

BOARD MEMBERS

Vacant, Chair

Bill Baber, Vice Chair
Councilmember, City of La Mesa

Alternate At Large

Bill Wells
Mayor, City of El Cajon

PUBLIC MEMBERS

Paul Dostart
Public Member

Stewart Halpern
Public Member

Bob Monson
Public Member

STAFF

Vacant, CPA
Independent Performance Auditor

Hasan Ikhata
Executive Director, SANDAG



Audit Committee Agenda

**Friday, February 8, 2019
12:30 to 2:30 p.m.
SANDAG, 7th Floor Conference Room
401 B Street, 7th Floor
San Diego**

Agenda Highlights

- **FY 2018 Audited Comprehensive Annual Financial Report**

Please silence all electronic devices during the meeting

Mission Statement

The 18 cities and county government are SANDAG serving as the forum for regional decision-making. SANDAG builds consensus; makes strategic plans; obtains and allocates resources; plans, engineers, and builds public transit; and provides information on a broad range of topics pertinent to the region's quality of life.

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Both agenda and non-agenda comments should be sent to the Clerk of the Committee via clerk@sandag.org. Please include the meeting date, agenda item, your name, and your organization. Any comments, handouts, presentations, or other materials from the public intended for distribution at the meeting should be received by the Clerk no later than 5 p.m. two working days prior to the meeting. All public comments and materials received by the deadline become part of the official public record and will be provided to the members for their review at the meeting.

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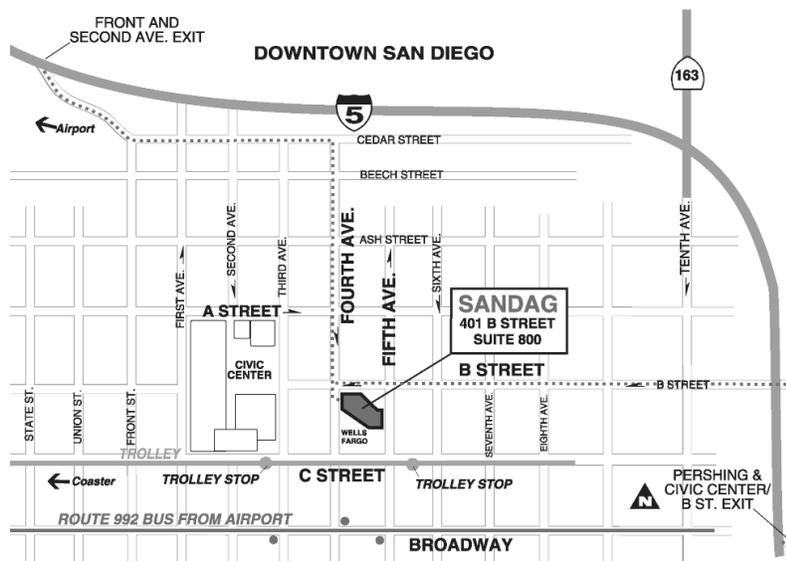
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Audit Committee

Friday, February 8, 2019

| Item No. | | Recommendation |
|----------------|---|----------------|
| +1. | Approval of Meeting Minutes The Audit Committee is asked to review and approve the minutes from its January 11, 2019, meeting. | Approve |
| 2. | Public Comments/Communications/Member Comments Members of the public shall have the opportunity to address the Audit Committee on any issue within the jurisdiction of SANDAG that is not on this agenda. Anyone desiring to speak shall reserve time by completing a Request to Comment form and giving it to the Clerk prior to speaking. Public speakers should notify the Clerk if they have a handout for distribution to Audit Committee members. Public speakers are limited to three minutes or less per person. Audit Committee members also may provide information and announcements under this agenda item. | |
| Reports | | |
| +3. | FY 2018 Audited Comprehensive Annual Financial Report (André Douzdjian; Katherine Lai, Crowe LLP) Katherine Lai, Crowe LLP, will provide an overview of the FY 2018 Comprehensive Annual Financial Report and other matters in compliance with the Statement of Auditing Standards 114. | Information |
| +4. | Data, Analytics, and Modeling Department Overview (Ray Major) Staff will present an overview of the SANDAG Data, Analytics, and Modeling Department. | Information |
| +5. | Overview of SANDAG Debt Program (André Douzdjian and Lisa Kondrat-Dauphin) Staff will present an overview of the SANDAG debt program, including its monitoring and reporting processes. | Information |
| 6. | Continued Public Comments If the five-speaker limit for public comments was exceeded at the beginning of this agenda, other public comments will be taken at this time. Subjects of previous agenda items may not again be addressed under public comment. | |
| 7. | Upcoming Meetings The next Audit Committee meeting is scheduled for Friday, April 12, 2019, at 12:30 p.m. | Information |
| 8. | Adjournment | |

+ next to an item indicates an attachment

February 8, 2019

January 11, 2019, Audit Committee Meeting Minutes

Vice Chair Bill Baber (Board member) called the meeting of the Audit Committee to order at 1:04 p.m.

Action Requested: **Approve**

The Audit Committee is asked to review and approve the minutes from its January 11, 2019, meeting.

1. Approval of Meeting Minutes (Approve)

Action: Upon a motion by Mr. Bob Monson (Public member), and a second by Mr. Stewart Halpern (Public member), the Audit Committee approved the minutes from its December 14, 2018, meeting. Yes: Vice Chair Baber, Mr. Paul Dostart (Public member), Mr. Halpern, and Mr. Monson. No: None. Abstain: None. Absent: Board member.

2. Public Comments/Communications/Member Comments

Mr. Clive Richard, a member of the public, spoke about the independent performance auditor interviews.

Reports

3. Proposed Internal Control Guidelines (Recommend)

Steve Castillo, Principal Management Internal Auditor, presented the item.

Action: Upon a motion by Mr. Dostart, and a second by Mr. Halpern, the Audit Committee recommended that the Board of Directors adopt the proposed internal control guidelines. Yes: Vice Chair Baber, Mr. Dostart, Mr. Halpern, and Mr. Monson. No: None. Abstain: None. Absent: Board member.

4. Proposed FY 2020 Independent Performance Auditor Budget (Recommend)

Sandi Craig, Senior Budget Program Analyst, presented the item.

Action: Upon a motion by Mr. Halpern, and a second by Mr. Monson, the Audit Committee recommended that the Board approve the proposed FY 2020 independent performance auditor budget.

Yes: Vice Chair Baber, Mr. Dostart, Mr. Halpern, and Mr. Monson. No: None. Abstain: None.

Absent: Board member.

5. Proposed Amendments to SANDAG Board Policy No. 039: Audit Policy Advisory Committee and Audit Activities (Discussion)

John Kirk, General Counsel, presented the item. The Audit Committee provided feedback on the proposed amendments to Board Policy 039: Audit Policy Advisory Committee and Audit Activities.

Action: This item was presented for discussion.

6. FY 2019 Internal Audit Program Semi-Annual Update (Information)

Mr. Castillo provided an update on internal audit activities conducted during the first six months of FY 2019.

Action: This item was presented for information.

7. Plan of Excellence Implementation (Information)

Kim Kawada, Chief Deputy Executive Director, introduced the item.

Melissa Coffelt, Human Resources Manager; Cindy Burke, Applied Research Division Director; David Hicks, Director of Communications; Mr. Kirk; and José Nuncio, Director of *TransNet*, provided an update on implementation of the SANDAG Plan of Excellence.

Action: This item was presented for information.

8. Upcoming Meetings

The next Audit Committee meeting is scheduled for Friday, February 8, 2019, at 12:30 p.m.

9. Adjournment

Vice Chair Baber adjourned the meeting at 2:42 p.m.

Confirmed Attendance at SANDAG Audit Committee Meeting

January 11, 2019

| Jurisdiction/Organization | Name | Member/ Alternate | Attended |
|---|------------------------------|----------------------|----------|
| Vacant | Vacant | Primary | -- |
| Board member | Hon. Bill Baber (Vice Chair) | Member | Yes |
| Board member | Hon. Bill Wells | Alternate | No |
| Public member | Bob Monson | Primary | Yes |
| Public member | Paul Dostart | Primary | Yes |
| Public member | Stewart Halpern | Primary | Yes |
| SANDAG Staff | | | |
| Hasan Ikhata, Executive Director | | | |
| John Kirk, General Counsel | | | |
| Kim Kawada, Chief Deputy Executive Director | | | |
| Lisa Kondrat-Dauphin, Senior Accountant | | | |

February 8, 2019

FY 2018 Audited Comprehensive Annual Financial Report

Overview

The independent certified public accounting audit firm of Crowe LLP has concluded the annual financial audit of SANDAG for the fiscal year ended June 30, 2018. The Comprehensive Annual Financial Report (CAFR) is provided as an attachment to this report (available for online viewing at sandag.org/CAFR).

Key Considerations

The CAFR presents the financial position and activity of SANDAG and the three component units, which include the San Diego County Regional Transportation Commission, SourcePoint, and the Automated Regional Justice Information System. The independent auditor has expressed an unqualified (clean) opinion on these basic financial statements.

In compliance with Generally Accepted Government Auditing Standards, the independent auditor also assessed SANDAG financial reporting internal controls and performed tests of the agency's compliance with certain provisions of laws and regulations. The independent auditor found no instances of noncompliance or other matters that are required to be reported (Attachment 1).

