Government Code).

In the case of a rescheduled meeting, notice of the rescheduled new meeting shall be posted outside Room 244 in City Hall.

**Rule 3.24 Minutes.** Minutes will be kept of each Regular and Special meeting by the Clerk.

**Rule 3.25 \*Meetings to Be Public.** Every Board meeting shall be open to the public except that the Chair may order a meeting to be held in the closed session for consideration of matters permitted to be discussed in closed session by State law (Section 54957 et seq. of the Government Code).

**Rule 3.26 \*Public Comment.** Any member of the public is entitled to comment on any matter on the calendar before it is acted on by the Board. In addition, the last item at each Board meeting shall provide an opportunity for members of the public to directly address the Board on items of interest to the public which have not been discussed earlier in the meeting that are within the subject matter jurisdiction of the Transportation Authority. Members of the public may address the Board for up to three (3) minutes or for such number of minutes as set by the Chair. The Chair may limit the total testimony to thirty (30) minutes (Section 54954.3 of the Government Code).



## CHAPTER 4. COMMITTEE RULES AND PROCEDURES

- Rule 4.1 Call to Order and Roll Call.** The committee chair shall preside at all committee meetings, and shall call each regular, adjourned, recesses or special meeting to order at the appointed hour. Immediately after the call to order, the Clerk shall call the roll of the committee members and shall record those members present and shall enter in the minutes the names of those members present as well as those members who arrive subsequent to the first roll call and those absent. In the absence of the committee chair, the vice-chair shall preside. The presiding officer shall proceed with the Order of Business.
- Rule 4.2 Order of Business.** The normal Order of Business for committees shall be as follows:
1. Roll call
  2. Approval of Minutes
  3. Consent Agenda
  4. Old Business
  5. Introduction of New Items
  6. Public Comment
  7. Adjournment
- Rule 4.3 Standing Committees, General Rules.** The standing committees of the Transportation Authority and the matters to be referred to each are set forth in the Administrative Code. Select committees may be established as provided in Section 5.2 of the Administrative Code.
- Any member of the Board who is not a member of an assigned committee may join with the members of the said committee in its deliberations provided such participation does not result in a quorum of the Board membership being present, however, only members of said committee shall be entitled to vote, except that the Chair may vote as provided in Section 5.2 of the Administrative Code and Rule 4.5 below, on such matters in committee. Except with respect to the Chair, the participation of a non-member of the committee shall not be counted for purposes of determining whether a quorum of the committee is present.
- In the event that the scope of committee assignments may be conflicting, overlapping, ambiguous, or not stated, the Chair shall determine and designate which committee shall have jurisdiction over a particular matter.
- Rule 4.4 \*Committee Chair.** The committee chair will be appointed by the Chair at the beginning of each year (Section 3 (b) of the Administrative Code).
- Rule 4.5 \*Chair as Non-Voting, Ex-Officio Member.** In addition to the regular members of each committee, the Chair shall serve on each committee as a non-voting, ex-officio member, except that the Chair shall serve as a voting member when his or her presence is necessary in order to constitute a quorum. In the case of a tie vote in any committee, the Chair who is present but not acting as a voting member, may cast the deciding vote. A majority of the members of the committee shall constitute a quorum for the transaction of business and all official acts of the committee shall require the affirmative vote of a majority of the quorum (Section 5.2 if the Administrative Code).



- Rule 4.6 Time of Meeting.** Every committee shall meet at the time set by the Chair, committee chair at the beginning of his or her appointment, or a majority of the committee, in that order of priority. Whenever a meeting falls on a holiday or a quorum does not result, the meeting shall be rescheduled at the discretion of the committee chair.
- Rule 4.7 Meeting Frequency.** The regular schedule of the standing committee meetings shall provide for meeting at least once a month for each of the committees, except for the Personnel Committee which shall meet only at the call of the Chair.
- Rule 4.8 Calendar.** Prior to preparation of a calendar, the Executive Director shall review and finalize with the committee chair all matters to be considered at the meeting.
- Rule 4.9 Calling of Items.** The committee chair shall decide whether items may be acted upon individually (or grouped) when the question is called, unless a member requests that they be separate.
- Rule 4.10 Reading the Titles.** The Clerk may read abbreviated titles of measure on the calendar when the abbreviated wording will clearly express to the members and to the listening public the nature of the measure.
- Rule 4.11 Introduction of Measures.** The Executive Director shall prepare a précis of each item to be considered by the committee.
- Rule 4.12 \*Measures Not on the Calendar.** Before considering an item of business not on the calendar, the committee shall adopt a motion (i) by majority vote of the full membership of the committee that an emergency exists, as defined in Government Code Section 54956.5; or (ii) by the two-thirds vote of its members, or if less than two-thirds of the members are present, by a unanimous vote of those members present, determining that there is a need to take immediate action and that the need to take action arose after the calendar was posted (Section 54954.2 of the Government Code).
- Rule 4.13 Action by Motion.** All resolutions, ordinances, parliamentary actions, all recommendations of a committee, actions on matters which concern only the internal functioning of the Board, directive to the staff of the Transportation Authority to perform some specific act in the line of official duty, adoption of the annual report, inquiries, actions of ceremonial or commemorative nature, and such other actions as may be approved by Transportation Authority's legal counsel, may be accomplished by motion.
- Rule 4.14 Motion to be Stated.** The Clerk shall state all motions prior to debate. No motion in the committee shall require a second. The committee chair shall acknowledge members as they make motions.
- Rule 4.15 Division of the Question.** On the demand of any member, the committee chair shall order a question divided if it includes propositions so distinct in substance that one being taken away, one or more substantive propositions shall remain for the decision of the committee. When divided, each proposition shall then be considered and voted upon separately as if it has been offered alone.
- Rule 4.16 Seriatim Consideration.** When a measure under debate includes points which are ultimately connected, any member may have the matter considered by sections or paragraphs. Each



section or paragraph may be amended while being considered, and the proposition as a whole shall then be voted upon.

**Rule 4.17** **Withdrawal of Motion.** After the motion has been stated it shall be in the possession of the committee. Before it is acted upon, a motion may be withdrawn by the mover only with the consent of a majority of the members present.

**Rule 4.18** **Reconsideration.** When a motion has been made and carried or lost, it shall be in order for any member voting with the prevailing side to move to reconsider the vote on that question.

To be recorded as having voted with the prevailing side, in order to move to reconsider the vote on any question, any member may change a vote before the result of the roll call has been announced.

**Rule 4.19** **Rescind.** When a vote has been taken by a committee and carried or lost, it shall be in order at the same meeting for any member to move to rescind that vote unless something has been done as a result of the vote which is impossible to undo.

**Rule 4.20** **\*Voting Requirements and Procedure.** Every member present when a motion is put forth shall vote for or against it unless prohibited from voting by applicable law because of a conflict of interest which shall be disclosed (Government Code Section 1090 et seq., Government Code 87100 et seq. and all other relevant laws and regulations).

No member shall be permitted to vote upon a question until the roll is called or before the vote is announced.

A tie vote on any matter before the committee shall be deemed to be a disapproval except that the Chair may break a tie vote as provided in Rule 4.5.

**Rule 4.21** **Vote to be Entered in the Minutes.** After the committee has voted upon any matter, the names of the members who voted for and those who voted against the question shall be entered in the Minutes, and the votes by ayes and noes shall be recorded in the Minutes.

**Rule 4.22** **Identification, Filing and Indexing.** The Clerk shall assign to all measures appropriate identification. Thereafter, the Clerk shall maintain a legislative record and index of all measure.

**Rule 4.23** **Minutes.** Minutes will be kept of each Regular and Special meeting by the Clerk.

**Rule 4.24** **\*Posting of Calendar.** The Clerk shall post the calendar and send a copy of the calendar to all persons known or presumed to be interested in the particular measure to be considered, and such notice shall be initiated so as to be reasonably designed to reach notificants not later than seventy-two (72) hours before a regularly scheduled committee meeting or twenty-four (24) hours before a special meeting is scheduled (Sections 54954.2, 54956 of the Government Code).

**Rule 4.25** **\*Public Comment.** Any member of the public is entitled to comment on any matter on the calendar which is within the subject matter jurisdiction of the Transportation Authority before it is acted on by the committee. In addition, the last item at each committee meeting prior to adjournment shall provide an opportunity for members of the public to directly address the committee on items of interest to the public which have not been discussed



earlier in the meeting that are within the subject matter jurisdiction of the Transportation Authority. Members of the public may address the committee for up to three (3) minutes or for such number of minutes as set by the chair. The committee chair may limit the total testimony to thirty (30) minutes (Section 54954.3 of Government Code).





## CHAPTER 5. MISCELLANEOUS

- Rule 5.1 Conduct of Members.** No member in debate shall, directly or indirectly, by any form of words impute to another member or to other members any conduct or motive unworthy or unbecoming a member.
- Rule 5.2 Smoking Prohibited.** Smoking during Board or committee meetings is prohibited.
- Rule 5.3 Honors issued by the Board of Commissioners.** The Board may issues honors in the following categories for transportation related activities:
1. Engrossed Resolutions. Such resolutions shall be prepared for members leaving office; Transportation Authority staff leaving the service after at least ten (10) years of service with the Transportation Authority; and Mayors, members of Congress, and members of the State Legislature upon leaving office.
  2. Certificate of Honor. Each member of the Board is authorized to be issued up to five (5) certificates of Honor a year on behalf of the Board without further Board action in accordance with the following procedure.
    - a) No certificates shall be issued to a person or entity which has received a certificate within the previous twelve (12) months.
    - b) Each member desiring to issue a Certificate of Honor shall provide the name of the proposed recipient to the Clerk who will advise other members of the request.
    - c) During the two (2) business days following the provision of the name, other members may indicate their desire to join in on sponsoring the certificate. The primary sponsor shall then permit the additional members to sign the certificate.
  3. Letters of Recommendation. Each member of the Board is authorized to issue Letters of Recommendation in the name of the Board without limit as to number.
  4. The Executive Director shall, after consultation with the Chair, prescribe the form for each of these honors, and shall facilitate the preparation of such certificates and letters by the staffs of individual members.
  5. The Board shall be advised at its regularly scheduled meeting on any engrossed resolutions, certificates of honor or letters of recommendation awarded since the last Board meeting.





