

**SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY
DEBT POLICY**

(As revised on February 21, 2017)

I. INTRODUCTION

The purpose of this Debt Policy (the Policy) is to organize and formalize debt issuance-related policies and procedures for the San Francisco Municipal Transportation Agency (SFMTA or the Agency). This Debt Policy confirms the commitment of the Agency's Board of Directors (Board), management and staff to adhere to sound debt management practices. The debt policies and procedures of the Agency are subject to and limited by the applicable provisions of the City and County Charter, State and Federal law.

II. DEBT POLICY OBJECTIVES

The primary objectives of the Agency's debt and financing related activities are to:

- Support strong financial, management and internal control policies and practices;
- Ensure the timely delivery of both the finance and programming of capital projects in accordance with the priorities identified within the Charter of the City and County of San Francisco, under the direction of the Board of Directors;
- Achieve the lowest cost of borrowing while identifying mitigation factors for any additional risk to the Agency;
- Preserve future financial flexibility;
- Maintain strong credit ratings and good investor relations; and
- Ensure timely and adequate disclosure practices

III. SCOPE OF POLICY

This Debt Policy shall govern the issuance and management of all bonds, notes, certificates, lease financings and other obligations for borrowed money together with the credit, liquidity and other instruments and agreements secured or executed in connection with such obligations.

The primary responsibility for oversight of this Debt Policy shall lie with the Board. The Chief Financial Officer (CFO) shall be responsible for the administration and implementation of the Policy, day-to-day responsibility and the authority for structuring, implementing, and managing the Agency's debt and finance program. The CFO shall review this Debt Policy on a periodic basis, and recommend any changes for consideration and adoption by the Board. This Debt Policy, including any proposed changes or additions hereto, shall be presented to the Board at least once every three years for review and approval. If no changes or additions are recommended the Board will be advised of such. However, revisions to the Debt Policy may be required more frequently as warranted by changes to any legislative, regulatory, administrative or management requirements.

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While adherence to this Policy is required in applicable circumstances, the Agency recognizes that changes in the capital markets, Agency programs and other unforeseen circumstances may from time to time create situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained or the Board is informed of these changes formally. No deviation or failure by the Agency to observe any of the policies stated herein (except for the approval of any bond issue as required by the City charter) shall affected the validity of any indebtedness or the pledge of revenues therefor or the enforceability of any applicable agreements associated with such indebtedness.

This Debt Policy requires that the Board specifically authorize each debt financing and its related documents or agreements.

IV. LEGAL AUTHORITY

Under the Charter of the City and County of San Francisco, the Agency has, to the maximum extent permitted by law, with the concurrence of the Board of Supervisors, and notwithstanding the requirements and limitations of Sections 9.107, 9.108, and 9.109, the authority without further voter approval to incur debt for Agency purposes and to issue or cause to be issued bonds, notes, certificates of indebtedness, commercial paper, financing leases, certificates of participation or any other debt instruments. Upon recommendation from the Board of Directors, the Board of Supervisors may authorize the Agency to incur on behalf of the City such debt or other obligations provided: 1) the Controller first certifies that sufficient unencumbered balances are expected to be available in the proper fund to meet all payments under such obligations as they become due; and 2) any debt obligation, if secured, is secured by revenues or assets under the jurisdiction of the Agency.

The Agency may also from time-to-time issue debt through other entities under its legal authority, such as the San Francisco Parking Authority, as appropriate. In these instances the proposed debt issuance will be evaluated and approved as if it were a either a direct issuance of the Agency if the proposed obligation will be repaid from Agency revenues and all provisions of this policy will apply to those obligations (this debt will also be included in calculations of “Agency-wide” debt) or repaid from certain revenues from specific projects exclusively.

All bonds of the Agency shall be issued in accordance with applicable provisions of the Charter and federal and state laws, rules and regulations, including the Internal Revenue Code of 1986 (the “Code”), the ‘anti-fraud’ provisions contained under the Securities Act of 1934 and the Securities Exchange Act of 1933, in each case as supplemented and amended, and regulations promulgated pursuant to such laws.

V. CAPITAL PLANNING AND BUDGETING

The Agency’s borrowing decisions in terms of timing, amount, structure and alternative products will be made in the context of the Agency’s 5-year Capital Investment Plan (CIP)

and the Agency's Capital Budget. As the Agency's CIP is developed in the context of the Agency's Strategic Plan and Long Range Transit Plan, borrowing decisions will be made in the appropriate strategic context to ensure that any proposed borrowing is directly supporting the goals and objectives of the Agency. While the 5-year CIP represents the unconstrained (i.e., unconstrained by available revenues) plan for the Agency, the Capital Budget expenditures are constrained based upon the amount of realistic revenues resulting in balanced budgets for all fiscal years to which they apply. Developing financing strategies in this context ensures that any proposed borrowing both supports the long-term goals of the Agency and its affordability from a budgetary perspective.