Next Steps

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to SANDAG for its CAFR for the fiscal year ended June 30, 2017. This was the eleventh consecutive year that SANDAG received this prestigious award. In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. SANDAG staff believes the FY 2018 CAFR will continue to meet the Certificate of Achievement Program requirements, and have therefore submitted it to the GFOA to determine its eligibility for another certificate.

André Douzdjian, Director of Finance

Key Staff Contacts: André Douzdjian, (619) 699-6931, andre.douzdjian@sandag.org
Leeanne Wallace, (619) 699-0728, leeanne.wallace@sandag.org

Attachment: 1. SANDAG Generally Accepted Government Auditing Standards Report

Action Requested: **Information**

Katherine Lai, Crowe LLP, will provide an overview of the FY 2018 Comprehensive Annual Financial Report and other matters in compliance with the Statement of Auditing Standards 114.

Fiscal Impact:

In FY 2018, approximately \$1.4 billion was the balance of construction in progress for various regional transportation infrastructure improvement projects.

Schedule/Scope Impact:

The Comprehensive Annual Financial Report presents the financial position and activity of SANDAG and the three component units, which include the San Diego County Regional Transportation Commission, SourcePoint, and the Automated Regional Justice Information System.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise SANDAG's basic financial statements, and have issued our report thereon dated December 21, 2018. Our report includes an emphasis of matter regarding the implementation of GASB Statement No. 75. Our opinions are not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SANDAG's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SANDAG's internal control. Accordingly, we do not express an opinion on the effectiveness of SANDAG's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SANDAG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including §6662 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6662 of the California Code of Regulations.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe LLP

Costa Mesa, California
December 21, 2018

February 8, 2019

Data, Analytics, and Modeling Department Overview

Introduction

The SANDAG Data, Analytics, and Modeling (DAM) Department is responsible for collecting original data from surveys to inform regional forecasts, models and other planning efforts; compiling and ensuring the integrity of data from other sources for the same purposes; meeting the software and database needs of the agency, as well as local, state, and federal public safety agencies; completing regional demographic and economic forecasts; modeling the transportation needs of the region in the short- and long-term; implementing agency wide data governance and big data efforts; serving as the Criminal Justice Clearinghouse and completing research for public safety stakeholders; and disseminating data and information in a clear and concise way to inform decision-making.

Action Requested: **Information**

Staff will present an overview of the SANDAG Data, Analytics, and Modeling Department.

Highlights:

The vision of the SANDAG Data, Analytics, and Modeling Department is to be the San Diego region's most trusted and progressive information source.

It is composed of more than 70 staff who work across 8 teams to ensure the transparency, accuracy, and integrity of all SANDAG products and services.

Discussion

The vision of the DAM Department is to be the San Diego region's most trusted and progressive information source. It accomplishes this by adopting best practices across the agency; creating centers of excellence in project management, data quality control, analytics, and visualization; and ensuring the transparency, accuracy, and integrity of all products and services. The DAM Department is composed of more than 70 staff who work across 8 teams and work closely with each other, as well as other areas of the agency. An overview of each of these teams and their primary functions follows.

Applied Research Division

The Applied Research Division (ARD) oversees all original data collection for the agency, including surveying on topics of internal agency interest, measuring the success of external efforts, and compiling data to be used for modeling. ARD includes the Criminal Justice Clearinghouse, supported primarily through membership assessments, which compiles regional crime statistics, shares public safety information with local stakeholders, and conducts public safety program evaluations. ARD is responsible for translating data to information and disseminating key findings useful to the region in easy-to-read formats.

Automated Regional Justice Information System

The Automated Regional Justice Information System (ARJIS) was created as a Joint Powers Agency to share information among justice agencies throughout San Diego and Imperial Counties, California. ARJIS develops and maintains a complex, multiagency information network that allows real-time law enforcement applications and data to be shared among 80 local, state, and federal criminal justice agencies. Averaging 50,000 transactions daily, ARJIS is used by more than 4,800 officers and investigators for tactical analysis, statistical information, crime analysis, and investigative purposes, improving the overall effectiveness of the regional criminal justice system and the quality of life for regional residents.

Data Solutions

The Data Solutions (DS) team oversees the acquisition, development, and maintenance of regional land use, economic, demographic, transportation, and Geographic Information Systems (GIS) databases, products, and services used by others in the department. DS develops product plans and documentation to define specifications, data flows, and customer/supplier relationships. The team delivers GIS data through the internal GIS data library, the regional GIS data warehouse, and web services and applications; provides analysis, mapping, and data-visualization products and services to support internal customers, member agencies, and the public; and serves as the regional Census data center.

Economic and Demographic Analysis and Modeling

The Economic and Demographic Analysis and Modeling (EDAM) team is responsible for developing a regional integrated land use/demographic/economic forecast and annual population estimates that are used by the agency for various projects, including regional plans, local jurisdictions, and other private and public users. The EDAM team delivers data to local and non-local data users through customized data requests, as well as by standard geographies online.

Office of Program Management, Quality Control/Assurance, and Service Bureau

The Office of Program Management (OPM) and Quality Control/Assurance (QA/QC) teams are new to the agency. OPM is tasked with effectively managing interrelated projects and resources to ensure on-time delivery of project deliverables. QA/QC is responsible for providing independent verification of data acquired or produced by SANDAG modeling, forecasting, analysis, mapping, and visualization efforts. Both efforts support the agency's Plan of Excellence. The SANDAG Service Bureau is a fee-based operation that provides customized research consulting products and services to public and private organizations.

Software Development Solutions

The Software Development Solutions (SDS) team provides comprehensive technical support for the agency's public-facing websites and in-house home-grown applications such as the agency's budgeting tool (IMBM) and Human Resource Information System. SDS collaborates with departments to build or support tools that facilitate information dissemination. The SDS team works closely with Communications to ensure the public-facing websites are accessible and current.

Transportation Analysis and Modeling

The Transportation Analysis and Modeling team is responsible for developing reliable and adequate quantitative transportation analysis tools for regional transportation planning processes. The team develops, maintains, improves, and applies a suite of travel-demand forecasting tools, including the Activity Based Model. The team is responsible for providing support to projects for regional plans; transit, highway, and freight corridor studies; grant requests; and modeling requests via the Service Bureau.

Technology Solutions

The Technology Solutions team is responsible for developing and maintaining the department's relational database management system and the assortment of relational databases and data warehouses. The back-end database infrastructure is essential to a wide assortment of SANDAG socioeconomic and transportation modeling activities, as well as survey work and model applications and studies.

Ray Major, Director of Data, Analytics, and Modeling Department

Key Staff Contact: Ray Major, (619) 595-5668, ray.major@sandag.org

February 8, 2019

Overview of SANDAG Debt Program

Overview

SANDAG executes debt instruments, administers debt proceeds, manages ongoing disclosure and compliance, and acts with prudence and diligence with attention to prevailing economic and market conditions. The SANDAG debt program includes both long-term and short-term obligations.

Key Considerations

SANDAG adheres to robust policies and standards approved and adopted by the Board of Directors. These policies are periodically updated to ensure full compliance to any state or federal regulation (Attachments 4 – 8). An Investor Relations website provides debt covenants and related documents for disclosure and transparency.

SANDAG has established three separate lien levels and currently has debt obligations on two of those levels. This provides different priority of payments to investors based on their respective lien level. This three-tiered lien structure has been developed by SANDAG to maximize program capacity, keep senior lien ratings as high as possible, and minimize borrowing costs.

The debt program currently is composed of the following obligations:

- \$1,725,705,000 Senior lien sales tax (*TransNet*) revenue obligations
- \$564,172,000 Subordinate lien *TransNet* revenue obligations
- \$191,070,000 Senior lien toll revenue obligations (State Route 125)

The outstanding debt obligations are regularly monitored by staff and a quarterly update on the debt program is provided to the Board of Directors which includes current market conditions that may be favorable to structure changes (available for online viewing at sandag.org/quarterlyreport). Any proposed new issuance or change to a current structure is reviewed by staff and the SANDAG financial advisor before presenting to the Board for consideration.

Action Requested: **Information**

Staff will present an overview of the SANDAG debt program, including its monitoring and reporting processes.

Fiscal Impact:

The SANDAG debt program currently includes approximately \$2.48 billion in obligations.

Schedule/Scope Impact:

SANDAG has three separate lien levels, providing different priority of sales tax payment to investors based on their respective lien level. This three-tiered lien structure has been developed by SANDAG to maximize program capacity, keep senior lien ratings as high as possible, and minimize borrowing costs.

Next Steps

To continue to provide sufficient cash flow for the mid-Coast Corridor Transit Project over the next few years, the Board will be asked to consider the sale of Grant Anticipation Notes as well as one or two small *TransNet* bond issuances for other major projects.