## DEBT POLICY

### I. INTRODUCTION

The purpose of this Policy is to organize and formalize debt issuance-related policies and procedures for the San Francisco County Transportation Authority (the Transportation Authority) and to establish a systematic debt policy (Debt Policy). The Debt Policy is, in every case, subject to and limited by applicable provisions of state and federal law and to prudent debt management principles.

### II. DEBT POLICY OBJECTIVE

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

- Maintain cost-effective access to the capital markets through prudent yet flexible policies;
- Moderate debt principal and debt service payments through effective planning and project cash management in coordination with Transportation Authority project sponsors; and
- Achieve the highest practical credit ratings.

### III. SCOPE AND DELEGATION OF AUTHORITY

This Debt Policy shall govern, except as otherwise covered by the Transportation Authority Investment Policy (a copy of which is attached hereto), 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 and updated at least annually and more frequently as required. Any changes to the policy are subject to approval by the Board at a legally noticed and conducted 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 Transportation Authority's debt and finance program, shall lie with the Executive Director. The Board's adoption of the Transportation Authority Annual Budget does not constitute authorization for debt issuance for any capital projects. This Debt Policy requires that the Board specifically authorize each debt financing. Each financing shall be presented to the Board in the context of and consistent with the Annual Budget.

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

### IV. ETHICS AND CONFLICTS OF INTEREST

Officers and employees of the Transportation Authority involved in the debt management program will not engage in any personal business activities or investments that would conflict with proper and lawful execution of the debt management program, or which could impair their ability to make impartial decisions.



## V. STRATEGIC PLAN INTEGRATION

The Transportation Authority's multi-year Strategic Plan (Strategic Plan), which programs the Proposition K Sales Tax (Prop K) Expenditure Plan, shall be used in combination with this Debt Policy to ensure proper allocation and financing of Prop K eligible projects. The Strategic Plan sets priorities and strategies for allocating Prop K funds under its guiding principles, while the Debt Policy provides policy direction and limitations for proposed financing. Debt issuance for capital projects shall not be recommended for Board approval unless such issuance has been incorporated into the Strategic Plan.

## VI. STANDARDS FOR USE OF DEBT FINANCING

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

### A. Credit Quality.

Credit quality is an important consideration and will be balanced with the size and frequency of issuances of debt. All Transportation Authority debt management activities for new debt issuances will be conducted in a manner conducive to receiving the highest credit ratings possible consistent with the Transportation Authority's debt management objectives, and to maintaining or improving the current credit ratings assigned to the Transportation Authority's outstanding debt by the major credit rating agencies.

### B. Long-Term Capital Projects.

The Transportation Authority will issue long-term debt only to finance and refinance long-term capital projects. When the Transportation Authority finances capital projects by issuing bonds, the debt repayment period should not exceed the earliest of the following: (1) 120% of the useful life of the project being financed, (2) the term of the current sales tax Expenditure Plan or (3) forty (40) years from the date of issuance. Inherent in its long-term debt policies, the Transportation Authority recognizes that future taxpayers will benefit from the capital investment and that it is appropriate that they pay a share of the asset cost. Long-term debt financing shall not be used to fund operating costs unless such costs qualify as capital expenditures under federal tax principles.

### C. Debt Financing Mechanism.

The Transportation Authority will evaluate the use of available financial alternatives including, but not limited to, tax-exempt and taxable debt, long-term debt (both fixed and variable), short-term debt, commercial paper, sales tax revenue and grant anticipation notes, private placement and inter-fund borrowing. The Transportation Authority will utilize the most advantageous financing alternative that effectively balances the cost of the financing with the risk of the financing structure to the Transportation Authority.

### D. Ongoing Debt Administration and Internal Controls.

The Transportation Authority shall maintain all debt-related records for a period for no less than the term of the debt. At a minimum, this repository will include all official statements, bid documents, ordinances, indentures, trustee reports, continuing disclosure reports, material events notices, underwriter and other agreements, etc. for all Transportation Authority debt. To the extent that official transcripts incorporate these documents, possession of a transcript will



suffice (transcripts may be hard copy or stored on CD-ROM). The Transportation Authority will develop a standard procedure for archiving transcripts for any new debt. The Transportation Authority will establish internal controls to ensure compliance with the Debt Policy, all debt covenants and any applicable requirements of applicable law.

**E. Rebate Policy and System.**

The Transportation Authority will accurately account for all interest earnings in debt-related funds. These records will be designed to ensure that the Transportation Authority is in compliance with all debt covenants, and with applicable laws. The Transportation Authority will maximize the interest earnings on all funds within the investment parameters set forth in each respective indenture, consistent with consideration of applicable yield limits and arbitrage requirements and as permitted by the Transportation Authority Investment Policy. The Transportation Authority will develop a system of reporting interest earnings that relates to and complies with any tax certificates relating to its outstanding debt and Internal Revenue Code rebate, yield limits and arbitrage, and making any required filings with State and Federal agencies. The Transportation Authority will retain records as required by its tax certificates. The Transportation Authority shall have the authority to retain the services of an Arbitrage Rebate Consultant.

**VII. FINANCING CRITERIA**

**A. Purpose of Debt.**

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

**1. NEW MONEY FINANCING.**

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

**2. REFUNDING FINANCING.**

Refunding bonds are issued to retire all or a portion of an outstanding bond issue or other debt. Refunding issuances can be used to achieve present-value savings on debt service, to modify interest rate risk, or to restructure the payment schedule, type of debt instrument used, or covenants of existing debt. The Transportation Authority must analyze each refunding issue on a present-value basis to identify economic effects before approval. Policies on the administration of refunding financings are detailed further in Section X: Refinancing Outstanding Debt.

**B. Types of Debt.**

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

**1. LONG-TERM DEBT.**

The Transportation Authority may issue long-term debt (e.g. fixed or variable rate revenue bonds) when funding allocations cannot be financed from current revenues. The proceeds derived from long-term borrowing will not be used to finance current operations or normal



maintenance. Long-term debt will be structured such that the obligations do not exceed the earliest of the following: (a) 120% of the expected average useful life of the project(s) financed, (b) the sunset date of the current sales tax Expenditure Plan or (c) forty (40) years from the date of issuance.

### **Fixed Rate**

- a) *Current Coupon Bonds* are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Bond features may be adjusted to accommodate the market conditions at the time of sale, including changing dollar amounts for principal maturities, offering discount and premium bond pricing, modifying call provisions, utilizing bond insurance, and determining how to fund the debt service reserve fund and costs of issuance.
- b) *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, and these types of bonds typically bear interest at rates that are higher than those 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, interest on the bond accretes until maturity.
- c) *Special Government Obligations (both tax-exempt and taxable)*, such as the Build America Bond program authorized for calendar years 2009 and 2010 or any other type of new municipal security, structure or tax credit authorized by the Federal Government to assist local governments in accessing the capital markets. So long as the new program's requirements allow the Transportation Authority to adhere to its Debt Policy the Transportation Authority will evaluate it along with traditional financing structures in order to determine which is the most appropriate for a particular issuance.

### **Variable Rate**

- a) *Variable Rate Demand Notes (VRDBs)* are long term bonds with a fixed principle amortization but the interest rate resets at certain established periods such as daily, weekly, monthly, or such other period as the Transportation Authority deems advisable given current market conditions. VRDBs require credit enhancement and third party liquidity in the forms of Letters or Lines of Credit and/or bond insurance. VRDBs allow bondholders to "put" their bonds back to the Transportation Authority on any rate reset date, given certain notice. The Transportation Authority will need to retain an investment bank to remarket these bonds.
- b) *Indexed Notes* are forms of variable rate debt that do not require Letters or Lines of Credit. These forms of variable rate debt have a fixed spread to a certain identified index such as SIFMA. The rate will reset either on a weekly, monthly, or other basis.

## **2. SHORT-TERM DEBT.**

Short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or anticipated revenues, where anticipated revenues are defined as an assured revenue source with the anticipated amount based on conservative estimates. In the case of the Transportation Authority's commercial paper program, short-term borrowings may also be utilized for funding of the Transportation Authority's capital projects. The Transportation Authority will determine and utilize the least costly method for short-term



borrowing. The Transportation Authority may issue short-term debt when there is a defined repayment source or amortization of principal, subject to the following policies:

- a) *Commercial Paper Notes* may be issued as an alternative to fixed rate debt, particularly when the timing of funding requirements is uncertain. The Transportation Authority may maintain an ongoing commercial paper program to ensure flexibility and immediate access to capital funding when needed. In March 2004, the Board approved a \$200 million tax-exempt commercial paper program. Periodic issuances or a retirement of commercial paper notes within the \$200 million Board-approved program do not require further Board action. The retirement of commercial paper is most commonly a result of the issuance of long-term bonds or the repaying of principal from cash on hand.
- b) *Grant Anticipation Notes (GANs)* are short-term notes that are repaid with the proceeds of State or Federal grants of any type. The Transportation Authority shall generally issue GANs only when there is no other viable source of funding for the project
- c) *Sales Tax and Revenue Anticipation Notes (TRANs)* shall be issued only to meet sales tax revenue cash flow needs consistent with a finding by bond counsel that the sizing of the issue fully conforms to Federal tax requirements and limitations for tax-exempt borrowings.
- d) *Letters or Lines of Credit* shall be considered as an alternative to or credit support for other short-term borrowing options.
- e) *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. The Transportation Authority may elect to apply for a TIFIA loan if it is determined that it is the most cost effective debt financing option available.
- f) *Grant Anticipation Revenue Vehicle Financing (GARVEE)* are bonds issued by the State and enable entities to fund transportation projects that are secured by certain federal grants. The Transportation Authority may consider the issuance of GARVEEs to meet cash flow shortfalls of grant revenues.

### 3. VARIABLE RATE DEBT.

To maintain a predictable debt service burden, the Transportation Authority may give preference to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is floating or variable rate debt. It may be appropriate to issue short-term or long-term variable rate debt to diversify the Transportation Authority's debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of assets to liabilities. Variable rate debt typically has a lower initial cost of borrowing than fixed rate financing and shorter maturities but carries both interest rate and liquidity risk. Under no circumstances will the Transportation Authority issue variable rate debt solely for the purpose of earning arbitrage. The Transportation Authority, however, may consider variable rate debt in certain instances.