A. Five-Year Capital Investment Plan

The Agency's Five-Year CIP focuses on integrating capital planning, capital budgeting, capital financing and capital project prioritization concepts into a long-range strategic plan designed to improve the capital assets of the SFMTA. The major objectives of this program are to strategically invest the Agency's dollars into capital assets, thereby improving their physical condition, extending their useful life and increasing their value as well as acquiring new assets. Investing in the capital program will strengthen the SFMTA's ability to achieve many of its strategic goals, such as delivering better quality services and improving the financial capacity of the Agency.

The CIP provides information on the development of capital projects, types of construction programs, capital funding, capital prioritization process, capital implementation process and the capital asset management/inventory process. The CIP also provides a listing of capital projects that represent the most critical capital investment needs of the SFMTA.

B. Capital Budgets

The capital budgets are developed based upon a variety of budget assumptions to ensure a financially balanced capital program. The planned expenditure assumptions are based upon the phase of the project, project needs and impacts on the potential workload of the project management staff. The anticipated revenues are based upon assumptions driven by the various Federal, State, and Local agencies that provide funding for Agency capital projects.

The Board's adoption of the 5-year CIP or Capital Budget does not, in and of itself, constitute authorization for debt issuance for any capital projects. Each financing shall be presented to the Board for separate approval.

C. Maintenance of Adequate Reserves

The Agency shall maintain unencumbered reserve amounts sufficient in the determination of the Agency to cover unexpected revenue losses, operating and maintenance costs, extraordinary payments, and other contingencies, and to provide liquidity in connection with the Agency's outstanding debt. The Agency recognizes that maintenance of adequate reserves is not only a commonly accepted financial best practice for transit agencies, but also a critical component of the Agency's credit relations with market participants designed to

minimize the Agency's overall cost of borrowing. The Agency's ability to fully fund its reserves will be dependent on future financial forecasts and its ability to cover all operations and debt service obligations, before adequately funding the required reserves. Specifically, the Agency will maintain the following reserves:

- 1) *"Rainy Day"/Contingency Reserve.* The Agency shall maintain an unencumbered Contingency (Rainy Day) Reserve to cover unexpected revenue losses, operating and maintenance costs, extraordinary payments, and other contingencies consistent with the Agency's Official Reserve Policy, approved in 2007. The Agency's Reserve Policy approved by the Board establishes a goal of setting aside a Rainy Day reserve at 10% of each year's Board approved Operating Budget and states that the Agency intends to gradually ramp up to its desired reserve target over a ten year period or sooner if the Rainy Day Reserve is below the 10% policy goal at the end of any fiscal year.
- 2) *Operational Debt Reserve.* The Agency shall maintain a separate unencumbered Operational Debt Reserve with a goal of setting aside an amount equal to at least 1 year of the Agency's annual debt service. The Operational Debt Reserve is available, but not limited, to debt service payments and may be used for other purposes. With the establishment of the Operational Debt Reserve and the funding target, the Board acknowledges the increased importance of liquid resources as a critical component to the Agency's fiscal health and credit strength as it enters into long-term obligations with bond holders and other lenders.

VI. PURPOSES OF BONDS

The Agency may issue debt obligations for the purposes of financing and refinancing the costs of capital projects undertaken by the Agency. Long-term debt financing shall not be used to fund operating costs.

A debt transaction will be categorized as a new money financing or a refunding financing according to the following criteria.

A. New Money Financing

New money issues are financings that generate new proceeds for capital projects. Eligible capital projects include the acquisition, construction or major rehabilitation of capital assets as well as the acquisition of capital equipment such as transit vehicles. Projects that provide new or increased revenue sources to the Agency upon their completion shall be considered a top candidate for debt financing.

New money debt proceeds may not be used for operating expenses.

In accordance with applicable tax law, the Agency may use a portion of new money debt to reimburse itself for cash expenditure related to the acquisition or improvement of a recent capital project, or issuing debt used to repay an interim financing vehicle such as commercial

paper that funded a new capital project. Such debt will also be considered a new money issue as appropriate under Federal tax regulations.

B. Refunding Financing

Refunding bonds are issued to refinance all or a portion of an outstanding bond issue. Refunding issuances can be used to achieve present-value savings on debt service or to restructure the payment schedule, type of debt instrument used or covenants of existing debt. The Agency must analyze the 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.