André Douzdjian, Director of Finance

Key Staff Contact: André Douzdjian, (619) 699-6931, andre.douzdjian@sandag.org

Attachments:

1. Discussion Memo
2. San Diego County Regional Transportation Commission Outstanding Debt
3. SANDAG State Route 125 Toll Revenue Outstanding Debt
4. SANDAG Board Policy No. 003
5. SANDAG Board Policy No. 032
6. SANDAG Board Policy No. 036
7. SANDAG Board Policy No. 037
8. San Diego County Regional Transportation Commission Post-Issuance Tax Compliance Procedures for Tax-Exempt and Build America Bonds

Discussion Memo

SANDAG Debt Program

In December 2005, the Board of Directors approved a financial strategy to implement the *TransNet* Early Action Program and fulfill ongoing commitments for the existing *TransNet* Program. To date, the Board's financial strategy has included the issuance of the San Diego County Regional Transportation Commission (Commission) variable-rate debt, with low interest rates locked in through interest rate exchange agreements (swaps); fixed-rate, tax-exempt bonds; fixed-rate, taxable Build America Bonds; fixed-rate short-term notes, a TIFIA loan, and a variable-rate Commercial Paper Program. See Attachment 2 for more detail on the Commission's outstanding debt issuances.

In December 2011, SANDAG acquired the State Route 125 South Bay Expressway (SR 125) toll franchise from the private sector owner. To carry out the transaction, SANDAG secured a loan from the Commission and assumed the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan from the private sector owner. In November 2017, SANDAG issued toll revenue bonds to refinance the Commission and TIFIA loans. See Attachment 3 for more detail on the SANDAG SR 125 outstanding debt issuance.

The SANDAG financial management strategy is based on the long-term financial plan and Board Policies to minimize the cost and fiscal impact of debt.

Debt Issuance Process

Before issuing debt, there are many factors that SANDAG considers. Appropriate planning and understanding helps to provide the most favorable results for SANDAG and also helps avoid unnecessary risks and negative consequences. Debt issuance requires working with a number of partners, each of whom has a specific role. The debt issuance will result in a financing agreement that is legally binding, and it is critically important that SANDAG understands the basic terms of the agreement and what the agreement commits them to do.

SANDAG conducts planning, structuring, and issuance activities for all SANDAG financings to fund cash flow needs for capital projects, and the process can take four – six months through final sale. The basic steps for a debt issuance are:

Plan of Finance - Reflects updated construction costs, delivery schedules, revenue forecasts, and identifies the dates and sizing of bond issuances that are needed in order to maintain cash flow for the projects.

Financing Team – Includes the SANDAG Financial Advisor, Public Financial Management, SANDAG staff, and other external members (underwriter[s], bond counsel, and disclosure counsel) which are obtained through a Request for Proposal. SANDAG uses U.S. Bank, N.A. as Trustee for both the Commission outstanding debt and SR 125 Toll outstanding debt.

Structure – Determine purpose, legal parameters, sale options, and if it is economically feasible.

Documents – Prepare required documents for review and approval by the Board.

Marketing - A marketing plan is determined and usually includes presentations to the credit rating agencies and potential investors.

Sale - The senior underwriter is the key conduit between SANDAG (the issuer) and investors and is responsible for selling the debt through a negotiated process.

Post Issuance Management

SANDAG has instituted sound management practices and will continue to follow these practices that will reflect positively on it in the rating process.

Investment of Debt Proceeds - Proceeds of debt sales are invested in accordance with Board Policy No. 003 'Investment Policy' and the debt indentures.

Arbitrage Compliance – Tax-exempt municipal bond issuers are subject to strict federal arbitrage rules as a condition of issuance requirements. SANDAG contracts with an Arbitrage Disclosure Services Provider to track the investment earnings on debt proceeds, calculate rebate payments in compliance with tax law, provide a report that includes these requirements and indicates if a payment is due.

Ongoing Disclosure – SANDAG provides information about outstanding debt, including financial information about the issue as a requirement of Federal securities laws and the debt covenants, to ensure transparency, and to assist in pricing of bonds bought and sold on the secondary market. SANDAG maintains an Investor Relations information page to provide outreach to current and prospective investors on bond disclosure, credit ratings, and other relevant information. The website is located at [Investor Relations](#).

San Diego County Regional Transportation Commission Outstanding Debt

The Commission has issued sales tax revenue bonds summarized in the table below.

| | Outstanding Principal Amount | Final Stated Maturity Date | Original Premium Received | Original Issuance Amount |
|------------------------------------|------------------------------------|-------------------------------|---------------------------------|--------------------------------|
| Senior lien debt: | | | | |
| 2008 bonds | \$ 402,300,000 | 04/01/38 | \$ - | \$ 600,000,000 |
| 2010 A bonds | 338,960,000 | 04/01/48 | - | 338,960,000 |
| 2010 B bonds | 6,235,000 | 04/01/30 | 849,367 | 11,040,000 |
| 2012 bonds | 324,400,000 | 04/01/48 | 55,876,982 | 420,585,000 |
| 2014 bonds | 336,130,000 | 04/01/48 | 55,305,483 | 350,000,000 |
| 2016 bonds | 317,680,000 | 04/01/48 | 78,818,562 | 325,000,000 |
| Total senior lien debt | <u>1,725,705,000</u> | | <u>190,850,394</u> | <u>2,045,585,000</u> |
| Subordinate lien debt: | | | | |
| 2018 short-term notes | 537,480,000 | 04/01/21 | 31,625,092 | 537,480,000 |
| Commercial paper | 26,692,000 | 09/10/21 | - | 100,000,000 |
| Total subordinate lien debt | <u>564,172,000</u> | | <u>31,625,092</u> | <u>637,480,000</u> |
| Total long-term liabilities | <u>\$ 2,289,877,000</u> | | <u>\$ 222,475,486</u> | <u>\$ 2,683,065,000</u> |

The 2008 Series ABCD bonds

In March 2008, SANDAG issued \$600,000,000 of variable-rate bonds to fund some of the major projects identified in the *TransNet* reauthorization (approved by voters in November 2004) under the *TransNet* Early Action Program. In June 2012, SANDAG refunded \$151,500,000 of the Series 2008 bonds and terminated a corresponding portion of the interest rate swaps relating to the Series 2008 bonds through the issuance of the 2012 Series A tax-exempt bonds.

The principal requirements to maturity for the 2008 Series ABCD bonds are as follows:

| Maturity (April 1) | Principal Amount | Interest on Debt | Hedging Derivatives, Net | Total Interest |
|-----------------------|------------------------------|------------------------------|--------------------------------|------------------------------|
| 2019 | \$ - | \$ 11,232,001 | \$ 13,080,652 | \$ 24,312,653 |
| 2020 | - | 11,232,001 | 13,080,652 | 24,312,653 |
| 2021 | - | 11,232,001 | 13,080,652 | 24,312,653 |
| 2022 | - | 11,232,001 | 13,080,652 | 24,312,653 |
| 2023 | 18,600,000 | 11,102,175 | 12,929,459 | 24,031,634 |
| 2024 - 2028 | 104,100,000 | 47,241,832 | 55,017,260 | 102,259,092 |
| 2029 - 2033 | 126,300,000 | 31,365,427 | 36,527,793 | 67,893,220 |
| 2034- 2038 | 153,300,000 | 12,121,934 | 14,117,057 | 26,238,991 |
| Total | <u>\$ 402,300,000</u> | <u>\$ 146,759,372</u> | <u>\$ 170,914,177</u> | <u>\$ 317,673,549</u> |

The bonds bear interest at a variable rate, which is reset weekly. The above table incorporates the net receipts/payments of the hedging derivative instruments that are associated with this debt. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary.

The 2010 Series A and B bonds

On November 10, 2010, SANDAG issued \$350,000,000 Series 2010 A and B fixed-rate bonds to finance the SANDAG continued implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$7,316,000 in outstanding commercial paper notes and to pay the costs of issuing the Series 2010 bonds. The Series A BABs totaled \$338,960,000 and carry a fixed interest rate of 5.911 percent (net interest rate of 3.991 percent after deducting the BABs federal subsidy) with a maturity date of April 1, 2048. The Series B tax-exempt bonds totaled \$11,040,000 with a fixed interest rate of 3.14 percent, based on an interest rate range of 2.00 – 5.00 percent and a maturity date of April 1, 2030.

The principal requirements to maturity for the 2010 Series A bonds, net of the federal subsidy, are as follows:

| Maturity (April 1, Oct 1) | Principal Amount | Interest Amount |
|--------------------------------------|-----------------------------|----------------------------|
| 2019 | \$ - | \$ 13,556,307 |
| 2020 | - | 13,556,307 |
| 2021 | - | 13,556,307 |
| 2022 | - | 13,556,308 |
| 2023 | - | 13,556,308 |
| 2024 - 2028 | - | 67,781,536 |
| 2029 - 2033 | - | 67,781,536 |
| 2034 - 2038 | - | 67,781,536 |
| 2039 - 2043 | 153,555,000 | 55,961,761 |
| 2044 - 2048 | 185,405,000 | 22,803,480 |
| Total | \$ 338,960,000 | \$ 349,891,386 |

The principal requirements to maturity for the 2010 Series B bonds are as follows:

| Maturity (April 1, Oct 1) | Principal Amount | Interest Amount |
|--------------------------------------|-----------------------------|----------------------------|
| 2019 | \$ 720,000 | \$ 254,350 |
| 2020 | 750,000 | 225,550 |
| 2021 | 395,000 | 195,550 |
| 2022 | 410,000 | 179,750 |
| 2023 | 430,000 | 163,350 |
| 2024 - 2028 | 2,415,000 | 540,150 |
| 2029 - 2030 | 1,115,000 | 67,400 |
| Total | \$ 6,235,000 | \$ 1,626,100 |

The 2012 Series A bonds

On June 14, 2012, SANDAG issued \$420,585,000 of 2012 Series A fixed-rate bonds to finance continued SANDAG implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to refund \$151,500,000 of the Series 2008 ABCD bonds, terminate a corresponding portion of the interest rate swaps relating to the Series 2008 ABCD bonds and pay the costs of issuing the 2012 Series A bonds. The 2012 Series A sales tax revenue bonds (limited tax bonds) totaled \$420,585,000 and carry a fixed interest rate of 3.703 percent with a maturity date of April 1, 2048.