- a) *Variable Rate Debt Capacity*. Except for the existing \$200 million commercial paper program (which is not covered by the following requirements of variable rate debt), the Transportation Authority will maintain a conservative level of outstanding variable rate debt in consideration of general rating agency guidelines recommending a maximum of a 20-30% variable rate exposure, in addition to maintaining adequate safeguards against risk and managing the variable revenue stream both as described below:



- (1) *Adequate Safeguards Against Risk.* Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts; such structures could include, but are not limited to, interest rate swaps, interest rate caps and the matching of assets and liabilities.
- (2) *Variable Revenue Stream.* The revenue stream for repayment is variable, and is anticipated to move in the same direction as market-generated variable interest rates, or the dedication of revenues allows capacity for variability.
- (3) *As a Component to Synthetic Fixed Rate Debt.* Variable rate bonds may be used in conjunction with a financial strategy, which results in synthetic fixed rate debt, subject to other provisions of the Debt Policy regarding Financial Derivative Products.

#### 4. 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 total project cost. Financial Derivative Products shall be considered only: (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 Transportation Authority's ability to refinance bonds at a future date and (3) after the Board has adopted separate policy guidelines for the use of interest rate swaps and other Financial Derivative Products. Derivative products will only be utilized with prior approval from the Board.

### VIII. TERMS AND CONDITIONS OF BONDS

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

#### A. Term.

All capital improvements financed through the issuance of debt will be financed for a period not to exceed 120% of the expected average useful life of the assets being financed, and in no event should exceed the lesser of forty (40) years or the period of time until sunset of the current Transportation Authority Expenditure Plan.

#### B. Capitalized Interest.

The nature of the Transportation Authority's revenue stream is such that funds are generally continuously available and the use of capitalized interest should not normally be necessary. However, certain types of financings may require the use of capitalized interest from the issuance date until the project sponsor has constructive use of the financed project. Unless otherwise required, the Transportation Authority will avoid the use of capitalized interest to obviate unnecessarily increasing the bond issuance size. Interest shall not be funded (capitalized) beyond three (3) years or a shorter period if further restricted by statute. The Transportation Authority may require that capitalized interest on the initial series of bonds be funded from the





proceeds of the bonds. Interest earnings may, at the Transportation Authority's discretion, be applied to extend the term of capitalized interest but in no event beyond the authorized term.

**C. Lien Levels.**

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

**D. Additional Bonds Test.**

Any new senior lien debt issuance must not cause the Transportation Authority's debt service, net of any Federal subsidy or credit, to exceed the level at which the incoming revenues are less than one and a half times (1.5x) the maximum annual principal, interest and debt service, net of any Federal subsidy or credit, for the aggregate outstanding senior lien bonds including the debt service for the new issuance.

**E. Debt Service Structure.**

Debt issuance shall be planned to achieve relatively rapid repayment of debt while still matching debt service to the useful life of facilities. The Transportation Authority will amortize its debt within each lien to achieve overall level debt service (though principal may be deferred in the early years of a bond issue to maximize the availability of pay-as-you-go dollars during that time) or may utilize more accelerated repayment schedules after giving consideration to bonding capacity constraints. The Transportation Authority shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to level existing debt service.

**F. Call Provisions.**

In general, the Transportation Authority's securities will include a call feature, based on market conventions, which is typically no later than ten and one-half (10.5) years from the date of delivery of tax-exempt bonds. The Transportation Authority may determine that no call feature or a different call feature is appropriate in some circumstances.

**G. Original Issue Discount.**

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

**H. Deep Discount Bonds.**

Deep discount bonds may provide a lower cost of borrowing in certain markets though they may also limit opportunities to refinance at lower rates in the future. The Transportation Authority will carefully consider their value and the effect on any future refinancings as a result of the lower-than-market coupon.

**I. Derivative Products.**

The Transportation Authority will consider the use of derivative products only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces risk of fluctuations in expense or revenue, or alternatively, where the derivative product will reduce the total project cost. If interest rate swaps are considered, the Transportation



Authority shall develop and maintain an Interest Rate Swap Policy governing the use and terms of these derivative products. For derivatives other than interest rate swaps, the Transportation Authority will undertake an analysis of early termination costs and other conditional terms given certain financing and marketing assumptions. Such analysis will document the risks and benefits associated with the use of a particular derivative product. Derivative products will only be utilized with prior approval from the Board.

**J. Multiple Series.**

In instances where multiple series of bonds are to be issued, the Transportation Authority shall make a final determination as to which allocations are of the highest priority. Projects chosen for priority financing, based on funding availability and proposed timing, will generally be subject to the earliest or most senior of the bond series.

**IX. CREDIT ENHANCEMENTS**

The Transportation Authority will consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings or positive impact on overall debt capacity can be shown shall enhancement be considered. The Transportation Authority will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement.

**A. Bond Insurance.**

The Transportation 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 required, a reserve fund equal to not more than the lesser of ten percent (10%) of the original principal amount of the bonds, maximum annual debt service or one-hundred-and-twenty-five (125%) percent of average annual debt service (the "Reserve Requirement") 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, rating agencies and/or other investors requirements.

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

**C. Liquidity Facilities and Letters of Credit.**

The Transportation Authority shall have the authority to enter into liquidity facilities and letter-of-credit agreements when such agreements are deemed prudent and advantageous. Only those financial institutions with short-term ratings of not less than VMIG 1/P1, A-1 and F1, by Moody's Investor Services, Standard & Poor's and Fitch Ratings, respectively, may participate in Transportation Authority liquidity facilities and letter of credit agreements.



## **X. REFINANCING OUTSTANDING DEBT**

The Transportation Authority shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or financial advisory firms. The Transportation Authority will consider the following issues when analyzing possible refunding opportunities:

### **A. Debt Service Savings.**

The Transportation Authority has established a minimum present value savings threshold goal of three (3) percent of the refunded bond principal amount unless there are other compelling reasons for defeasance. Additionally, the Transportation Authority has established a minimum present value savings threshold goal of five (5) percent of the refunded bond principal amount for refinancings involving derivative products such as the issuance of synthetic fixed rate refunding debt service unless there are other compelling reasons for defeasance. The present value savings will be net of all costs related to the refinancing. The decision to take savings on an upfront or deferred basis must be explicitly approved by the Transportation Authority Board.

### **B. Restructuring.**

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

### **C. Term of Refunding Issues.**

The Transportation Authority will refund bonds within the term of the originally issued debt. However, the Transportation Authority may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The Transportation Authority may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

### **D. Escrow Structuring.**

The Transportation Authority shall utilize the least costly securities available in structuring refunding escrows. The Transportation Authority will examine the viability of an economic versus legal defeasance on a net present value basis. A certificate from a third party agent, who is not a broker-dealer, is required stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Transportation Authority from its own account.

### **E. Arbitrage.**

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

**F. Commercial Paper Program.**

The requirements of this Section X shall not apply to or restrict the issuance of commercial paper notes for the purpose of refunding maturing commercial paper notes.

**XI. METHODS OF ISSUANCE**

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

**A. Competitive Sale**

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

- a) Bond prices are stable and/or demand is strong
- b) Market timing and interest rate sensitivity are not critical to the pricing
- c) Participation from DBE firms is best effort and not required for winning bid
- d) There are no complex explanations required during marketing regarding issuer's projects, media coverage, political structure, political support, funding or credit quality
- e) The bond type and structure are conventional
- f) Bond insurance is included or pre-qualified (available)
- g) Manageable transaction size
- h) Issuer has strong credit rating
- i) Issuer is well known to investors

**B. Negotiated Sale.**

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

- a) Bond prices are volatile
- b) Demand is weak or supply or competing bonds is high
- c) Market timing is important, such as for refundings
- d) Issuer has lower or weakening credit rating
- e) Issuer is not well known to investors
- f) Sale and marketing of the bonds will require complex explanations about the issuer's projects, media coverage, political structure, political support, funding, or credit quality
- g) The bond type and/or structural features are non-standard, such as for a forward delivery bond sale, issuance of variable rate bonds, or where there is the use of derivative products
- h) Bond insurance is not available or not offered
- i) Early structuring and market participation by underwriters are desired
- j) The par amount for the transaction is significantly larger than normal
- k) Demand for the bonds by retail investors is expected to be high



l) Participation from DBE firms is required

**C. Private Placement.**

From time to time the Transportation Authority may elect to privately place its debt. Such placement shall only be considered if this method is likely to result in a cost savings to the Transportation Authority relative to other methods of debt issuance on a net present value basis, using the Transportation Authority's investment rate as the appropriate measure of the discount rate.

**D. Issuance Method Analysis.**

The Transportation Authority shall evaluate each method of issuance based on the factors set forth above.

**E. Investor Outreach**

The Transportation Authority shall participate in informational meetings or conference calls with institutional investors in advance of bond or note sales to the extent such meetings are advantageous to the sale of such bonds or notes.

**F. Feasibility Analysis.**

Issuance of revenue bonds will be accompanied by a finding that demonstrates the projected revenue stream's ability to meet future debt service payments.

## **XII. MARKET RELATIONSHIPS**

**A. Rating Agencies and Investors.**

The Executive Director shall be responsible for maintaining the Transportation Authority's relationships with Moody's Investors Service, Standard & Poor's and Fitch Ratings. The Transportation Authority may, from time-to-time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the Executive Director shall: (1) meet with credit analysts prior to each sale (competitive or negotiated) to the extent as advantageous, and (2) prior to each competitive or negotiated sale, offer conference calls or meetings with agency analysts in connection with the planned sale.

**B. Transportation Authority Communication.**

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

**C. Continuing Disclosure.**

After entering into a Continuing Disclosure undertaking, the Transportation Authority shall comply with the terms of such undertaking. The failure to make timely filings must be disclosed and reflects negatively on the Transportation Authority. The Executive Director will take all reasonable steps to ensure that the Transportation Authority's files timely annual reports and event notices with the MSRB's Electronic Municipal Market Access system (EMMA).

**D. Rebate Reporting.**

The use of bond proceeds and their investments must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate annual rebates related to any bond issues, with rebate paid every five years and as otherwise required by applicable provisions of the Internal Revenue Code and regulations. Therefore, the Executive Director shall take all reasonable steps to ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculation, and timely rebates, if necessary.