VII. TYPES OF DEBT

The following criteria will be utilized to evaluate the type of debt to be issued. The Agency shall consider risks associated with each type of debt and the potential impact on the Agency's finances. It is the preference of the Agency to issue long-term fixed rate debt whenever appropriate; however this policy also recognizes that market conditions and specific project requirements may require the evaluation and eventual implementation of alternative structures.

Consistent with its credit rating objectives, the Agency shall periodically review its debt affordability levels and capacity for the undertaking of new financing obligations to fund its capital improvement plans. Debt affordability measures shall be based upon the credit objectives of the Agency, criteria identified by rating agencies for high-grade credits, comparison of industry peers and other internal factors of the Agency. A summary review of selected major transit agencies and their rating profile may provide a peer comparative basis. While there are many unique characteristics to each of these entities, the nature of their applicable pledged revenues, lien structures, other covenants and policies will provide a limited snapshot to aid in evaluating relative debt capacity and high grade rating considerations and tradeoffs.

A. Long-Term Debt

The Agency may issue long-term debt (i.e., debt with a final maturity of at least 5 years) when projects cannot be funded from resources on hand. The proceeds derived from long-term borrowing will not be used to finance current operations or maintenance.

- 1) *Current Interest Bonds* are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Bond features should 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 credit enhancement products and determining how to fund the debt service reserve fund.

- 2) *Zero Coupon and Capital Appreciation Bonds* pay interest only when principal matures. Interest continues to accrue on the unpaid interest, therefore representing a more expensive funding option. In the case of zero-coupon bonds, principal and interest, at one coupon rate, is repaid at maturity. In the case of Capital Appreciation Bonds, the value of the bond accretes until maturity.
- 3) *Transportation Infrastructure Finance Innovation Act (TIFIA) Loan* is a loan provided by the United States Department of Transportation for transportation projects of regional importance. The Agency may elect to apply for a TIFIA loan if it is determined that it is the most cost effective debt financing option available. TIFIA loans may be used in conjunction with other forms of long-term debt.
- 4) *Grant Anticipation Revenue Vehicle Financing (GARVEE)* are debt obligations secured by certain federal grants such as Federal Transit Administration (FTA) section 5307 funds or a Full Funding Grant Agreement under the Section 5309 New Starts Program. The Agency may consider the issuance of GARVEEs as an alternative to traditional revenue bonds.

B. Short-Term Debt

The Agency may issue debt with shorter-term maturities, including commercial paper and grant and bond anticipation notes, to provide interim financing for capital projects in anticipation of the issuance of long-term debt and/or the receipt of Grant moneys. The Agency may use commercial paper, a line of credit or a similar short-term product as a source of temporary funding of operational cash flow deficits where anticipated revenues are defined as an assured revenue source with the anticipated amount based on conservative estimates. Short-term borrowings to support operations may not be refinanced with long-term debt and must be repaid with eligible revenue sources, as available. Short-term obligations shall consist of obligations with a final maturity of less than five years.

- 1) *Commercial Paper Notes* may be issued as an alternative to fixed rate debt, particularly when the timing of funding requirements and project costs are uncertain. The Agency may maintain an ongoing commercial paper program to ensure flexibility and immediate access to capital funding when needed. The retirement of commercial paper is most commonly a result of the issuance of long-term bonds. Periodic issuances or retirements of commercial paper notes with a Board approved commercial paper program do not require further Board action.
- 2) *Grant Anticipation Notes (GANs)* are short-term notes that are repaid with the proceeds of State or Federal grants of any type.
- 3) *Bond Anticipation Notes (BANs)* are short-term notes that are repaid with the proceeds of a long-term bond issuance. The Agency may wish to consider BANs as an interim financing strategy to accelerate projects ahead of an upcoming bond transaction. Short-term, fixed interest rates will be considered under a proposed BAN strategy, as will the interest rate risk associated with the proposed long-term take-out of the BANs.

- 4) *Direct Line of Credit* shall be considered as an alternative to other short-term borrowing options. They are often structured as a short-term agreement with a financial institution providing the line of credit.

C. Variable Rate Debt

To maintain a predictable debt service burden, the Agency will give preference to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is floating or variable rate debt. It may be appropriate to issue variable rate debt to diversify the Agency debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of assets to liabilities. Variable rate debt may have a lower cost of borrowing than long-term fixed rate financing, but carries interest rate risk as the interest rates on the bonds are periodically reset on a daily or weekly basis. The amount of long-term variable rate debt, if any, will not exceed 20% of all outstanding debt. The Agency will incorporate its variable rate debt into its ongoing budget process by using an interest rate assumption which provides an adequate cushion for market fluctuations when estimating the debt service requirements for variable rate debt.

The Agency may issue bonds that may be converted between two or more interest rate modes without the necessity of a refunding. Such interest rate modes may include, without limitation, daily interest rates, weekly interest rates, other periodically variable interest rates, fixed rates for a term and fixed rates to maturity.