The principal requirements to maturity for the 2012 Series A bonds are as follows:

| Maturity (April 1, Oct 1) | Principal Amount | Interest Amount |
|--------------------------------------|-----------------------------|-----------------------------|
| 2019 | \$ 17,855,000 | \$ 15,682,500 |
| 2020 | 18,700,000 | 14,839,750 |
| 2021 | 19,970,000 | 13,954,750 |
| 2022 | 20,965,000 | 12,956,250 |
| 2023 | 3,525,000 | 11,908,000 |
| 2024 - 2028 | 20,220,000 | 56,723,750 |
| 2029 - 2033 | 26,210,000 | 51,176,750 |
| 2034 - 2038 | 33,020,000 | 43,838,500 |
| 2039 - 2043 | 72,505,000 | 31,899,500 |
| 2044 - 2048 | 91,430,000 | 12,980,463 |
| Total | <u>\$324,400,000</u> | <u>\$265,960,213</u> |

The 2014 Series A bonds

On September 10, 2014, SANDAG issued \$350,000,000 Series 2014 A sales tax revenue bonds to finance continued SANDAG implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$42,725,000 in outstanding commercial paper notes and to pay the costs of issuing the Series 2014 bonds. The Series A sales tax revenue bonds include a premium of \$55,305,484 and carry an overall all-in interest rate of 3.85 percent with a maturity date of April 1, 2048.

The principal requirements to maturity for the 2014 Series A bonds are as follows:

| Maturity (April 1, Oct 1) | Principal Amount | Interest Amount |
|--------------------------------------|------------------------------|------------------------------|
| 2019 | \$ 5,060,000 | \$ 16,701,450 |
| 2020 | 5,315,000 | 16,448,450 |
| 2021 | 5,580,000 | 16,182,700 |
| 2022 | 5,860,000 | 15,903,700 |
| 2023 | 6,155,000 | 15,610,700 |
| 2024 - 2028 | 35,695,000 | 73,119,000 |
| 2029 - 2033 | 45,555,000 | 63,257,500 |
| 2034 - 2038 | 58,145,000 | 50,670,750 |
| 2039 - 2043 | 74,205,000 | 34,607,250 |
| 2044 - 2048 | 94,560,000 | 14,256,325 |
| Total | <u>\$ 336,130,000</u> | <u>\$ 316,757,825</u> |

The 2016 Series A bonds

On August 17, 2016, SANDAG issued \$325,000,000 Series 2016 A sales tax revenue bonds to finance continued SANDAG implementation of the *TransNet* program, principally consisting of transportation facility and public infrastructure improvements within the County of San Diego, to retire \$46,445,000 in outstanding commercial paper notes and to pay the costs of issuing the Series 2016 bonds. The Series A sales tax revenue bonds include a premium of \$78.8 million and carry an overall all-in interest rate of 3.283 percent with a maturity date of April 1, 2048.

The principal requirements to maturity for the 2016 Series A bonds are as follows:

| Maturity (April 1, Oct 1) | Principal Amount | Interest Amount |
|--------------------------------------|------------------------------|------------------------------|
| 2019 | \$ 4,780,000 | \$ 15,884,000 |
| 2020 | 5,020,000 | 15,645,000 |
| 2021 | 5,270,000 | 15,394,000 |
| 2022 | 5,535,000 | 15,130,500 |
| 2023 | 5,810,000 | 14,853,750 |
| 2024 - 2028 | 33,730,000 | 69,607,500 |
| 2029 - 2033 | 43,035,000 | 60,259,500 |
| 2034 - 2038 | 54,935,000 | 48,399,500 |
| 2039 - 2043 | 70,100,000 | 33,223,000 |
| 2044 - 2048 | 89,465,000 | 13,856,000 |
| Total | <u>\$ 317,680,000</u> | <u>\$ 302,252,750</u> |

The 2017 Transportation Infrastructure Finance and Innovation Act loan

On June 27, 2017, SANDAG entered into a TIFIA loan agreement with the United States Department of Transportation to finance continued SANDAG implementation of the *TransNet* program for up to \$537,484,439 of costs to complete the Mid-Coast Corridor Transit Project. Under terms of the agreement, SANDAG will pay an interest rate of 2.72 percent with anticipated disbursement of loan proceeds in 2021. SANDAG issued short-term financing during the period of project construction and expected to use the TIFIA loan proceeds to repay the short-term borrowing. At December 31, 2018, there was no outstanding obligation due.

The 2018 Short-Term notes (Series A Limited Tax Bonds)

On April 1, 2018, SANDAG issued \$537,480,000 Series A sales tax revenue short-term notes to finance costs associated with the Mid-Coast Corridor Transit Project, in advance of the TIFIA loan, to retire \$27,586,000 of outstanding commercial paper notes related to the Mid-Coast Corridor Transit Project, and to pay the costs of issuing the series 2018 short-term notes. The series A sales tax revenue short-term notes include a premium of \$31.6 million and carry an overall all-in interest rate of 1.812% with a maturity date of April 1, 2021.

The principal requirements to maturity for the 2018 Series A short-term notes, are as follows:

| Maturity (April 1) | Principal Amount | Interest Amount |
|-------------------------------|-----------------------------|----------------------------|
| 2019 | \$ - | \$ 19,531,182 |
| 2020 | - | 20,499,200 |
| 2021 | 537,480,000 | 20,499,200 |
| Total | \$ 537,480,000 | \$ 60,529,582 |

Commercial paper notes

SANDAG issues tax-exempt Commercial Paper Notes (CPN) to provide interim financing for various *TransNet* projects including those for construction and acquisition activities and for advance-funding *TransNet* local street improvement projects, as a low cost and flexible source of capital financing.

At December 31, 2018, the SANDAG CPN was authorized to issue up to \$100,000,000 aggregate principal, with \$100,000,000 in letters of credit in place. Rates paid under the Reimbursement Agreement with Bank of America supporting the CPN are 32 basis points. SANDAG CPN are issued with maturity dates ranging from one to 270 days at various interest rates.

The interest rate on the outstanding amount at December 2018, was 1.78 percent on \$25,275,000 of notes and 1.80 percent on \$1,417,000 of notes, with a maturity of 90 and 84 days, respectively.

Under the terms of the CPN, maturing principal amounts can be rolled-over by issuing new notes. It is the intention of SANDAG to pay the accrued interest and reissue the principal amounts as they mature; other than any prescheduled principal repayments. Therefore, the principal debt service requirements shown in the table below include expected payments through the date of expiration of the current CPN agreements.

| Scheduled Repayment | Principal Amount | Interest Amount |
|--------------------------------|-----------------------------|----------------------------|
| 2020 | 1,774,000 | 469,595 |
| 2021 | 1,959,000 | 465,018 |
| 2022 | 1,959,000 | 460,440 |
| 2023 | 1,900,000 | 460,059 |
| 2024 - 2028 | 7,250,000 | 2,279,315 |
| 2029 - 2033 | 8,300,000 | 2,279,315 |
| 2034 - 2035 | 3,550,000 | 2,279,315 |
| Total | \$ 26,692,000 | \$ 8,693,057 |

SANDAG State Route 125 Toll Revenue Outstanding Debt***The 2017 Series A Toll Revenue Bonds***

In November 2017, SANDAG issued a \$194,140,000 of Series 2017 A toll revenue bonds to refinance indebtedness incurred by SANDAG in connection with the acquisition of the South Bay Expressway and to pay the cost of issuance of the 2017 Bonds. The Series 2017 A toll revenue bonds included a premium of \$38,102,982 and carried an overall all-in interest rate of 3.33 percent with a maturity date of July 1, 2042.

The principal requirements to maturity for the 2017 Series A Toll Revenue Bonds are as follows:

| Maturity (Jan 1, Jul 1) | Principal Amount | Interest Amount |
|------------------------------------|-----------------------------|----------------------------|
| 2020 | \$ 4,315,000 | \$ 9,445,625 |
| 2021 | 4,535,000 | 9,224,375 |
| 2022 | 4,765,000 | 8,991,875 |
| 2023 | 5,010,000 | 8,747,500 |
| 2024 - 2028 | 29,175,000 | 39,610,625 |
| 2029 - 2033 | 37,470,000 | 31,320,750 |
| 2034 - 2038 | 48,115,000 | 20,676,125 |
| 2039 - 2043 | 57,685,000 | 7,108,875 |
| Total | \$ 191,070,000 | \$ 135,125,750 |

Toll road acquisition debt repayment

SANDAG financed the State Route (SR) 125 toll road acquisition by assuming existing debt obligations and entering into promissory notes for the remaining funds necessary to complete the purchase. SANDAG assumed the existing TIFIA loans of \$94,183,509 (Tranches A-2, B-2, and C-2) via the Second Amended and Restated TIFIA Loan Agreement. In addition to the assumed TIFIA loans, SANDAG entered into a new Series D Agreement with TIFIA for \$1,445,850. SANDAG also borrowed *TransNet* funds totaling \$254,068,974 from the San Diego County Regional Transportation Commission (Commission) via a promissory note. This amount was later reduced by \$192,382,483 through a project swap approved on March 23, 2012, by the Board.