**E. Other Jurisdictions.**

From time to time, the Transportation Authority may issue bonds on behalf of other public entities. While the Transportation Authority will make every effort to facilitate the desires of these entities, the Executive Director will take all reasonable steps to ensure that only the highest quality financings are done and that the Transportation Authority is insulated from all risks. The Transportation Authority shall require that all conduit financings achieve a rating at least equal to the Transportation Authority's ratings or that credit enhancement is obtained.

**F. Fees.**

The Transportation Authority will charge recipients of debt issuance proceeds an administrative fee equal to the recipient's pro rata share of administrative costs incurred by the Transportation Authority by issuing debt.

**XIII. CONSULTANTS**

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

**A. Selection of Financing Team Members.**

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

**B. Financial Advisor.**

The Transportation Authority shall utilize a financial advisor to assist in its debt issuance and debt administration processes as prudent. Selection of the Transportation Authority's financial advisor(s) shall be based on, but not limited to, the following criteria:

- a) Experience in providing consulting services to complex issuers
- b) Knowledge and experience in structuring and analyzing complex issues
- c) Experience and reputation of assigned personnel
- d) Fees and expenses

Financial advisory services provided to the Transportation Authority shall include, but shall not be limited to the following:

- a) Evaluation of risks and opportunities associated with debt issuance
- b) Monitoring marketing opportunities
- c) Evaluation of proposals submitted to the Transportation Authority by investment banking firms



- d) Structuring and pricing
- e) Preparation of request for proposals for other financial services such as trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.
- f) Advice, assistance and preparation for presentations with rating agencies and investors
- g) Assisting in preparation of official statements

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

### **C. Bond Counsel.**

Transportation Authority debt will include a written opinion by legal counsel affirming that the Transportation Authority is authorized to issue the proposed debt, that the Transportation Authority has met all constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by nationally-recognized counsel with extensive experience in public finance and tax issues. The counsel will be selected by the Transportation Authority through its request for proposal process.

The services of bond counsel may include , but are not limited to:

- a) Rendering a legal opinion with respect to authorization and valid issuance of debt obligations including whether the interest paid on the debt is tax exempt under federal and State of California law;
- b) Preparing all necessary legal documents in connection with authorization, sale, issuance and delivery of bonds and other obligations;
- c) Assisting in the preparation of the preliminary and final official statements and commercial paper memorandum;
- d) Participating in discussions with potential investors, insurers and credit rating agencies, if requested; and
- e) Providing continuing advice, as requested, on the proper use and administration of bond proceeds under applicable laws and the indenture, particularly arbitrage tracking and rebate requirements.

## **XIV. UNDERWRITER SELECTION**

### **A. Senior Manager Selection.**

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

- a) The firm's ability and experience in managing complex transactions
- b) Demonstrated ability to structure debt issues efficiently and effectively
- c) Prior knowledge and experience with the Transportation Authority
- d) The firm's willingness to risk capital and demonstration of such risk
- e) The firm's ability to sell bonds



- f) Quality and experience of personnel assigned to the Transportation Authority's engagement
- g) Financing plan presented

**B. Co-Manager Selection.**

Co-managers will be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the Transportation Authority's bonds.

**C. Selling Groups.**

The Transportation Authority may establish selling groups in certain transactions. To the extent that selling groups are used, the Transportation Authority may make appointments to selling groups from within the pool of underwriters or from outside the pool, as the transaction dictates.

**D. Underwriter's Counsel.**

In any negotiated sale of Transportation Authority debt in which legal counsel is required to represent the underwriter, the lead underwriter will make the appointment, subject to Transportation Authority consent.

**E. Underwriter's Discount.**

- a) The Transportation Authority will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Transportation Authority will determine the allocation of fees with respect to the management fee. The determination will be based upon participation in the structuring phase of the transaction.
- b) All fees and allocation of the management fee will be determined prior to the sale date; a cap on management fee, expenses and underwriter's counsel will be established and communicated to all parties by the Transportation Authority. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

**F. Evaluation of Financing Team Performance.**

The Transportation Authority will evaluate each bond sale after its completion to assess the following: costs of issuance, including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

Following each sale, the Transportation Authority shall provide a post-sale evaluation on the results of the sale to the Board.

**G. Syndicate Policies.**

For each negotiated transaction, the Executive Director will prepare syndicate policies that will describe the designation policies governing the upcoming sale. The Executive Director shall ensure receipt of each member's acknowledgement of the syndicate policies for the upcoming sale prior to the sale date.





#### **H. Designation Policies.**

To encourage the pre-marketing efforts of each member of the underwriting team, orders for the Transportation Authority's bonds will be net designated, unless otherwise expressly stated. The Transportation Authority shall require the senior manager to:

- a) Equitably allocate bonds to other managers and the selling group
- b) Comply with MSRB regulations governing the priority of orders and allocations
- c) Within 10 working days after the sale date, submit to the Executive Director a detail of orders, allocations and other relevant information pertaining to the Transportation Authority's sale.

#### **I. Disclosure by Financing Team Members.**

All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, under no circumstances will agreements be permitted which could compromise the firm's ability to provide independent advice which is solely in the Transportation Authority's best interests or which could reasonably be perceived as a conflict of interest.



## GLOSSARY

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

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

*Bullet Maturity.* Maturity for which there are no sinking fund payments prior to the stated maturity date.

*Call Provisions.* The terms of the bond contract giving the issuer the right to redeem all or a portion of an outstanding issue of bonds prior to their stated dates of maturity at a specific price, usually at or above par.

*Capitalized Interest.* A portion of the proceeds of an issue that is set aside to pay interest on the securities for a specific period of time. Interest is commonly capitalized for the construction period of the project.

*Commercial Paper.* Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

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

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

*Credit Enhancement.* Credit support purchased by the issuer to raise the credit rating of the issue. The most common credit enhancements consist of bond insurance, direct or standby letters of credit, and lines of credit.

*DBE.* Disadvantaged Business Enterprises as defined by the Transportation Authority's current DBE policy.

*Debt Service Reserve Fund.* The fund in which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements.

*Deep Discount Bonds.* Bonds that are priced for sale at a substantial discount from their face or par value.

*Derivatives.* (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

*Designation Policies.* Outline as to how an investor's order is filled when a maturity in an underwriting syndicate is oversubscribed. The senior managing underwriter and issuer decide show the bonds will be allocated among the syndicate. There are three primary classifications of orders, which form the designation policy. The highest priority is given to Group Net orders; the next priority is given to Net Designated orders and Member orders are given the lowest priority.

*Escrow.* A fund established to hold moneys pledged and to be used to pay debt service on an outstanding issue.



*Expenses.* Compensates senior managers for out-of-pocket expenses including: underwriters counsel, DTC charges, travel, syndicate expenses, dealer fees, overtime expenses, communication expenses, computer time and postage.

*Grant Anticipation Notes (GANs).* Short term notes issued by the government unit, usually for capital projects, which are paid from the proceeds of State or Federal grants of any type.

*Grant Anticipation Revenue Vehicle Financing (GARVEE)* are bonds issued by the State and enable entities to fund transportation projects that are secured by certain federal grants.

*Letters of Credit.* A bank credit facility supporting the payment of bonds wherein the bank agrees to lend a specified amount of funds for a limited term.

*Management Fee.* The fixed percentage of the gross spread which is paid to the managing underwriter for the structuring phase of a transaction.

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

*Negotiated Sale.* A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

*Original Issue Discount.* The amount by which the original par amount of an issue exceeds its public offering price at the time it is originally offered to an investor.

*Pay-As-You-Go.* An issuer elects to finance a project with existing cash flow as opposed to issuing debt obligations.

*Present Value.* The current value of a future cash flow.

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

*Rebate.* A requirement imposed by the Tax Reform Act of 1986 whereby the issuer of the bonds must pay the IRS an amount equal to its profit earned from investment of bond proceeds at a yield above the bond yield calculated pursuant to the IRS code together with all income earned on the accumulated profit pending payment subject to certain exceptions.

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

*Selling Groups.* The group of securities dealers who participate in an offering not as underwriters but rather as those who receive securities less the selling concession from the managing underwriter for distribution at the public offering price.

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

*Transportation Infrastructure Finance Innovation Act (TIFIA).* Loans and loan guaranty program provided by the United States Department of Transportation for transportation projects of regional importance.

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

*Underwriter's Discount.* The difference between the price at which the Underwriter buys bonds from the Issuer and the price at which they are reoffered to investors.



*Variable Rate Debt.* An interest rate on a security, which changes at intervals according to an index or a formula or other standard of measurement as, stated in the bond contract.



## FISCAL POLICY

### I. INTRODUCTION

The Fiscal Policy is designed to guide decisions pertaining to internal fiscal management, including day-to-day operations, annual budget development and sales tax revenue allocation requirements of the Transportation Authority. It is intended to be consistent with the Transportation Authority's Administrative Code, the current Proposition K Sales Tax Expenditure Plan, federal and state regulations, and general prudent accounting and financial management practices.

### II. SCOPE AND AUTHORITY

The Fiscal Policy applies only to the operations of the Transportation Authority and is not applicable to the operations of any project sponsoring agencies of the Transportation Authority, unless specifically provided. The Fiscal Policy is separate from, but should be applied in conjunction with, the Transportation Authority's Strategic Plan, Debt and Investment Policies. Overall policy direction shall be the responsibility of the Board. Responsibility for implementation of the Policy, and day-to-day responsibility and authority for structuring, implementing, and managing the Transportation Authority's policies, goals, and objectives, shall lie with the Executive Director. This Policy will be reviewed and updated as required or deemed advisable at least once every three years. Any changes to the policy are subject to approval by the Board at a public meeting.

### III. ANNUAL BUDGET PROCESS

The Transportation Authority Board shall adopt an Annual Budget by the beginning of each fiscal year. The purpose of the Annual Budget is to provide management guidance and control over disbursement of Transportation Authority's revenues in accordance with the goals and objectives as determined by the Board and as set forth in other policies including, but not limited to, the Transportation Authority's investment, debt, procurement and disadvantaged business enterprise policies. The Transportation Authority's fiscal year extends from July 1 of each calendar year through June 30 of the following calendar year. The sections below further define the process involved in the development of the final budget.