The cost and availability of third-party liquidity to support variable rate debt will be considered when evaluating the use of variable rate obligations. The current cost, ongoing liquidity renewal risk and other risks will be described and presented to the Board when variable rate debt is presented as an alternative.

D. Lease Financing Structures

Lease obligations are a routine and appropriate means of financing capital equipment. These types of obligations should be considered where lease financing will be more beneficial, either economically or from a policy perspective. A tax-exempt lease may be used to finance any property that the Agency has the statutory authorization to lease. As a general matter, only land and depreciable property may be leased. Generally, the leased property is a capital asset to be used by the Agency in its own operations, however a tax-exempt lease financing can be used to provide a facility for the use of another borrower or when the Federal Government has partial ownership of the project through the inclusion of Federal grants in the funding plan.

Payments made by the Agency pursuant to a long-term lease may be made from any lawfully available funds of the Agency. The useful life of the capital equipment, the terms and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. All leases providing tax-exempt financing are subject to this policy, as are all leases, master leases and leasing programs having a cumulative value exceeding \$10 million.

This Policy covers the following Lease Financing structures commonly used by transit agencies:

- 5) *CERTIFICATES OF PARTICIPATION (COPS)*: In the event the Agency wishes to utilize a tax-exempt lease in connection with the sale of municipal securities, certificates of participation, representing undivided interests in the rental payments under the tax-exempt lease, may be sold to the public.
- 6) *LEASE REVENUE BONDS*: Bonds issued by another public entity (such as a SFMRIC or the Parking Authority) or on behalf of the Agency to provide a means to finance capital improvements to be leased to the Agency. The bonds are payable solely from lease payments paid by the Agency to the original entity.
- 7) *CAPITAL/EQUIPMENT LEASE*: The Agency may also use long-term lease obligations to directly finance or refinance specific capital equipment.

E. Revenue Bond Structures

The Agency may issue bonds that are payable in whole or in part from a stream of revenues of the Agency (Revenue Bonds). No Revenue Bonds shall be issued by the Agency unless an outside bond counsel has rendered a legal opinion that the pledge revenue in question is valid. No Revenue Bonds shall be issued by the Agency without compliance with the applicable provisions of this debt policy. Neither the credit nor the taxing power of the City, the State of California or any political subdivision of the State other than the Agency shall be pledged or available to pay or secure the Revenue Bonds of the Agency.

F. Financial Derivative Products

The Agency 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 it will reduce the total project cost. At this time the Agency does not anticipate using any derivative products in any future financing plans and therefore has not addressed them in this policy. If at some point in the future the Agency wishes to reconsider the use of derivative products in connection with future debt issuances in order to create a qualified hedge it will first draft and submit a separate policy to address the use of derivative products to the Board. Derivative products will only be utilized with prior approval from the Board.

VIII. TERMS AND CONDITIONS OF BONDS

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

A. General Guidelines for all Agency Borrowings

Unless changed by Board action, it is the policy of the Agency to meet the targets listed below. These limits, in combination with the Agency's updated Capital Budget and 5-Year CIP which are, in turn, guided by the Agency's Strategic Plan and Long Range Transit Plan. By following the guidelines established in these planning documents the Agency will ensure that it continues to provide essential operational services while planning for the timely replacement, rehabilitation, repair and expansion of its capital investments.

- 1) The Agency will seek to maintain aggregate annual debt service on long-term debt at a level not-to-exceed 5% of the Agency's annual Board approved Operating Budget. The actual terms and conditions specific to each debt issue will be controlled by the applicable documents.
- 2) So long as the above conditions are met, the Agency will seek to minimize the level of debt outstanding consistent with the most recent Capital Budget and 5-Year CIP.
- 3) The Agency will comply with all applicable tax laws relating to tax exempt debt. Tax law requirements include that, at the time of issuance, the Agency shall reasonably expect to expend new money bond proceeds within three years of the date of issuance.

B. Term

In accordance with applicable tax law, all capital improvements financed through the issuance of debt will be financed for a period not to exceed the 120% of the average useful life of the assets being financed.

C. Additional Bonds Test

To the extent the Agency is issuing Revenue Bonds as contemplated by this policy, the associated security documents must contain a well formulated Additional Bonds Test which limits the issuance of additional debt secured by the Pledged Revenues. While the specific formulation of the Additional Bonds Test may vary depending on the type of Revenue Bonds being contemplated, the Agency will utilize an Additional Bonds which establishes a limitation on new issuances such that the Pledged Revenues are no less than one and a half times (1.5x) the maximum annual principal and interest and debt service for the aggregate outstanding senior lien Revenue Bonds including the debt service for the new issuance.