In November 2017, the following outstanding balances were refunded with proceeds of the Series 2017 A toll revenue bonds and existing resources:

| Debt Type | Amount |
|------------------------|-----------------------|
| TIFIA Tranches A - C | \$ 164,860,757 |
| TIFIA Series D | 3,196,582 |
| Total TIFIA Notes | 168,057,339 |
| Commission Note | 62,352,510 |
| Total Refunding | \$ 230,409,849 |

**BOARD POLICY No. 003****INVESTMENT POLICY****1. Introduction**

The purpose of this document is to identify various 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 Diego Association of Governments (SANDAG) are based upon state law and prudent money management. All funds will be invested in accordance with the SANDAG Investment Policy and the California Government Code. The investment of bond proceeds will be further governed by the provisions of relevant bond documents.

2. Scope

It is intended that this policy cover all funds and investment activities, with the exception of bond proceeds, under the direction or care of SANDAG, including funds of the San Diego County Regional Transportation Commission, SourcePoint, the SANDAG chartered nonprofit corporation, and the Automated Regional Justice Information System (ARJIS). Investment of bond proceeds shall be subject to the conditions and restrictions of bond documents and Treasury regulations related to arbitrage restrictions on tax-exempt bonds.

3. Prudence

All persons authorized to make investment decisions on behalf of SANDAG are trustees and therefore fiduciaries subject to the prudent investor standard: "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4. Objectives

- 4.1 *Safety.* Safety of principal is the foremost objective of the investment program. Investments of SANDAG shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.
- 4.2 *Liquidity.* The investment portfolio of SANDAG will remain sufficiently liquid to enable SANDAG to meet its cash flow requirements.
- 4.3 *Return on Investment.* The investment portfolio of SANDAG shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

5. Delegation of Authority

- 5.1. The Board of Directors delegates the authority to invest or to reinvest funds, or to sell or exchange securities so purchased, to the Executive Director for a one-year period. The Executive Director is charged with the responsibility for carrying out the policies of the Board of Directors and shall assume full responsibility for investment transactions until the delegation of authority is revoked or expires. In accordance with the SANDAG established system for internal control, all financial transactions of SANDAG require the signature of at least two individuals authorized by the Executive Director.
- 5.2. For the purposes of carrying out this investment policy, any two of the following individuals, unless delegated per Section 5.5, are hereby authorized to make investment decisions, in strict accordance with this investment policy, on behalf of SANDAG:

Executive Director

Chief Deputy Executive Director

Director of Finance

Finance Manager

TransNet Department Director

Such other individuals authorized, in writing, by the Executive Director

- 5.3. All accounts established for the purpose of investing SANDAG funds shall require the written authorization of the Executive Director.
- 5.4. No single individual, acting alone, may engage in an investment activity, except for an authorized investment advisor/manager with discretionary authority delegated per Section 5.5.
- 5.5. The Executive Director may delegate investment management and decision authority, via written agreement, to one or more professional investment advisors/managers who are duly qualified and registered with the Securities and Exchange Commission under the

Investment Advisers Act of 1940. All agents engaged in this capacity shall make all investment decisions and transactions in strict accordance with state law and this investment policy.

- 5.6. The daily management responsibility for the investment program is assigned to the Director of Finance, who shall monitor and review all investments for consistency with this investment policy.

6. Ethics (Conflict of Interest)

Officers, employees and agents thereof involved in the investment process shall comply with state law and refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

7. Selection of Financial Institutions and Broker/Dealers

- 7.1. SANDAG shall transact business only with banks, savings and loan associations, and registered investment securities dealers. The purchase by SANDAG of any investment other than those purchased directly from the issuer shall be either from an institution licensed by the State as a broker/dealer, as defined in Section 25004 of the Corporation Code, who is a member of the Financial Industry Regulatory Authority, or a member of a federally regulated securities exchange, a National or State-Chartered Bank, a Federal or State Association (as defined by Section 5102 of the Financial Code), or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank. The Director of Finance shall investigate all institutions that wish to do business with SANDAG, in order to determine if they are adequately capitalized, make markets in securities appropriate to the needs of SANDAG, and agree to abide by the conditions set forth in the SANDAG Investment Policy.
- 7.2. The Director of Finance shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes, and it shall be the policy of SANDAG to purchase securities only from those authorized institutions and firms. If SANDAG has contracted investment advisors/managers, the Director of Finance may approve and use a list of authorized broker/dealers provided by the investment advisor/manager.

8. Permitted Investment Instruments

- 8.1. The portfolio shall be diversified by security type and institution to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Government Code §53601 states that when there is a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Credit requirements listed in the investment policy apply at the time of purchase. In the event a security held by SANDAG is subject to a credit rating change that brings it below the minimum credit ratings specified for purchase, the Director of Finance shall review the security. The course of action to be followed will then be decided by the Director of Finance and either the Executive Director or the Chief Deputy Executive Director on a case-by-case basis, considering such factors as the reason for the change,

prognosis for recovery or further rate drops, and the market price of the security. Any credit rating changes below the minimum credit ratings specified for purchase will be reported to the Board of Directors with the next Quarterly Investment Report, along with the findings and any actions taken.

- 8.2. **Treasury Obligations:** notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- 8.3. **Federal Agencies and U.S. Government Sponsored Enterprises:** 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.
- 8.4. **State Municipal Obligations:** Registered treasury notes or bonds of any of the 50 United States, including bonds payable solely out of 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 states. Such obligations must be rated A-1 or its equivalent or better short-term; or in a rating category of AA or its equivalent or better long-term by at least one of the nationally recognized statistical-rating organizations.
- 8.5. **Local Agency Obligations:** Bonds, notes, warrants, or other evidences of indebtedness issued by any local agency within the State, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Such obligations must be rated A-1 or its equivalent or better short-term; or in a rating category of AA or its equivalent or better long-term by one of the nationally recognized statistical-rating organizations.
- 8.6. **Repurchase Agreements:** Repurchase Agreements used solely as short-term investments not to exceed 90 days.
 - 8.6.1 The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to SANDAG's custodian bank or handled under a properly executed tri-party repurchase agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value plus accrued interest, 102 percent of the total dollar value of the money invested by SANDAG for the term of the investment. Since the market value of the underlying securities is subject to daily fluctuation, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.
 - 8.6.2 Market value must be calculated each time there is a substitution of collateral.
 - 8.6.3 SANDAG or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to Repurchase Agreement.

8.6.4 SANDAG may enter into Repurchase Agreements with (1) primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York, and (2) California and non-California banking institutions having assets in excess of \$1 billion and in the highest short-term rating category, as provided by one of the nationally recognized statistical-rating organizations.

8.6.5 SANDAG will have properly executed a Securities Industry and Financial Markets Association (SIFMA) agreement with each firm with which it enters into Repurchase Agreements.

8.7. **Bankers' Acceptances:** Bankers' Acceptances issued by domestic banks 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 rating category by one of the nationally recognized statistical-rating organizations. Purchases of Bankers' Acceptances may not exceed 180 days maturity or 40 percent of SANDAG surplus money. No more than 10 percent of SANDAG surplus funds may be invested in the Bankers' Acceptances of any one commercial bank.

8.8. **Commercial Paper:** Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

a) The entity meets the following criteria: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars (\$500,000,000). (iii) Has debt other than commercial paper, if any, that is rated in a rating category of "A" or its equivalent or higher by a nationally recognized statistical-rating organization.

b) The entity meets the following criteria: (i) is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (iii) Has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. No more than 10 percent of SANDAG surplus funds may be invested in Commercial Paper of any one U.S. corporation.

Purchases of commercial paper may not exceed 25 percent of SANDAG surplus money which may be invested.

8.9. **Medium-Term Notes:** Medium-term notes, defined as all corporate and depository institution securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or depository institutions licensed by the United States or any state and operating within the United States.

Medium-term notes shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized statistical-rating organization.

Purchase of medium-term corporate notes may not exceed 30 percent of SANDAG surplus money. No more than 10 percent of SANDAG surplus funds may be invested in the Medium-Term Notes of any one corporation.

8.10. **Certificates of Deposit:** The maximum term for certificates of deposit shall be five years. The combined amount invested in negotiable certificates of deposit and certificates of deposit shall not exceed 30 percent of SANDAG surplus money.

8.10.1 **Negotiable Certificates of Deposit:** Negotiable certificates of deposit issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank or by a federally licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated in a rating category of "A" or its equivalent or better by one of the nationally recognized statistical-rating organizations.

8.10.2 **Nonnegotiable Certificates of Deposit:** Nonnegotiable certificates of deposit shall meet the conditions in either paragraph (a) or paragraph (b):

(a) Certificates of deposit shall meet the requirements for deposit under Government Code Section 53635 et. seq. To be eligible to receive SANDAG deposits, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided in Government Code Section 53635.2. Deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. The Director of Finance, at his or her discretion, may waive the collateralization requirements for any portion that is covered by federal deposit insurance. SANDAG shall have a signed agreement with the depository per Government Code Section 53649.