#### A. PREPARATION AND REVIEW OF A DRAFT BUDGET

The Executive Director is charged with responsibility for the preparation of a draft budget for each fiscal year. The draft budget will consist of line items for Revenues, including investment income, Administrative Operating Expenses, Debt Service Expenses as applicable, Program and Operating Reserve, and a single line item for each of the Transportation Authority's capital expenditure programming roles as Proposition K Sales Tax (Prop K) Administrator; San Francisco Congestion Management Agency (CMA); and San Francisco Program Manager for the Transportation Fund for Clear Air (TFCA). Supplemental budget documentation shall provide a detailed listing of the capital programs and projects that support the Capital Expenditures line items. The draft budget may also include other functional categories as deemed appropriate.

#### B. PUBLIC REVIEW OF DRAFT BUDGET

The draft budget is subject to public consideration in the form of a public hearing at a publicly noticed Transportation Authority meeting. Notice of the time and place of the public meeting



shall be published pursuant to Section 6061 of the California Government Code no later than the 15th day prior to the day of the hearing, and the draft budget shall be available for public inspection at least 15 days prior to the hearing.

### **C. ADOPTION OF A FINAL BUDGET**

As established by the Transportation Authority's Administrative Code, the Transportation Authority Finance Committee shall be responsible for review of the proposed overall operating and capital budget of the Transportation Authority. The Finance Committee shall set the budget parameters (spending limits) by budget line item as detailed in Section III.A. Preparation and Review of a Draft Budget, and shall recommend adoption of the draft budget to the Board.

The final budget for a given fiscal year shall be approved and adopted by resolution of the Board by June 30 of the prior fiscal year. If the Transportation Authority is unable to adopt a final budget by June 30, it must adopt a resolution to continue services and payment of expenses, including debt service. The continuing resolution shall include a date certain by which the annual budget will be adopted.

### **D. AMENDMENTS TO THE ADOPTED BUDGET**

Except as otherwise provided in this section, the adopted final budget is not subject to further review or reopener after the Board resolution has passed. The adopted final budget may be amended during the fiscal year to reflect actual revenues and expenses incurred to the date of amendment during the fiscal year. The Executive Director shall be responsible for proposing amendments to the adopted final budget; the Finance Committee shall be responsible for review of the proposed amended adopted final budget, and for making a recommendation regarding the amended final budget to the Board. The amended final budget shall be adopted by Board resolution.

## **IV. BUDGET REQUIREMENTS**

### **A. ADMINISTRATIVE OPERATING EXPENSES**

Administrative operating expenses include all expenses related to the operations and maintenance of the Transportation Authority, including other related expenses such as staff salaries, staff benefits, office lease costs, equipment rental, supplies, and travel.

#### **1. SALARIES AND BENEFITS**

The Board shall budget annually for the compensation (salaries and benefits) of its staff. Pursuant to the Transportation Authority's enabling legislation (Sections 131100 et seq of the California Public Utilities Code), the Transportation Authority will observe the statutory limit of one percent (1%) of the annual net amount of Prop K revenues for the salaries and benefits of Prop K program administrative personnel, and will follow applicable statutes for all other staff expenses.

#### **2. EMERGENCY EXPENDITURES**

The Executive Director is authorized to exceed the overall administrative expense line items by up to seventy-five thousand dollars (\$75,000), for the actual cost of emergency expenditures that are made to protect the health, safety, and welfare of the agency or the public, or to repair/restore damaged/destroyed property for the Transportation Authority. The Executive Director shall submit a report to the Finance Committee within thirty (30)



days of the emergency explaining the necessity of the action, a listing of expenditures, and future recommended actions.

### **3. PETTY CASH**

A petty cash revolving account in the amount of one thousand dollars (\$1,000) may be established and maintained by the Executive Director for the purposes of paying miscellaneous expenses of the Transportation Authority. Individual expenditures shall not exceed two hundred and fifty dollars (\$250). Such miscellaneous expenses shall include but not be limited to, outside photocopying expenses, office supplies, meeting and travel expenses, and other practical expenses as determined by the Executive Director to be necessary and convenient for proper administration. The Executive Director is authorized from time to time to seek reimbursement of this account to the maximum balance by allocation from the operating budget.

## **B. DEBT SERVICE**

Proposed debt service includes debt service of outstanding debt as well as of anticipated financings within the fiscal year. Decisions to fund capital expenditures through debt issuance must adhere to the policies outlined in the Transportation Authority's most current adopted Strategic Plan and the Transportation Authority Debt Policy.

## **C. CAPITAL EXPENDITURES**

Capital Expenditures shall be listed as a single line item for each of the Transportation Authority's capital expenditure programming roles, which currently are Prop K Administrator, Prop AA Administrator, and CMA and TFCA local administrator. Supplemental budget documentation shall provide a detailed listing of the capital programs and projects that support the Capital Expenditures line items.

## **D. PROGRAM AND OPERATING RESERVE**

The Transportation Authority shall allocate not less than five percent (5%) and up to fifteen percent (15%) of the estimated net annual sales tax revenue as a hedge against an emergency occurring during the budgeted fiscal year. The adopted final budget, as it may be amended as provided in this Policy, will demonstrate the percentage and amount set aside in the reserve as a separate budget line item.

## **E. OTHER FUNCTIONAL CATEGORIES**

The Executive Director may designate other functional categories as deemed appropriate or necessary.

## **V. CAPITAL EXPENDITURE ALLOCATIONS**

As provided by the Transportation Authority's Administrative Code, the Plans & Programs Committee shall be responsible for recommending allocation of funding for those capital expenditure programs and projects in the adopted final budget. The Board shall be responsible for reviewing the Plans & Programs Committee's recommendation and allocating project funds by resolution. The Transportation Authority will adopt, maintain and periodically update a multi-year strategic plan that derives from the provisions of the Prop K Expenditure Plan and outlines the categories, funding and delivery priority of projects to be funded. The Strategic Plan shall encompass the period remaining on the Prop K Expenditure Plan and shall be updated periodically



as necessary. The Strategic Plan and its governing policies shall be used in combination with the Fiscal and Debt Policies to ensure the proper allocation of funds for and timely financing of eligible programs and projects. No allocations shall be approved that are inconsistent with the adopted Strategic Plan in force at the time of the allocation.

Changes in the capital expenditure supplemental budget documentation do not constitute a budget revision unless such changes exceed authorization for the respective budget line item. Any changes that exceed the amount of the budget line item will require an amendment to the approved final budget to be recommended by the Finance Committee and adopted by the Board. The total allocated capital funding for each Transportation Authority role should be no greater than the respective Capital Expenditures budget line item for the fiscal year.

For allocations with multi-year cash distributions, the allocation resolution shall spell out the maximum reimbursement level per fiscal year, and only the reimbursement amount authorized in the year of allocation shall count against the Capital Expenditures line item for that budget year. The Capital Expenditures line item for subsequent year annual budgets shall reflect the maximum reimbursement schedule amounts committed through the original and any subsequent allocation actions. The Transportation Authority will not guarantee reimbursement levels higher than those adopted in the original and any subsequent allocation actions.

## **VI. DEBT ISSUANCE**

As defined by the Transportation Authority's Administrative Code and its Debt Policy, the Finance Committee shall be responsible for oversight of the debt issuance program for the Transportation Authority. Please refer to the current version of the Debt Policy maintained by the Transportation Authority, for the debt issuance program guidelines regarding the issuance and management of debt for financing eligible programs and projects.

## **VII. INVESTMENTS**

As defined by the Transportation Authority's Administrative Code and its Investment Policy, the Finance Committee shall be responsible for oversight of the investment program for Transportation Authority funds. Please refer to the current version of the Investment Policy maintained by the Transportation Authority, for the investment program guidelines regarding all funds and investment-related activities of the Transportation Authority.

## **VIII. REPORTING REQUIREMENTS**

The Executive Director shall report to the Finance Committee at least on a quarterly basis on the Transportation Authority's actual expenditures, budgetary performance, authorized variances that have been implemented pursuant to this Fiscal Policy, the Transportation Authority debt program and the Transportation Authority investment program. The Finance Committee shall cause the Transportation Authority's financial transactions and records to be audited by an independent, certified public accountant firm at least annually and a report to be submitted to the Board on the results of the audit.

## **IX. PROCUREMENT OF GOODS AND SERVICES**

It shall be the policy of the Transportation Authority to competitively bid the procurement of goods and services. Procurements in amounts greater than seventy-five thousand dollars (\$75,000) shall





require a formal bid process including advertising requests for bids and/or proposals in appropriate local newspapers or other media outlets. Pursuant to California Public Utilities Code Sections 131285 and 131286, formal procurement of supplies, equipment, and materials in excess of \$75,000 shall be awarded to the lowest responsible bidder after competitive bidding, except in an emergency declared by the vote of two-thirds of the voting membership of the Transportation Authority, or, if after rejecting bids received, the Transportation Authority determines and declares by a two-thirds vote of all of its voting members that, in its opinion the supplies, equipment or materials may be purchased at a lower price in the open market.

Procurements of supplies, equipment, and materials in amounts equal to or less than \$75,000 shall be awarded to the lowest responsive bidder following an informal competitive bid process.

The selection of professional services of private architectural, landscape architectural, engineering, environmental, land surveying, or construction project management firms shall be on the basis of demonstrated competence and on the professional qualifications necessary for the satisfactory performance of the services required in accordance with the Transportation Authority's Procurement Policy.

All procurement transactions, regardless of dollar value and regardless of whether by sealed bid, informal quote, or by negotiation, shall be conducted in a manner that promotes free and open competition.

#### **A. DISADVANTAGED BUSINESS ENTERPRISE REQUIREMENT**

Any procurement whether formal or informal shall comply with the Transportation Authority's applicable non-discrimination, minority/local/women-owned business and other applicable contracting policies in place at the time of procurement.

#### **B. CONFLICT OF INTEREST**

No employee, officer or agent of the Transportation Authority shall participate in the selection or in the award or administration of a contract if such participation would result in a conflict of interest, real or apparent, as defined by state statute and applicable case law. No employee, officer, or agent shall solicit or accept gratuities, favors or anything of monetary value from contractors, potential contractors or parties to sub-agreements.