D. Lien Levels

Senior and Junior Liens for the Agency's borrowing program may be utilized in a manner that will allow for the most beneficial use of the revenue source(s) securing the borrowing.

E. Debt Service Structure

The Agency's debt service structure will be developed and maintained to achieve strong credit ratings while addressing the overall revenue constraints and capacity of the Agency. The Agency will first consider a level debt service structure, in aggregate for all outstanding bond issuances, when evaluating proposed borrowing strategies. In the case of assets with shorter useful lives and the expectation of near-term revenues, the Agency may wish to accelerate the repayment of a specific borrowing to reduce interest costs. The Agency shall maintain the flexibility to consider deferred repayment structures if appropriate.

F. Call Provisions

The Agency shall seek to include the optional call rights on bonds with a final maturity of more than 10 years, consistent with optimal pricing of such bonds. Call premiums, if any, should be consistent with then prevailing market standards so as to produce the most advantageous borrowing cost for the Agency.

G. Debt Service Reserve Funds

The Agency will evaluate the need to issue bonds that are secured, in part, by amounts on deposit in or credited to a debt service reserve fund or account in order to minimize the net cost of borrowing and/or to provide additional reserves for debt service or other purposes. Debt service reserve funds may secure one or more series of bonds, and may be funded by proceeds of bonds, other available moneys of the Agency, and/or by suitable surety policies, letters or lines of credit or other similar instruments. Appropriately rated surety policies, letters or lines of credit or other similar instruments may be substituted for amounts on deposit in a debt service reserve fund if such amounts are needed for capital projects or other purposes.

H. Capitalized Interest Accounts

The Agency may choose to establish a Capitalized Interest Account in connection with a specific bond issuance whose proceeds shall be used for the payment of interest related to the bonds for a period of time. Capitalized Interest Accounts are most commonly used when a bond financed project generates revenue that is the primary source of repayment for the bonds or, in the case of lease financings, during the construction period of the project being financed. In the event that project revenues will not be available until a period of time after project construction is completed, a Capitalized Interest Account may serve as the alternative source of funds used to pay interest to bondholders. Generally, a Capitalized Interest Account for a specific bond issuance may be funded through substantial project completion plus a period of no more than 18 months, but no more than a total of three years. In any event, when issuing Tax-Exempt Bonds the Agency will adhere to all relevant IRS regulations pertaining to limitations on the funding of Capitalized Interest Accounts.

IX. THIRD PARTY CREDIT ENHANCEMENT

The Agency may secure credit enhancement for its debt from third-party credit providers to the extent such credit enhancement is available upon reasonable, competitive and cost-effective terms. Such credit enhancement may include municipal bond insurance (Bond Insurance), letters of credit and lines of credit (collectively and individually, Credit Facilities), as well as other similar instruments. Credit enhancement providers shall be selected on a competitive or negotiated basis dependent upon procurement requirements and market constraints.

A. Bond Insurance

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

B. Credit Facilities

The issuance of certain types of bonds requires a letter of credit or line of credit (a "Credit Facility") from a commercial bank or other qualified financial institution to provide liquidity and/or credit support. The types of bonds where a Credit Facility may be necessary include commercial paper and variable rate bonds.

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

- 1) Long-term ratings from at least two nationally recognized credit rating agencies ("Rating Agencies") that have, at the time of selection, no rating below A2/A/A;
- 2) Short-term ratings from at least two Rating Agencies of at least P-1/A-1/F1 or equivalent;
- 3) Experience providing such facilities to state and local government issuers;
- 4) Fees, including initial and ongoing costs of the Credit Facility; draw, transfer and related fees; legal counsel fees; termination fees and any trading differential; and
- 5) Willingness to agree to the terms and conditions proposed or required by the Agency.

X. REFINANCING OUTSTANDING DEBT

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

A. Debt Service Savings

The Agency has established a minimum net present value (NPV) debt service savings threshold goal of three (3) percent of the refunded bond principal amount unless there are other compelling reasons for refinancing. The present value savings will be net of all costs related to the refinancing.

B. Restructuring

The Agency may restructure outstanding debt to meet unanticipated revenue expectations, mitigate irregular debt service payments, release reserve funds or amend restrictive bond covenants.

C. Term of Refunding Issues

The Agency may refund bonds within the term of the originally issued debt. However, the Agency may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible and potential credit impacts are adequately evaluated. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

D. Escrow Structuring

The Agency shall utilize the least costly securities available in structuring refunding escrows. 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 Series 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 Agency from its own account.