(b) Certificates of deposit placed through a deposit placement service shall meet the requirements of 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.

8.11. **State of California's Local Agency Investment Fund:** State of California's Local Agency Investment Fund (LAIF) may be invested in for the benefit of local agencies up to the current limit set by LAIF for regular accounts. For ongoing due diligence, the Director of Finance shall maintain on file a copy of LAIF's current investment policy and its requirements for participation, including limitations on deposits or withdrawals.

8.12. **San Diego County Treasurer's Pooled Investment Fund:** Deposits in the County pooled investment fund shall be limited to the dollar maximums of the State LAIF. For ongoing due diligence, the Director of Finance shall maintain on file a copy of the County

pool's current investment policy and its requirements for participation, including limitations on deposits or withdrawals.

- 8.13. **Savings/Money Market Accounts:** Savings/Money Market Accounts deposits placed with commercial banks and savings and loans in California. The amount on deposit shall not exceed the shareholder's equity in the financial institution. To be eligible to receive SANDAG deposits, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided in Government Code Section 53635.2. Deposits are required to be collateralized as specified under Government Code Section 53630 et. seq. The Director of Finance, at his or her discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. SANDAG shall have a signed agreement with the depository per Government Code Section 53649.
- 8.14. **California Asset Management Program:** Shares in a portfolio of the California Asset Management Program, so long as the portfolio is rated among the top two rating categories by one of the nationally recognized statistical-rating organizations. For ongoing due diligence, the Director of Finance shall maintain on file a copy of the Program's current information statement to include its requirements for participation, including limitations on deposits or withdrawals.
- 8.15. **Money Market Funds:** 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 (15 U.S.C. Sec. 80a-1 et seq.). To be eligible for investment pursuant to this subdivision, these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally-recognized statistical-rating organizations, or (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 \$500,000,000.

The purchase price of shares shall not include any commission that the companies may charge. The purchase of shares may not exceed 20 percent of SANDAG surplus money. For ongoing due diligence, the Director of Finance shall maintain on file a copy of the money market fund's current information statement to include its requirements for participation, including limitations on deposits or withdrawals.

- 8.16. **Mortgage and Asset-Backed Obligations:** Any mortgage pass-through security collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable-pass-through certificate, or consumer receivable-backed bond of a maximum of five years maturity. Securities eligible for investment under this subdivision shall be issued by an issuer rated in a rating category of "A" or its equivalent or higher rating for the issuer's debt as provided by an NRSRO and rated in a rating category of "AA" or its equivalent or better by an NRSRO. Purchases of securities authorized by this section may not exceed 20 percent of SANDAG surplus funds that may be invested pursuant to this section.

- 8.17. **Supranationals:** United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and shall not exceed 30 percent of the SANDAG funds that may be invested pursuant to this section.
- 8.18. **Ineligible Investments:** Security types which are thereby prohibited include, but are not restricted to:
- (a) Reverse repurchase agreements.
 - (b) "Complex" derivative securities such as range notes, dual index notes, inverse floating-rate notes, leveraged or deleveraged floating-rate notes, or any other complex variable-rate or structured note.
 - (c) Interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.
 - (d) Securities lending.

In the event that SANDAG possesses ineligible investments purchased prior to the adoption of this policy, SANDAG may hold these investments to their maturity dates. The limitation in this section shall not apply to SANDAG investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940.

9. Maximum Maturity

- 9.1. Investment maturities shall be based upon a review of cash flow forecasts. Maturities will be scheduled so as to permit SANDAG to meet all projected obligations.
- 9.2. Where the investment policy does not specify a maximum remaining maturity at the time of the investment, no investment shall 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. The Board authorizes the investment of endowment funds in securities exceeding five (5) years, as long as the investment has been approved by the Director of Finance and either the Executive Director or the Chief Deputy Executive Director, and the maturity of such investments does not exceed the expected use of funds.

10. Performance Standards

The investment performance of the SANDAG portfolio shall be evaluated and compared to appropriate indices in order to assess the success of the investment program. The comparable

benchmarks should be consistent with the SANDAG portfolio in terms of maturity and composition, which includes credit quality and security type.

11. Reporting Requirements

- 11.1. The Director of Finance shall submit to the Board annually a statement of investment policy, which the Board shall consider at a public meeting.
- 11.2. A monthly report of all investment transactions shall be submitted to the Board Members.
- 11.3. A quarterly investment report shall be submitted to the Board Members. The reports should include information in accordance with Section 53646(b) of the California Government Code.

12. Safekeeping and Custody

- 12.1. All security transactions, including collateral for repurchase agreements, entered into by SANDAG shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held by a third-party custodian and evidenced by safekeeping receipts.
- 12.2. The only exception to the foregoing shall be securities purchases made with: (i) LAIF, (ii) San Diego County Treasurer's Investment Pool, (iii) CAMP pool, (iv) Nonnegotiable Certificates of Deposit, (v) bank deposits, and, (vi) money market mutual funds, since the purchased securities are not deliverable. The Director of Finance shall keep a record of any funds in any of these investments.

Adopted January 2003
Amended November 2004
Amended September 2005
Amended December 2007
Amended July 2008
Amended July 2009
Amended November 2010
Amended February 2012
Amended October 2013
Amended November 2014
Amended November 2015
Amended February 2018

**BOARD POLICY No. 032****SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION
INTEREST RATE SWAP POLICY**

The purpose of the Interest Rate Swap Policy of the San Diego County Regional Transportation Commission (SANDAG) is to establish guidelines for the use and management of interest rate swaps and options. The "Interest Rate Swap Policy" or the "Policy" is intended to provide general procedural direction regarding the use, procurement and execution of interest rate swaps. The Policy is intended to relate to various interest rate hedging techniques, including the contractual exchange of different fixed and variable rate payment streams through interest rate swap agreements and is not intended to relate to other derivative products that SANDAG may consider.

SANDAG is authorized under California Government Code Section 5922 to enter into interest rate swaps to manage the amount and duration of rate, spread, or risk when used in combination with the issuance of bonds or notes.

1. Scope and Authority

This Interest Rate Swap Policy shall govern SANDAG's use and management of all interest rate swaps and options. While adherence to this Policy is required in applicable circumstances, SANDAG recognizes that changes in the capital markets, SANDAG's programs and other unforeseen circumstances may from time to time produce 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 of Directors is obtained.

The Interest Rate Swap Policy shall be reviewed and updated at least annually and presented to the Board of Directors for approval. Day-to-day responsibility for management of interest rate swaps shall fall within the responsibilities of the Director of Finance.

SANDAG shall be authorized to enter into interest rate swap transactions only with qualified swap counterparties. The Director of Finance, in consultation with SANDAG's bond counsel and financial advisor, shall have authority to select the counterparties, so long as the criteria set forth in the Interest Rate Swap Policy are met.

2. Approach and Objectives

Interest rate swaps and options are appropriate interest rate management tools that can help SANDAG meet important financial objectives. Properly used, these instruments can increase SANDAG's financial flexibility, hedge exposure to interest rate risk, provide opportunities for interest rate savings or enhanced investment yields, and help SANDAG manage its balance sheet through better matching of assets and liabilities. Swaps should be integrated into SANDAG's overall debt program and should not be used for speculation or leverage.

Swaps are appropriate to use when they achieve a specific objective consistent with SANDAG's overall financial strategies. They may be used, for example, to lock in a current market fixed rate or create additional variable rate exposure. They may also be used to produce interest rate savings, to limit or hedge variable rate exposure, to alter the pattern of debt service payments or for asset/liability matching purposes. Swaps may be used to cap, limit or hedge variable rate payments. Options granting the right to commence or cancel an underlying swap may be used to the extent the swap itself is consistent with these guidelines or SANDAG determines there are other advantages to be derived in purchasing or granting the option; however, SANDAG must determine if the use of any such option is appropriate and warranted given the potential benefit, risks, and SANDAG's objectives. SANDAG, together with SANDAG's financial advisor and bond counsel, shall periodically review SANDAG's swap guidelines and recommend appropriate changes.

3. Conditions for Use of Interest Rate Swaps and Options

3.1. Rationale

SANDAG may use interest rate swaps and options if it is reasonably determined that the proposed transaction is expected to:

3.1.1 Optimize capital structure, including schedule of debt service payments and/ or fixed vs. variable rate allocations.

3.1.2 Achieve appropriate asset/liability match.

3.1.3 Reduce risk, including:

3.1.3.1 Interest rate risk;

3.1.3.2 Tax risk; or

3.1.3.3 Liquidity renewal risk.

3.1.4 Provide greater financial flexibility.

3.1.5 Generate interest rate savings.

3.1.6 Enhance investment yields.

3.1.7 Manage exposure to changing markets in advance of anticipated bond issuances (through the use of anticipatory hedging instruments).

3.2. Benefit Expectation

Financial transactions, using fixed rate swaps or other derivative products, should result in debt service savings of at least 2% when compared to the projected debt service SANDAG would consider for traditional bonds or notes. This threshold will serve as a guideline and will not apply should the transaction, in SANDAG's sole judgment, meet any of the other objectives outlined herein. The debt service savings target reflects the

greater complexity and higher risk of derivative financial instruments. Such comparative savings analyses shall include, where applicable, the consideration of the probability (based on historical interest rate indices, where applicable, or other accepted analytic techniques) of the realization of savings for both the derivative and traditional structures.