#### **C. CONTRACTS**

Approval of the Board is required prior to the execution of any contract for the procurement of goods or professional services that authorizes payments that in the aggregate exceed seventy-five thousand dollars (\$75,000) in a fiscal year. The Executive Director is authorized to approve and execute all such contracts that authorize payments not in excess of \$75,000, provided that the amounts were identified and included in the adopted final budget, as amended in accordance with this Policy for the current fiscal year or, in the event that the contract was not completed in a single fiscal year, the contiguous fiscal year(s). The Executive Director is authorized to amend contracts to extend time, to add or delete tasks of similar scope and nature, and to increase or reduce the total amount of the contract. The Executive Director may execute such amendments without prior Board approval, if the amount of the amendment does not exceed \$75,000.

The foregoing notwithstanding, the Executive Director is authorized to execute, without prior Board approval, all standard grant agreements based upon a grant award to a sponsoring agency



for programs and projects defined in the adopted final budget supplemental documentation, or as approved by specific Board action.

No contractual obligations, administrative or capital, shall be assumed by the Transportation Authority in excess of its ability to pay, as defined by the adopted final budget and the Strategic Plan. All expenditures shall comply with all federal, state, and local statutory and other legal restrictions placed on the use of said funds.

The Transportation Authority shall establish contracts for banking, investment and standard accounting services. Said contracts shall include provisions for the receipt, maintenance, investment and disbursement of funds, payroll functions, and ongoing financial data reports as required by the Transportation Authority.



## PROCUREMENT POLICY

### I. INTRODUCTION

The Procurement Policy is designed to guide decisions pertaining to procurement, including the modes, methods and procedures for acquiring the materials, equipment and services necessary to carry out the operations of the San Francisco County Transportation Authority (Transportation Authority). This policy is intended to establish the manner in which all Transportation Authority procurement activities shall be conducted, and define the requirements and/or limitations for the Transportation Authority and those individuals, firms or agencies doing business with the Transportation Authority. It is intended to be consistent with the Transportation Authority's Administrative Code, the Proposition K Sales Tax Expenditure Plan (Expenditure Plan), federal and state regulations, and general prudent accounting and financial management practices.

### II. SCOPE AND AUTHORITY

The Procurement Policy applies to the operations of the Transportation Authority and is not applicable to the operations of any project sponsoring agencies of the Transportation Authority, unless otherwise specifically provided. The Transportation Authority may enter into an agreement to solicit and award contracts on behalf of a sponsoring agency, if requested and if it is determined to be in the best interest of the Transportation Authority and the sponsoring agency. The award of such contracts shall be for goods and services for programs or projects contained in the Expenditure Plan.

The Procurement Policy provides guidelines for procuring materials and supplies, professional and technical services, and lease and rental agreements. The Procurement Policy is separate from, but shall be applied in conjunction with, the Transportation Authority's Strategic Plan, Fiscal Policy and Disadvantaged Business Enterprise (DBE) and Local Business Enterprise (LBE) Policy, as applicable. Overall policy direction shall be the responsibility of the Board. Responsibility for implementation of the Procurement Policy, and day-to-day responsibility and authority for structuring, implementing, and managing the Transportation Authority's policies, goals, and objectives, shall lie with the Executive Director. This Policy will be reviewed and updated as required or deemed advisable at least once every three years. Any changes to the policy are subject to approval by the Board at a public meeting.

### III. PROCUREMENT PROCESS

Open competition is the basis for efficient, economic and fair public procurement. It is the policy of the Transportation Authority to competitively bid the procurement of all goods and services, and to encourage small and local firms to do business with the Transportation Authority. All procurement activities are considered to be contractual obligations encompassing financial compensation in return for the rendering of specific goods and/or services. All procurements are to be negotiated on a fixed-price or cost plus fee basis.

#### A. GENERAL PROVISIONS

All procurement transactions, regardless of purchasing methodology or dollar value, shall be conducted in a manner that maximizes open and free competition. Solicitation for offers, whether by an informal or formal bid process or through competitive negotiation shall:



1. incorporate a clear and accurate description of the technical requirements for the materials, product or services to be procured; and
2. clearly set forth all requirements which bidders must fulfill, and all other factors to be used in evaluating the proposals.

All bids or proposals must be submitted and received to the location designated no later than the exact time and date stated in bid or proposal requirements, and must be date-and-time stamped and logged as received by Transportation Authority personnel. Bids or proposals received after the date and time deadline will be returned unopened and will be considered as disqualified. A bid or proposal may be withdrawn prior to bid or proposal opening for any reason by a bidder or his/her authorized representative, provided a written request to withdraw is received by the Transportation Authority prior to bid or proposal opening. After bid or proposal opening, a bid or proposal may be withdrawn only for material obvious error(s) and subject to the written approval by the Executive Director.

The Transportation Authority reserves the right to modify and/or suspend any and all aspects, terms, conditions and requirements of any procurement, to obtain further information from any firm or person responding to the procurement, to waive any informality or irregularity as to form or content of the procurement document or any response thereto, to be the sole judge of the merits of the bids or proposals received, and to reject any or all bids or proposals for any reason provided that such actions are made in accordance with federal and state laws.

Contract awards shall be made only to responsive and responsible contractors that possess the potential ability to perform successfully under the terms and conditions of a proposed procurement. Consideration shall be given to such matters as compliance with public policy, record of past performance, and financial and technical resources. False statements in proposals will be a basis for disqualification. All contract awards shall be documented by written purchase order, written contract or written memorandum. Contracts, including all options therein, will generally be limited to a maximum period of five (5) years.

The Transportation Authority annual budget establishes the monetary limits for the procurement of goods and services subject to this Policy. All procurements, whether formal or informal, shall be in compliance with the Transportation Authority's non-discrimination policy, DBE/LBE Policy, if applicable, and any other Transportation Authority contracting policy in effect at the time of the procurement.

B. CONFLICT OF INTEREST

No employee, officer or agent of the Transportation Authority shall participate in the procurement process, or in the award or administration of a contract, if such participation would result in a conflict of interest, real or apparent, as defined by state and federal laws. No employee, officer, or agent shall solicit or accept gratuities, favors or anything of monetary value from contractors, potential contractors or parties to sub-agreements. The Transportation Authority shall be subject to Articles 1 and 3 of Title 9, Chapter 7 of the California Government Code and the regulations which implement those provisions as well as the San Francisco County Transportation Authority Conflict of Interest Code.



### C. INFORMAL BID PROCESS

Solicitations for goods and services that are anticipated to be equal to or less than \$75,000 may go through an informal Request for Proposal (RFP) or bid process. Quotes may be requested by telephone, via the Internet or through the mail from known qualified vendors or from current vendor catalogs and/or websites. Routine purchases in the amount of \$25,000 or less should be distributed equitably among qualified competitively priced suppliers, with consideration given to DBE/LBE utilization as applicable and as permitted by law. It is not permissible to segment the contract or use multiple solicitations for similar goods or services in order to circumvent the limitation for formal solicitation.

The informal bid or solicitation process shall include a minimum of three quotes from potential providers to ascertain that the proposed price is fair and reasonable. Transportation Authority files shall maintain support documentation demonstrating that a sufficient number of quotes were obtained.

Except in the case of an emergency, or a finding by the Board by two-thirds vote of all its voting members that, in its opinion, the supplies, equipment or materials may be purchased at a lower price in the open market, awards of contracts for supplies, equipment and materials in excess of \$25,000 shall be awarded to the lowest responsible and responsive bidder. Awards of contracts for supplies, equipment and materials not in excess of \$25,000 will generally be awarded to the lowest bidder after a competitive process, but other factors including but not limited to delivery date and known performance and, if applicable and permitted by law, DBE/LBE participation may be considered in selecting the vendor.

Awards of contracts for professional services, including private architectural, landscape architectural, engineering, environmental, land surveying, or construction project management firms shall be on the basis of demonstrated competence and on the professional qualifications necessary for the satisfactory performance of the services required, and at a price that is fair and reasonable, in accordance with state and federal laws.

### D. FORMAL BID PROCESS

Solicitation of goods and/or services that are anticipated to be in excess of \$75,000 shall be required to go through a formal Request for Proposal (RFP) or Invitation for Bid (IFB) process. An RFP process will also be used to procure professional and technical services as applicable in accordance with the provisions of California Government Code Section 4526 and applicable federal laws and regulations. Award of a contract for professional services will be qualifications-based and will consider multiple factors that will be clearly stated in the RFP, although price may be considered during the negotiation of the contract. Procurement for establishing an on-call or preapproved list of professional services providers shall be based on a qualifications-based process in accordance with state and federal law, and price may be taken into consideration when negotiating a contract with a firm selected from such a list to fulfill task orders.

For procurements anticipated to be in excess of \$75,000, an Invitation for Bids (IFB) process will be used to procure all supplies, equipment, or materials that are standard in nature, character, and quality; easily defined; and/or reasonably accessible in the open market. Award will be made to the lowest responsive and responsible bidder after competitive bidding, except in an emergency declared by the vote of two-thirds of the voting



membership of the Board pursuant to California Public Utilities Code Section 131285. If, after rejecting bids received, the Transportation Authority, pursuant to California Public Utilities Code Section 131286, determines and declares by a two-thirds vote of the voting membership of the Board that, in its opinion, the supplies, equipment, or materials may be purchased at a lower price in the open market, the Transportation Authority may proceed to purchase these supplies, equipment, or materials in the open market without further observance of the provisions regarding contracts, bids, or advertisement.

Solicitation for offers in the formal bid process shall include the following:

1. A clear and accurate written description of the project scope and deliverables, and technical requirements for the materials, product, or service being procured;
2. Special conditions or restricting policies, policy goals such as DBE/LBE goals, if applicable, patents, liquidated damages and performance, bid or indemnification requirements;
3. Proposed timetable for the project or service;
4. General format requirements and number of copies/items (if applicable) to be delivered;
5. Date of pre-proposal conference, if applicable;
6. A clear definition of the evaluation criteria to be used in evaluating the bids or proposals; and
7. Date, time, and place for submission of final bids or proposals.

If a pre-proposal conference is held, a listing of those in attendance showing name(s) of attendees and agency or company represented shall be maintained in the resulting contract files.

Responses to RFPs for professional and technical services shall require identification of the bidders or proposer's key employees and subcontractors. Bidders or proposers shall be required to notify the Transportation Authority of any pending lawsuits or labor disputes that may interfere with the delivery of services.

Procurements in amounts greater than \$75,000 shall require a formal notice process including advertising requests for bids or proposals in local appropriate newspapers or other media outlets. Notice should occur with sufficient time to allow bidders or proposers reasonable time in which to respond. The term "reasonable time" may vary depending on the complexity of the proposed project. Thirty (30) calendar days shall be considered the standard time allotted in notification to potential bidders or proposers. More or less time may be allotted at the determination of the Executive Director.