E. Arbitrage

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

XI. METHODS OF BOND SALES

The Agency 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 Agency'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:

- 1) Bond prices are stable and/or demand is strong
- 2) Market timing and interest rate sensitivity are not critical to the pricing
- 3) Participation from DBE firms is best efforts and not required for winning bid
- 4) There are no complex explanations required during marketing regarding issuer's projects, media coverage, political structure, political support, funding or credit quality
- 5) The bond type and structure are conventional
- 6) Manageable transaction size
- 7) Proposed security and repayment source have strong credit rating
- 8) Proposed security and repayment source are well known to investors

B. Negotiated Sale

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

- 1) Bond prices are volatile
- 2) Demand is weak or supply of competing bonds is high
- 3) Market timing is important, such as for refundings
- 4) Proposed security and repayment source have lower or weakening credit rating
- 5) Proposed security and repayment source are not well known to investors
- 6) 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
- 7) 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

- 8) Early structuring and market participation by underwriters are desired
- 9) The par amount for the transaction is significantly larger than normal

10) Demand for the bonds by retail investors is expected to be high

11) Participation from DBE firms is desired

C. Private Placement

The Agency may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to result in a cost savings to the Agency relative to other methods of debt issuance and/or the terms and conditions of a private placement are more favorable to the Agency than those terms achieved through a publicly sold transaction.

XII. MARKET RELATIONSHIPS

A. Rating Agencies and Investors

The CFO shall be responsible for maintaining the Agency's relationships with Moody's Investors Service, Standard & Poor's and Fitch Ratings, as appropriate. The Agency may, from time-to-time, choose to deal with only one or two of these agencies as circumstances dictate. Use of other market accepted rating agencies (e.g. Kroll) may be considered based upon meeting best needs of the Agency. In addition to general communication, the CFO shall: (1) meet with credit analysts on a periodic basis to provide program updates, (2) prior to each competitive or negotiated sale, offer conference calls with rating agency analysts in connection with the planned sale and (3) ensure the prompt delivery of pertinent public documents including, but not limited to, the Agency's Annual Financial Statements and Bi-Annual Budgets.

B. Agency Communication

The CFO shall provide the Board with feedback from rating agencies and/or investors regarding the Agency's financial strengths and weaknesses and recommendations for addressing any weaknesses.

XIII. CONTINUING DISCLOSURE AND POST ISSUANCE TAX COMPLIANCE

The Agency shall remain in compliance with SEC Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders. In accordance with the Continuing Disclosure Certificate of the Agency's bonds, the Agency shall file such information within 270 days of the close of the fiscal year (or March 27 of each year or March 26 of leap years). In addition, the Agency also establishes an internal policy target to complete the filing of its annual financial statements and operating data with Electronic Municipal Market Access (EMMA) by March 1 of each fiscal year.

The CFO will ensure the Agency's timely filing for official statements, annual financial statements, annual reports, and all requisite event filings. The CFO may also consult with the Legal Counsel or its Financial Advisors to assist in the preparation and filing of the Agency's requirements and to ensure that all disclosure filings are materially consistent and complete. In the event that any omissions in filing are discovered, upon learning about the omission, the CFO shall take steps to immediately remedy any deficiency.

The SFMTA shall provide timely notices following the occurrence of any significant and/or material events within 10 business days as described in the Continuing Disclosure Certificate. These continuing disclosure events include: (Events 1-9 are to be reported in every instance- always material. Events 10-16 only if deemed "material")

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancement reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinion or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposal Issue (IRS Form 5701-TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person;
10. Unless described in number (5) above, other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;
11. Modifications to rights of the bondholders;
12. Optional, unscheduled or contingent bond calls;
13. Release, substitution, or sale of property securing repayment of the Agency's bonds;
14. Non-payment related defaults;
15. Certain merger, consolidation or acquisition transactions of the obligated persons; or
16. Appointment of a successor or additional trustee or the change of name of a trustee.

The Agency may also determine to make voluntary market disclosure on EMMA as it deems appropriate.

The Agency may also retain a dissemination agent (currently the Agency acts as its own agent) to manage the timing and issuance of such notices. The Agency shall also retain all filing confirmations from EMMA and from the Trustee as documented evidence of completing all requirements on time.

In addition to complying with all applicable continuing disclosure requirements, the Agency will bear primary responsibility for all ongoing tax compliance matters relating to the obligations (referred to herein as the Bonds) issued by the SFMTA and subject to the terms

of these Policies. The person(s) who hold the following title(s) shall be responsible for monitoring ongoing tax compliance matters relating to the Bonds, including compliance with the arbitrage rebate requirements of Section 148 of the Code, as set forth in these Procedures, which are intended to satisfy Section 7.2.3.4.4 of the Internal Revenue Manual: CFO

A. External Advisors/Documentation

- 1) The CFO, to the extent necessary, will consult with legal counsel and advisors following issuance of the Bonds to ensure that all applicable post-issuance requirements in fact are met. Such consultation will include, without limitation, questions about future contracts with respect to the use of Bond-financed or refinanced assets.
- 2) The CFO will from time to time engage expert advisors (each a Rebate Service Provider) to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds as required under the Code.
- 3) The CFO shall prepare (or cause to be prepared) regular, periodic statements regarding the investments and transactions involving Bond proceeds and such statements shall be delivered to the Internal Revenue Service if it so requests.