For example, assuming a refunding of \$100 million of existing bonds, if a traditional fixed rate advance refunding that does not use derivative products would have a present value savings threshold of \$5.0 million, which is 5.0% of the refunded par, then a refunding structure utilizing a derivative product would have to achieve a threshold of \$7.0 million in present value savings, or 7.0% of the refunded par. Therefore, the transaction utilizing a swap or other derivative product would have to generate an additional \$2.0 million to meet the target. Such analysis should consider structural differences in comparing traditional vs. derivative alternatives, e.g., the non-callable nature of derivative transactions.

For variable rate or other swap transactions that do not result in a fixed interest rate, SANDAG will evaluate any additional value generated through the transaction in assessing the benefits of proceeding, including the ability to meet the objectives outlined herein. These benefits include, for example, managing interest rate or tax risk, optimizing the capital structure or further reducing interest expense.

In determining any benefit in implementing a fixed-to-variable swap, the cost of remarketing, in addition to the cost of credit enhancement or liquidity fees, must be added to the projected variable rate of the bonds or notes. Such a calculation should consider the trading performance of comparable bonds or notes and any trading premium resulting from a specific form of credit enhancement or liquidity and/or any impact related to broader industry trends.

3.3. Maximum Notional Amount

SANDAG will limit the total notional amount of outstanding interest rate swaps based on the proper management of risks, calculation of termination exposure, and development of a contingency plan. The total "net notional amount" of all swaps related to a bond or note issue should not exceed the outstanding or expected to be issued par amount of the related bonds or notes. For purposes of calculating the net notional amount, credit shall be given to any fixed versus variable rate swaps that offset for a specific bond or note transaction

3.4. Maximum Maturity

SANDAG shall determine the appropriate term for an interest rate swap agreement on a case-by-case basis. In connection with the issuance or carrying of bonds or notes, the term of the swap agreement between SANDAG and a qualified swap counterparty shall not extend beyond the final maturity date of the related bonds or notes.

3.5. Liquidity Considerations

SANDAG shall consider the impact of any variable rate bonds or notes issued in combination with an interest rate swap on the availability and cost of liquidity support for other variable rate programs. SANDAG recognizes that there is a limited supply of letter of credit or liquidity facility support for SANDAG's variable rate bonds or notes, and the usage of liquidity support in connection with an interest rate swap may result in higher overall financing costs. SANDAG shall consider the benefits of not using liquidity when using a fixed rate bond in conjunction with a swap to variable to create synthetic variable rate debt.

3.6. Call Option Value Considerations

When considering the relative advantage of an interest rate swap to fixed rate bonds, SANDAG will consider the value of the call option on fixed rate bonds, or the cost of including a call or cancellation option in a swap. The value derived from the ability to call bonds at a future date is foregone when using a "non-callable" swap for the remaining term of the bonds. While fixed rate bonds are typically structured with a call provision at a certain time, after which the bonds may be refunded, this opportunity may be lost through the utilization of a long-dated "non-callable" swap, impairing SANDAG's ability to reap economic savings, unless this option is specifically included under the swap.

4. Interest Rate Swap Features

4.1 Interest Rate Swap Agreement

SANDAG will use terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement. The swap agreement between SANDAG and each swap counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as SANDAG, in consultation with its bond and general counsel and financial advisor, deems necessary or desirable.

Subject to the provisions contained herein, the terms of SANDAG's swap agreement shall use the following guidelines:

4.1.1 SANDAG's downgrade provisions triggering termination shall in no event be worse than those affecting the counterparty.

4.1.2 Governing law for swaps will be New York or California.

4.1.3 The specified indebtedness related to credit events in any swap agreement should be narrowly defined and refer only to indebtedness of SANDAG that could have a materially adverse affect on SANDAG's ability to perform its obligations under the swap.

4.1.4 Collateral thresholds for the swap provider, and for SANDAG if applicable, should be set on a sliding scale reflective of credit ratings of the swap provider or guarantor. Collateral should be held by an independent third party.

4.1.5 Eligible collateral is outlined in Appendix A.

4.1.6 Termination value should be set by a "market quotation" methodology, unless SANDAG deems an alternative methodology to be appropriate.

4.1.7 SANDAG will consider the use of swap insurance to mitigate possible termination risk and also to mitigate the need for SANDAG to post collateral under the Credit Support Annex.

4.2 Interest Rate Swap Counterparties

4.2.1 Credit Criteria

SANDAG will only do business with highly rated counterparties or counterparties whose obligations are supported by highly rated parties. SANDAG will structure swap agreements to protect itself from credit deterioration of counterparties, including the use of credit support annexes or other forms of credit enhancement to secure counterparty performance. Such protection shall include any terms and conditions in SANDAG's sole discretion are necessary or appropriate or in SANDAG's best interest.

SANDAG will make its best efforts to work with qualified swap counterparties that at the time of execution of a swap transaction have a general credit rating of: (i) at least "Aa3" or "AA-" by one of the nationally recognized rating agencies and not rated lower than "A2" or "A" by any nationally recognized rating agency, or (ii) have a "AAA" subsidiary as rated by at least one nationally recognized credit rating agency. The nationally recognized rating agencies are Moody's Investors Services, Inc., Standard and Poor's Rating Services, and Fitch Ratings.

For lower rated (below "AA-") counterparties, SANDAG will seek credit enhancement in the form of:

4.2.1.1 Contingent credit support or enhancement;

4.2.1.2 Collateral consistent with the policies contained herein;

4.2.1.3 Ratings downgrade triggers; or

4.2.1.4 Guaranty of parent, if any.

In addition, qualified swap counterparties must have a demonstrated record of successfully executing swap transactions as well as creating and implementing innovative ideas in the swap market.

4.2.2 Swap Dealers

Each swap counterparty with which SANDAG executes a swap transaction will be registered with the Commodity Futures Trading Commission ("CFTC") as a "swap dealer."

4.3 Limitations on Termination Exposure to a Single Counterparty

In order to diversify SANDAG's counterparty credit risk, and to limit SANDAG's credit exposure to any one counterparty, limits will be established for each counterparty based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing and proposed swap transaction. The guidelines below provide general termination exposure guidelines with respect to whether SANDAG should enter into an additional transaction with an existing counterparty. SANDAG may make exceptions to the guidelines at any time to the extent that the execution of a swap achieves one or more of the goals outlined in these guidelines or provides other benefits to SANDAG. In general, the maximum Net Termination Exposure, as defined below, to any single counterparty should be set so that it does not exceed a prudent level as measured against the available financial resources of SANDAG.

Such guidelines will also not mandate or otherwise force automatic termination by SANDAG or the counterparty. Maximum Net Termination Exposure is not intended to impose retroactively any terms and conditions on existing transactions. Such provisions will only act as guidelines in making a determination as to whether or not a proposed transaction should be executed given certain levels of existing and projected net termination exposure to a specific counterparty. Additionally, the guidelines below are not intended to require retroactively additional collateral posting for existing transactions. Collateral posting guidelines are described in the "Collateral Requirements" section below. The calculation of net termination exposure per counterparty will take into consideration multiple transactions, some of which may offset the overall exposure to SANDAG.

Under this approach, SANDAG will set limits on individual counterparty exposure based on existing as well as new or proposed transactions. The sum of the current market value and the projected exposure shall constitute the Maximum Net Termination Exposure. For outstanding transactions, current exposure will be based on the market value as of the last quarterly swap valuation report provided by the financial advisor. Projected exposure shall be calculated based on the swap's potential termination value taking into account possible adverse changes in interest rates as implied by historical or projected measures of potential rate changes applied over the remaining term of the swap.

For purposes of this calculation, SANDAG shall include all existing and projected transactions of an individual counterparty and all transactions will be analyzed in aggregate such that the maximum exposure will be additive.

The exposure thresholds, which will be reviewed periodically by SANDAG to ensure that they remain appropriate, will also be tied to credit ratings of the counterparties and

whether or not collateral has been posted as shown in the table below. If a counterparty has more than one rating, the lowest rating will govern for purposes of the calculating the level of exposure.

The following chart provides the Maximum Net Termination Exposure to a swap counterparty given the lowest credit rating.

| Credit Rating Category | Maximum Collateralized Exposure | Maximum Uncollateralized Exposure | Maximum Total Termination Exposure |
|-------------------------------|--|--|---|
| AAA | Not applicable | \$50 million | \$100 million |
| AA | \$50 million | \$50 million | \$100 million |
| A | \$30 million | \$15 million | \$45 million |
| Below A | \$30 million | None | \$30 million |

If the exposure limit is exceeded by a counterparty, SANDAG shall conduct a review of the exposure limit per counterparty. SANDAG, in consultation with its bond counsel and financial advisor, shall explore remedial strategies to mitigate this exposure.

4.4 Collateral Requirements

As part of any swap agreement, SANDAG may require collateralization or other forms of credit enhancements to secure any or all swap payment obligations. As appropriate, SANDAG may require collateral or other credit enhancement to be posted by each swap counterparty under the following circumstances:

4.4.1 Each counterparty to SANDAG may be required to post collateral (subject to applicable thresholds) if the credit rating of the counterparty or parent falls below the "AA" category. Additional collateral for further decreases in credit ratings of each counterparty shall be posted by each counterparty in accordance with the provisions contained in the Credit Support Annex of the ISDA Agreement between each counterparty and SANDAG.