RFPs and IFBs will be reviewed by a selection panel appointed by the Executive Director. The Executive Director may elect to assemble a separate cost evaluation panel to review cost proposals and evaluate cost assumptions. Based on their reviews and analysis, the selection panel and cost evaluation panel, if any, shall rank bids or proposals. The Executive Director will recommend to the Board award of a contract, based on the results of the procurement process and the recommendations the selection panel and cost evaluation panel, if any, to the bidder or proposer most advantageous to the Transportation Authority. In the case of



IFBs, the Executive Director will recommend award to the lowest responsive and responsible bidder or proposer.

Copies of all correspondence, including negative response letters, copies of evaluation sheets/scores, and copies of all bids or proposals not being considered further shall be maintained in the files.

In the event that only a single bid or proposal is submitted, the Transportation Authority shall document its efforts in soliciting responses; and record the history of all correspondence, negotiations, including parties involved, etc. that took place with reference to the award of the resulting contract.

#### **IV. NONCOMPETITIVE NEGOTIATED AGREEMENTS (SOLE SOURCE)**

A noncompetitive, negotiated contract may be developed when special conditions arise. These types of agreements are defined as “Sole Source” agreements. Conditions under which noncompetitive, negotiated contracts may be acceptable include:

1. A unique commodity or specialized professional service is known to be available from only one vendor;
2. An emergency of such magnitude that cannot permit delay; or
3. Competition is determined to be inadequate after solicitation of a number of sources.

In these cases, the Transportation Authority will develop an adequate scope of work, evaluation factors and cost estimate, and conduct negotiations with the vendor to ensure a fair and reasonable cost. The Transportation Authority will document details of the special conditions and retain those details in the respective contract file for audit and grant review purposes.

#### **V. PROCUREMENT PROTEST AND APPEAL PROCEDURES**

It shall be the policy of the Transportation Authority to have established protest procedures which shall apply to all procurement of supplies, equipment, and services. A copy of these policies and procedures shall be maintained in the Transportation Authority’s offices for general inspection and review by the public. In addition, the Transportation Authority shall provide, upon request, a copy of these protest policies and procedures to all individuals, associations, corporations, and companies with which the Transportation Authority conducts business.

A bidder or proposer that has timely submitted a bid or proposal in response to a procurement of the Transportation Authority may file a protest asserting that the Transportation Authority has failed to follow applicable policies or procedures relative to seeking, evaluating, and/or awarding a contract or has failed to comply with relevant specifications or procedures contained in the bid documents or request for proposals. In order to file a protest, the protester must be an actual bidder or proposer whose direct economic interests would be affected by the award of a procurement contract or by the failure to award a procurement contract.

Such protests must be filed within the earlier of five (5) business days after (i) notice, actual or constructive, of the Transportation Authority’s finding that the bidder or proposer’s bid or proposal is not being considered further or (ii) an award of the contract by the Transportation Authority to another bidder or proposer.



A protest shall be deemed filed when the Transportation Authority actually receives the protest by mail or personal delivery. Failure to file a timely protest shall constitute a waiver of the right to file a protest under these procedures. Within five (5) business days of receipt of an untimely protest, the Transportation Authority shall notify the individual or entity that the protest was untimely and is being rejected. Such notice shall constitute the final decision of the Transportation Authority relative to the untimely protest.

All protests filed must be filed by an actual bidder or proposer responding to the procurement and must be in writing and include the following information:

1. Name of individual or entity filing protest;
2. Business address and telephone number of individual or entity;
3. Name and title of contact person;
4. Description of specific procurement and the action or decision being protested;
5. A clear and concise statement of the protest, including identification of:
  - a) procedures or specifications contained in bid documents or request for proposals which were allegedly not complied with, or
  - b) specific instance(s) of Transportation Authority failure to follow its policy and procedures;
6. Detailed factual support for the protest, including relevant documents or correspondence;
7. Desired resolution of the protest; and
8. Dated signature of individual, or authorized representative of entity, filing the protest.

The Executive Director shall review and consider all stated concerns and issues alleged to be in non-compliance and issue a decision within five (5) business days of receipt of the protest. If the decision of the Executive Director is not satisfactory to the protesting party, the protesting party may appeal that decision to the Transportation Authority Board. The appeal must be filed within five (5) business days of the date of the decision. The appeal must clearly state the basis for disputing the decision of the Executive Director.

The appeal shall be referred to the Finance Committee, which shall consider whether to accept the appeal and hold a hearing on the matter. If a majority of the Finance Committee does not wish to accept the appeal, the Finance Committee shall recommend to the Transportation Authority Board that the decision of the Executive Director shall be final.

If a majority of the Finance Committee agrees to accept the appeal and hold a hearing on the matter, the protesting party shall be notified of the hearing date and time, which shall be scheduled at the earliest convenience of the Finance Committee. At the hearing, the protesting party shall be allowed fifteen (15) minutes to present its case. The Transportation Authority staff shall then be allowed fifteen (15) minutes to present the Transportation Authority's case. The Finance Committee may extend these time periods at its discretion.

Upon conclusion of the hearing, or if the Finance Committee's determination is to agree with the decision of the Executive Director and reject the appeal without a hearing, its recommendation shall be submitted to the Board. The Board shall review and act upon the





Finance Committee's recommendation at its next regularly scheduled meeting unless it determines that additional time to consider the appeal is required. The Transportation Authority Board may accept the recommendation of the Finance Committee or determine to take action inconsistent with the recommendation of the Finance Committee. The Board shall issue written notification to the protester of its decision which shall constitute the final decision of the Transportation Authority.

## **VI. CONTRACT ADMINISTRATION**

No contractual obligations, administrative or capital, shall be assumed by the Transportation Authority in the excess of its ability to pay as defined by the adopted final budget and the Strategic Plan. Approval of the Board is required prior to the execution of any contract for the procurement of goods or professional services that authorizes payments that in the aggregate exceed seventy-five thousand dollars (\$75,000) in a fiscal year. The Executive Director is authorized to approve and execute all such contracts that authorize payments not in excess of \$75,000, provided that the amounts were identified and included in an adopted final budget, as amended in accordance with Transportation Authority Fiscal Policy for the current fiscal year or, in the event that the contract was not completed in a single fiscal year, the contiguous fiscal year(s). The Executive Director is authorized to amend contracts to extend time, to add or delete tasks of similar scope and nature, and to increase or reduce the total amount of the contract. The Executive Director may execute such amendments without prior Board approval, if the amount of the amendment does not exceed \$75,000.

All expenditures shall comply with all federal, state and local statutory and other legal restrictions placed on the use of said funds. The Executive Director shall execute all contracts in conformance with the monetary limits established in the adopted final budget. The Executive Director and/or his/her designee has the responsibility for monitoring all contractual agreements for compliance with the terms and conditions established in the contract and for rendering payment upon completion of services or delivery of goods and materials as agreed.





## INVESTMENT POLICY

### I. INTRODUCTION

The purpose of this document is to set out policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the San Francisco County Transportation Authority (the Transportation Authority) are, in every case, subject to and limited by applicable provisions of state law and to prudent money management principles. All funds will be invested in accordance with the Transportation Authority's Investment Policy, and applicable provisions of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (Section 53600 et seq.). The investment of bond proceeds will be further restricted by the provisions of relevant bond documents.

### II. SCOPE

This policy covers all funds and investment activities under the jurisdiction of the Transportation Authority.

Bond proceeds shall be invested in the securities permitted pursuant to Board approved bond documents. If the bond documents are silent as to the permitted investments, bond proceeds will be invested in the securities permitted by this policy. In addition to the securities listed in Section IX below, bond proceeds may also be invested in investment and forward delivery agreements. Notwithstanding the other provisions of this Investment Policy, the percentage or dollar portfolio limitations listed elsewhere in this Investment Policy do not apply to bond proceeds.

### III. PRUDENT INVESTOR STANDARD

In managing its investment program, the Transportation Authority will observe the "Prudent Investor" standard as stated in Government Code Section 53600.3, applied in the context of managing an overall portfolio. Investments will be made with care, skill, prudence and diligence, taking into account the prevailing circumstances, including, but not limited to general economic conditions, the anticipated needs of the Transportation Authority and other relevant factors that a prudent person acting in a fiduciary capacity and familiar with those matters would use in the stewardship of funds of a like character and purpose.

### IV. OBJECTIVES

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

- 1) **Safety.** Safety of the principal is the foremost objective of the investment program. Investments of the Transportation Authority will be undertaken in a manner that seeks to ensure preservation of the principal of the funds under its control.
- 2) **Liquidity.** The Transportation Authority's investment portfolio will remain sufficiently liquid to enable the Transportation Authority to meet its reasonably anticipated cash flow requirements.



- 3) **Return on Investment.** The Transportation Authority's investment portfolio will be managed with the objective of attaining a market rate of return throughout budgetary and economic cycles commensurate with the Transportation Authority's investment risk parameters and the cash flow characteristics of the portfolio.

## **V. DELEGATION OF AUTHORITY**

Management's responsibility for the investment program is derived from the Transportation Authority Board and is hereby delegated to the Executive Director acting as Transportation Authority Treasurer. Pursuant to the requirements of the California Government Code, the Board may renew the delegation pursuant to this section each year. No person may engage in an investment transaction except as provided under the limits of this policy. The Transportation Authority may retain the services of an investment advisor to advise it with respect to investment decision-making and to execute investment transactions for the Transportation Authority. The advisor will follow the policy and such other written instructions as are provided by the Executive Director.

## **VI. ETHICS AND CONFLICT OF INTEREST**

Officers and employees of the Transportation Authority involved in the investment process will not engage in any personal business activities that could conflict with proper and lawful execution of the investment program, or which could impair their ability to make impartial decisions.

## **VII. INTERNAL CONTROLS**

The Transportation Authority will establish internal controls to ensure compliance with the Investment Policy and with the applicable requirements of the California Government Code.

## **VIII. AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS**

The Executive Director will establish and maintain a list of financial institutions and other financial services providers authorized to provide investment services. In addition, the Transportation Authority will establish and maintain a list of approved security broker/dealers, selected on the basis of credit worthiness, that are authorized to provide investment services in the State of California. These include primary dealers or regional dealers that meet the net capital and other requirements under Securities and Exchange Commission Rule 15c3-1. No public deposit will be made except in a qualified public depository as established by state law.