B. Arbitrage Rebate and Yield

In connection with Bonds subject to these Policies the CFO shall be responsible for:

- 1) Engaging the services of a Rebate Service Provider and, prior to each rebate calculation date, causing the trustee or other account holder to deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider;
- 2) Providing to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;
- 3) Monitoring efforts of the Rebate Service Provider;
- 4) Assuring payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed;
- 5) During the construction period of each capital project financed in whole or in part by Bonds, monitoring the investment and expenditure of Bond proceeds and consult with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issue date of the Bonds; and

- 6) Retaining copies of all arbitrage reports and account statements as described below under “Record Keeping Requirements” and, upon request, providing such copies to the Internal Revenue Service.

C. Use of Bond Proceeds and Bond-Financed or Refinanced Assets

The CFO, and/or his or her designees, shall be responsible for:

- 1) Monitoring the use of Bond proceeds and the use of Bond-financed or refinanced assets (e.g., facilities, furnishings or equipment) throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in any tax agreement relating to the Bonds;
- 2) Maintaining records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds, including a final allocation of Bond proceeds as described below under “Record Keeping Requirements”;
- 3) Internal Control Procedures for Bond proceeds held by the Treasurer of the City, the expenditure of proceeds shall conform to Charter Section 3.015(i) of the Charter or any successor section, which states, “All disbursements of funds in the custody of the Treasurer must be authorized by the Controller.” Agency staff shall adhere to the internal control procedures established by the Treasurer and the Controller from time to time for the expenditure of such Bond proceeds. For Bond proceeds held by a Bond trustee, each request for expenditure of such Bond proceeds shall be approved by both the contract project manager (or a designee) and an Authorized Agency Representative, meaning, for purposes of this section, a member of Agency staff authorized by the Transportation Director to provide instructions to the applicable Bond trustee. If the contract project manager or designee is also an Authorized Agency Representative, he or she may not act alone to request payment of an invoice from Bond proceeds; the approval of a second Authorized Agency Representative is required. Agency staff shall establish and implement such additional internal control procedures as may be necessary to ensure that Bond proceeds are directed to the intended use.
- 4) Maintaining records and filing such bond data as to be required by the California Debt and Investment Advisory Commission (CDIAC) annual debt transparency report, applicable for Bonds issued by the Agency after January 1, 2017.
- 5) Consulting with legal counsel and financial advisers in the review of any contracts or arrangements involving use of Bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the Tax Agreement relating to the Bonds;
- 6) Maintaining records for any contracts or arrangements involving the use of Bond-financed or refinanced assets as described below under “Record Keeping Requirements”;

- 7) Conferring at least annually with personnel responsible for Bond-financed or refinanced assets to identify and discussing any existing or planned use of Bond-financed or refinanced assets, to ensure that those uses are consistent with all covenants and restrictions set forth in the Tax Agreement relating to the Bonds; and
- 8) To the extent that the CFO discovers that any applicable tax restrictions regarding use of Bond proceeds and Bond-financed or refinanced assets will or may be violated, consulting promptly with bond counsel and other legal counsel and advisers to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a remedial action is necessary.

D. Record Keeping

The CFO shall be responsible for maintaining the following documents for the term of each issue of Bonds (including Refunding Bonds, if any) plus at least three years:

- 1) A copy of the Bond closing transcript(s) and other relevant documentation delivered to the City at or in connection with closing of the issue of Bonds, including any elections made by the City in connection therewith;
- 2) A copy of all material documents relating to capital expenditures financed or refinanced by Bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, draw requests for Bond proceeds and evidence as to the amount and date for each draw down of Bond proceeds, as well as documents relating to costs paid or reimbursed with Bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with Bond proceeds, including a final allocation of Bond proceeds;
- 3) A copy of all contracts and arrangements involving the use of Bond-financed or refinanced assets; and
- 4) A copy of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements, in connection with any investment agreements, and copies of all bidding documents, if any.

XIV. PROFESSIONALS

The Agency shall select its primary professional(s) by competitive process through a Request for Proposals (RFP).

A. Selection of Financing Team Members

The CFO will oversee the selection process for the Agency's financial advisors, underwriters (under a negotiated sale) and other financing team members. The City Attorney's Office will

oversee the selection process for legal professionals for the Agency's financings, including the selection of Bond Counsel and Disclosure Counsel.