## **IX. PERMITTED INVESTMENT INSTRUMENTS**

California Government Code Section 53601 governs and limits the investments permitted for purchase by the Transportation Authority. Within those investment limitations, the Transportation Authority seeks to further restrict eligible investment to the investments listed below. The portfolio will be diversified by security type and institution, to avoid incurring unreasonable and avoidable concentration risks regarding specific security types or individual financial institutions.

Percentage limitations, where indicated, apply at the time of purchase. Rating requirements where indicated, apply at the time of purchase. In the event a security held by the Transportation Authority is subject to a rating change that brings it below the minimum specified rating requirement, the Executive Director will notify the Board of the change. The course of action to



be followed will then be decided on a case-by-case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further rate drops, and the current market price of the security.

1. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category.
2. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio that may be invested in this category.
3. Repurchase Agreements not to exceed one year duration. There is no limitation as to the percentage of the portfolio that may be invested in this category. The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities are acceptable collateral. All securities underlying repurchase agreements must be delivered to the Transportation Authority's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The market value of securities that underlay a repurchase agreement will be valued at 102 percent or greater of the funds borrowed against those securities and the value will be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements will be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.
4. Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state or any local agency; provided that the obligations are rated in one of the two highest categories by a nationally recognized statistical-rating organization (NRSRO). There is no limitation as to the percentage of the portfolio that may be invested in this category.
5. Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency; or authority of any of the other 49 United States, in addition to California, provided that the obligations are rated in one of the two highest categories by a nationally recognized statistical-rating organization (NRSRO). There is no limitation as to the percentage of the portfolio that may be invested in this category.
6. Bankers' Acceptances issued by domestic or domestic branches of foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by a NRSRO. Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the Transportation Authority's portfolio. No more than 30 percent of the Transportation Authority's portfolio may be invested in the Banker's Acceptances of any one commercial bank.



7. Commercial paper of “prime” quality rated the highest ranking or of the highest letter or number rating as provided by a NRSRO. The entity that issues the commercial paper will meet all of the criteria in either (1) or (2) as follows: (1) the corporation will be organized and operating within the United States, will have assets in excess of five hundred million dollars (\$500,000,000), and will issue debt, other than commercial paper, if any, that is rated “A” or higher by a NRSRO; or (2) the corporation will be organized within the United States as a special purpose corporation, trust, or limited liability company, has program wide credit enhancements including, but not limited to, over collateralizations, letters of credit, or surety bond; has commercial paper that is rated “A-1” or higher, or equivalent by a NRSRO. Eligible commercial paper may not exceed 270 days’ maturity nor represent more than 10% of the outstanding paper of an issuing corporation, or 25% of the Transportation Authority’s portfolio.
8. Medium-term corporate notes, defined 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 United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes will be rated in a rating category “A” or better by a NRSRO. Purchases of medium-term notes will not exceed 30 percent of the Transportation Authority’s portfolio.
9. FDIC insured or fully collateralized time certificates of deposit in financial institutions located in California. Purchases of time certificates of deposit may not exceed 1 year in maturity or 10 percent of the Transportation Authority’s portfolio.

To be eligible to receive local agency money, a bank, savings association, federal association, or federally insured industrial loan company shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. The FFIEC provides an overall assessment of the insured depositories’ ability to meet the credit needs of their communities, consistent with safe and sound operations.
10. Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the Transportation Authority’s portfolio.
11. State of California’s Local Agency Investment Fund (LAIF). The LAIF portfolio should be reviewed periodically. There is no limitation as to the percentage of the portfolio that may be invested in this category. However, the amount invested may not exceed the maximum allowed by LAIF.
12. The California Asset Management Program, as authorized by Section 53601 (p) of the California Government Code. The Program constitutes shares in a California common law trust established pursuant to Section 6509.7 of Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by subdivisions (a) to (o) of Section 53601 of the Government Code of



California, as it may be amended.

13. Insured savings account or money market account. To be eligible to receive local agency deposits, a financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California communities in its most recent evaluation. There is no limitation as to the percentage of the portfolio that may be invested in this category. Bank deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. The collateralization requirements may be waived for any portion that is covered by federal deposit insurance. The Transportation Authority shall have a signed agreement with any depository accepting Transportation Authority funds per Government Code Section 53649.
14. Placement Service Certificates of Deposit (CDs). Certificates of deposit placed with a private sector entity that assists in the placement of certificates of deposit with eligible financial institutions located in the United States (Government Code Section 53601.8). The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by federal deposit insurance. The combined maximum portfolio exposure to Placement Service CDs and Negotiable CDs is limited to 30%. The maximum investment maturity will be restricted to five years.
15. The San Francisco City and County Treasury Pool. There is no limitation as to the percentage of the portfolio that may be invested in this category. Any loans or investments of Transportation Authority funds invested in the San Francisco City and County Treasury Pool to agencies of the City and County of San Francisco will specifically require the approval of the Transportation Authority Board of Commissioners prior to purchase or acceptance.
16. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940. To be eligible for investment pursuant to this subdivision these companies shall have meet either of the following criteria:
  - (1) Attain the highest ranking or highest letter and numerical rating provided by not less than two NRSROs.
  - (2) Have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000).

The purchase price of shares of beneficial interest purchased will not include any commission that these companies may charge and will not exceed 20 percent of the Transportation Authority's portfolio.

## **X. INELIGIBLE INVESTMENTS**

The Transportation Authority will not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.



## **XI. MAXIMUM MATURITY**

Investment maturities will be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the Transportation Authority to meet all projected obligations.

Where this Policy does not specify a maximum remaining maturity at the time of the investment, no investment will be made in any security, other than a security underlying a repurchase agreement, that at the time of the investment has a term remaining to maturity in excess of five years, unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment.

## **XII. REPORTING REQUIREMENTS**

The Executive Director will submit a quarterly list of transactions to the Transportation Authority Board. In addition, the Executive Director will submit to the Board an investment report each quarter, which will include, at a minimum, the following information for each individual investment:

- Type of investment instrument
- Issuer name
- Purchase date
- Maturity date
- Purchase price
- Par value
- Amortized cost
- Current market value and the source of the valuation
- Credit rating
- Overall portfolio yield based on cost
- Sale Date of any investment sold prior to maturity

The quarterly report also will (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the Transportation Authority's funds, investments or programs that are under the management of contracted parties, and (iii) include a statement denoting the ability of the Transportation Authority to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money may, or may, not be available. For all of the Transportation Authority's investments held in the City and County of San Francisco's Treasury Pool the Executive Director will provide the Transportation Authority Board with the most recent investment report furnished by the Office of the Treasurer and Tax Collector.

## **XIII. SAFEKEEPING AND CUSTODY**

All security transactions entered into by the Transportation Authority will be conducted on a delivery-versus-payment basis. Securities will be held by an independent third-party custodian selected by the Transportation Authority. The securities will be held directly in the name of the Transportation Authority as beneficiary.



**XIV. INVESTMENT POLICY REVIEW**

The Executive Director will annually render to the Board a statement of investment policy, which the Board will consider at a public meeting. Any changes to the policy will also be considered by the Board at a public meeting.



## GLOSSARY

*AGENCIES.* Federal agency securities and/or Government-sponsored enterprises.

*ASKED.* The price at which securities are offered.

*BANKERS' ACCEPTANCE (BA).* A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

*BENCHMARK.* A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

*BID.* The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

*BROKER.* A broker brings buyers and sellers together for a commission.

*CERTIFICATE OF DEPOSIT (CD).* A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

*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.

*COUPON.* (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

*DEALER.* A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

*DEBENTURE.* A bond secured only by the general credit of the issuer.

*DELIVERY VERSUS PAYMENT.* There are two methods of delivery of securities. delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

*DERIVATIVES.* (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

*DISCOUNT.* The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

*DISCOUNT SECURITIES.* Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, *e.g.*, U.S. Treasury Bills.

*DIVERSIFICATION.* Dividing investment funds among a variety of securities offering independent returns.



*FEDERAL CREDIT AGENCIES.* Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, *e.g.*, S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

*FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC).* A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

*FEDERAL FUNDS RATE.* The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

*FEDERAL HOME LOAN BANKS (FHLB).* Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

*FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA).* FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

*FEDERAL OPEN MARKET COMMITTEE (FOMC).* Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

*FEDERAL RESERVE SYSTEM.* The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

*FINANCIAL STATEMENTS.* Financial statements are an overview of the agency's finances and shall be prepared in accordance with generally accepted accounting principles and shall be accompanied by a report, certificate, or opinion of an independent certified public accountant or independent public accountant.

*GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae).* Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

*LIQUIDITY.* A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.



*LOCAL GOVERNMENT INVESTMENT POOL (LGIP).* The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

*MARKET VALUE.* The price at which a security is trading and could presumably be purchased or sold.

*MASTER REPURCHASE AGREEMENT.* A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

*MATURITY.* The date upon which the principal or stated value of an investment becomes due and payable.

*MONEY MARKET.* The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

*OFFER.* The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

*OPEN MARKET OPERATIONS.* Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

*PORTFOLIO.* Collection of securities held by an investor.

*PRIMARY DEALER.* A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

*PRUDENT PERSON RULE.* An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

*QUALIFIED PUBLIC DEPOSITORY.* A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

*RATE OF RETURN.* The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

*REPURCHASE AGREEMENT (RP OR REPO).* A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.



*SAFEKEEPING.* A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

*SECONDARY MARKET.* A market made for the purchase and sale of outstanding issues following the initial distribution.

*SECURITIES AND EXCHANGE COMMISSION (SEC).* Agency created by Congress to protect investors in securities transactions by administering securities legislation.

*SEC RULE 15C3-1.* See Uniform Net Capital Rule.

*STRUCTURED NOTES.* Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

*TREASURY BILLS.* A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

*TREASURY BONDS.* Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

*TREASURY NOTES.* Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

*UNIFORM NET CAPITAL RULE.* Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

*YIELD.* The rate of annual income return on an investment, expressed as a percentage. (a) *INCOME YIELD* is obtained by dividing the current dollar income by the current market price for the security. (b) *NET YIELD* or *YIELD TO MATURITY* is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.