B. Financial Advisor

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

- 1) Experience in providing consulting services to complex issuers
- 2) Knowledge and experience in structuring and analyzing complex issues
- 3) Experience and reputation of assigned personnel
- 4) Registration of such firm(s) as Municipal Advisor(s) by the SEC and MSRB
- 5) Fees and expenses
- 6) Such other appropriate criteria as determined by the Agency

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

- 1) Evaluation of risks and opportunities associated with debt issuance
- 2) Monitoring marketing opportunities
- 3) Evaluation of proposals submitted to the Agency by investment banking firms
- 4) Structuring and pricing
- 5) Preparation of request for proposals for other financial services such as trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.
- 6) Advice, assistance and preparation for presentations with rating agencies and investors

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

C. Bond Counsel

The Agency shall retain one or more bond counsel firms to provide ongoing legal advisory services with respect to the Agency's outstanding and proposed bonds and related

agreements, including without limitation credit facilities, investment agreements and other similar matters.

Agency debt will include a written opinion by legal counsel affirming that the Agency is authorized to issue the proposed debt, that the Agency has met all constitution 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 counsel with extensive experience in public finance and tax issues. Bond counsel will also deliver an opinion that the bonds are exempt from the registration requirements under the Federal securities laws.

D. Disclosure Counsel

The Agency may retain a disclosure counsel firm to provide ongoing legal advisory services with respect to initial and continuing disclosure in connection with the Agency's outstanding and proposed bonds. The issuance of bonds by the Agency shall require a written negative assurance letter from the Agency's disclosure counsel regarding their absence of knowledge, after due review, regarding any material misstatement in or omission from the official statement or other public offering document with respect to the bonds.

E. Dissemination Agent

The Agency may retain a dissemination agent to provide continuing disclosure agreements on behalf of the Agency for the purpose of filing annual reports and event notices with EMMA. The dissemination agent service shall be provided by the Agency, disclosure counsel, trustee or other appropriate party.

F. Trustee and Fiscal Agent

The Agency may engage bond trustees and/or fiscal agents and paying agents, as necessary or appropriate, in connection with the issuance of its bonds. Bond trustees and fiscal agents shall have a minimum capitalization of \$100 million.

G. Arbitrage Rebate Consultant

The Agency may engage an arbitrage rebate consultant to help identify the most cost-effective way of satisfying the IRS arbitrage rebate reporting requirements connected to issuance of tax-exempt securities and to perform the periodic required arbitrage calculations that must be submitted to the IRS.

H. Liquidity and Credit Facility Providers

When deemed to be prudent in the context of a specific financing, the Agency shall solicit competitive bids for liquidity and/or credit facilities from at least three providers that satisfy the requirements for that specific financing.

I. Underwriter(s)

1. Senior Manager Selection

The Agency 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) The firm's willingness to provide support with capital and demonstration of such support
- c) The firm's ability to sell bonds
- d) Quality and experience of personnel assigned to the Agency's engagement
- e) Financing plan presented
- f) Such other appropriate criteria as determined by the Agency

2. Co-Manager Selection

Co-managers will be selected on the same basis as the senior manager. Co-managers appointed to specific transactions will be appointed based on the size of the bond issuance and the necessity to ensure maximum distribution of the Agency's bonds.

3. Selling Group

The Agency may establish a selling group to increase the distribution of bonds in negotiated transactions. To the extent that selling groups are used, the CFO at his or her discretion may make appointments to a selling group.

4. Underwriter's Discount and syndicate policy

The Agency will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Agency will determine the allocation of fees with respect to the underwriter's discount and management fee, if any. The determination will be based, in part, upon participation in the structuring phase of the transaction.

5. Evaluation of Financing Team Performance

The Agency 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.

XV. INVESTMENT OF BOND PROCEEDS

All investments of bond proceeds invested with the City Treasury will comply with the City of San Francisco's Investment Policy approved periodically by the County Treasurer Oversight Committee. With the exception of guaranteed investment contracts, investments shall not allow security types or credit standards less than those of the Treasurer's Investment Policy. The permitted investment guidelines from the City's Investment Policy will be incorporated into the relevant bond documents at the time issuance.

XVI. BOND OVERSIGHT COMMITTEE

The SFMTA Board shall establish a bond oversight committee. The purpose of the committee shall be to inform the SFMTA Board and the public on the expenditure of bond proceeds issued by the SFMTA. The Committee shall convene to provide oversight to ensure that bond proceeds are expended only in accordance the bond documents and approving legislation and projects or expenditures funded by bond proceeds are delivered timely. The Committee will develop bylaws and produce an annual report informing the Board of its activities and findings.