4.4.2 Threshold amounts shall be determined by SANDAG on a case-by-case basis. SANDAG will determine the reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter.

4.4.3 In determining maximum uncollateralized exposure, SANDAG shall also consider and include, as applicable, financial exposure to the same corporate entities that it may have through other forms of financial dealings, such as securities lending agreements and commercial paper investments.

4.4.4 Collateral shall be deposited with a third party trustee, or as mutually agreed upon between SANDAG and the counterparty.

4.4.5 A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation

of the swap agreement with each swap counterparty. A complete list of acceptable securities and valuation percentages are included as Attachment A.

4.4.6 The market value of the collateral shall be determined on at least a weekly basis, or more frequently if SANDAG determines it is in SANDAG’s best interest given the specific collateral security.

4.4.7 SANDAG shall determine on a case-by-case basis whether other forms of credit enhancement are more beneficial to SANDAG.

4.5 Swap Insurance

If, after a cost/benefit analysis, it is determined that it would be beneficial to insure the interest rate swap, swap insurance will be pursued.

4.6 Security and Source of Repayment

SANDAG will generally use the same security and source of repayment (pledged revenues) for the interest rate swap as is used for the related bond or note issue.

4.7 Prohibited Interest Rate Swap Features

SANDAG will not use interest rate swaps that are: (i) speculative or create extraordinary leverage or risk, (ii) lack adequate liquidity to terminate without incurring a significant bid/ask spread, (iii) provide insufficient price transparency to allow reasonable valuation, or (iv) are used as investments.

5. Evaluation and Management of Interest Rate Swap Risks

Prior to the execution of any swap transaction, SANDAG’s Director of Finance, financial advisor and bond counsel shall evaluate the proposed transaction and report the findings to SANDAG’s Board. Such a review shall include the identification of the proposed benefit and potential risks. As part of this evaluation, SANDAG shall compute the Maximum Net Termination Exposure to the proposed swap counterparty.

5.1 Evaluation Methodology

SANDAG will review the following areas of potential risk for new and existing interest rate swaps:

| Type of Risk | Description | Evaluation Methodology |
|--------------|---|---|
| Basis Risk | The mismatch between actual variable rate debt service and variable rate indices used to determine swap payments. | SANDAG will review historical trading differentials between the variable rate bonds or notes and the index. |
| Tax Risk | The risk created by potential tax events that could affect swap payments. | SANDAG will review the tax events in proposed swap agreements. It will also evaluate the impact of potential changes in tax law on LIBOR indexed swaps. |

| Type of Risk | Description | Evaluation Methodology |
|---------------------|--|---|
| Counterparty Risk | The risk that the counterparty fails to make required payments. | SANDAG will monitor exposure levels, ratings thresholds and collateralization requirements. |
| Termination Risk | The risk that the transaction is terminated in a market dictating termination payment by SANDAG. | SANDAG will compute its termination exposure for all existing and proposed swaps at market value and under a worst-case scenario. SANDAG will consider use of swap insurance to mitigate this risk. |
| Rollover Risk | The mismatch of the maturity of the swap and the maturity of the underlying bonds or notes. | SANDAG will determine its capacity to issue variable rate bonds or notes that may be outstanding after the maturity of the swap. |
| Liquidity Risk | The inability to continue or renew a liquidity facility. | SANDAG will evaluate the expected availability of liquidity support for swapped and unhedged variable rate debt and will consider the use of variable rate debt that does not require liquidity (e.g., auction rate securities) |
| Credit Risk | The occurrence of an event modifying the credit rating of the issuer or its counterparty. | SANDAG will monitor the ratings of its counterparties and insurers. |

5.2 Managing Interest Rate Swap Risks

5.2.1 Annual Report to the Board

Staff will evaluate the risks associated with outstanding interest rate swaps at least annually and provide a written evaluation to the Board of Directors. This evaluation will include the following information:

- 5.2.1.1 A description of all outstanding interest rate swaps, including related bond series, types of swaps, rates paid and received by SANDAG, existing notional amount, average life and remaining term of each swap agreement and the current termination value of outstanding swaps.
- 5.2.1.2 Separately for each swap, the actual debt service requirements versus the projected debt service on the swap transaction. For any swap used as part of a refunding, the actual cumulative savings versus the projected savings at the time the swap was executed.
- 5.2.1.3 The credit ratings of each swap counterparty, parent, guarantor and credit enhancer insuring the swap payments, if any.
- 5.2.1.4 Actual collateral posting by swap counterparty, if any, per swap agreement and in total by swap counterparty.

- 5.2.1.5 Information concerning any material event involving outstanding swap agreements, including a default by a swap counterparty, counterparty downgrade or termination.
- 5.2.1.6 An updated contingency plan to replace, or fund a termination payment in the event an outstanding swap is terminated.
- 5.2.1.7 The status of any liquidity support used in connection with interest rate swaps, including the remaining term and current fee.

SANDAG shall review the Interest Rate Swap Policy with the Board at least annually.

5.2.2 Contingency Plan

SANDAG shall determine the termination exposure of each of its swaps and its total swap termination payment exposure at least annually and prepare a contingency plan to either replace the swaps or fund the termination payments, if any, in the event one or more outstanding swaps are terminated. SANDAG shall assess its ability to obtain replacement swaps and identify revenue sources to fund potential termination payments.

5.3 Terminating Interest Rate Swaps

5.3.1 Optional Termination

SANDAG will structure interest rate swaps to include optional termination at the current market valuation, which would allow SANDAG to terminate a swap prior to its maturity if it is determined that it is financially advantageous to do so, but will not provide this right to the counterparty.

5.3.2 Mandatory Termination

In the event a swap is terminated as a result of a termination event such as a default or credit downgrade of either counterparty, SANDAG will evaluate whether it is financially advantageous to obtain a replacement swap or, depending on market value, make or receive a termination payment.

In the event SANDAG makes a swap termination payment, SANDAG shall attempt to follow the process identified in its swap contingency plan. SANDAG shall also evaluate the economic costs and benefits of incorporating a provision into the swap agreement that will allow SANDAG to make termination payments over time.

6. Disclosure and Financial Reporting

SANDAG will take steps to ensure that there is full and complete disclosure of all interest rate swaps to the SANDAG Board of Directors, rating agencies and in disclosure documents. With

respect to its financial statements, SANDAG will adhere to the guidelines for the financial reporting of interest rate swaps as set forth by the Government Accounting Standards Board.

7. Dodd-Frank Act

7.1 Conformance to Dodd-Frank

It is the intent of SANDAG to conform this Policy to the requirements relating to legislation and regulations for derivatives transactions under Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, as supplemented and amended from time to time, including any regulations promulgated in connection therewith (herein collectively referred to as "Dodd-Frank"). Pursuant to such intent, it is the policy of SANDAG that, with respect to each interest rate swap: (i) each swap advisor engaged or to be engaged by SANDAG will function as the designated qualified independent representative of SANDAG, sometimes referred to as the "Designated QIR"; (ii) each swap advisor will agree to meet and meets the requirements specified in CFTC Regulation 23.450(b)(1) or any successor regulation thereto (herein referred to as the "Representative Regulation"); (iii) each swap advisor will provide a written certification to SANDAG to the effect that such swap advisor agrees to meet and meets the requirements specified in the Representative Regulation; (iv) SANDAG will monitor the performance of each swap advisor consistent with the requirements specified in the Representative Regulation; (v) SANDAG will exercise independent judgment in consultation with its swap advisor in evaluating all recommendations, if any, presented by any swap dealer with respect to transactions authorized pursuant to this Policy; and (vi) SANDAG will rely on the advice of its swap advisor with respect to interest rate swaps authorized pursuant to this Policy and will not rely on recommendations, if any, presented by any swap dealer with respect to interest rate swaps authorized pursuant to this Policy.

7.2 Legal Entity Identifier

SANDAG shall obtain and maintain current at all times a "legal entity identifier" from a firm designated by the CFTC to provide such numbers.

7.3 Clearing

In connection with the execution of any swap entered into on or after September 9, 2013, SANDAG shall complete and maintain, as required by the CFTC, an annual filing regarding how it generally meets its financial obligations associated with entering into uncleared swaps.

7.4 Recordkeeping

Comprehensive records shall be maintained, either in paper or electronic form, of any interest rate swap entered into by SANDAG for at least five (5) years following the termination thereof. Such records shall be retrievable within five (5) business days and shall be open to inspection by the CFTC.

Adopted: November 2005

Amended November 2013

Amended November 2014

APPENDIX A: ACCEPTABLE COLLATERAL

| SECURITY | VALUATION PERCENTAGE |
|---|---|
| (A) Cash | 100% |
| (B) (x) Negotiable debt obligations issued by the U.S. Treasury Department or the Government National Mortgage Association (“Ginnie Mae”), or (y) mortgage backed securities issued by Ginnie Mae (but with respect to either (x) or (y) excluding interest only or principal only stripped securities, securities representing residual interests in mortgage pools, or securities that are not listed on a national securities exchange or regularly quoted in a national quotation service) and in each case having a remaining maturity of: | |
| (i) less than one year | 99% |
| (ii) greater than one year but less than 10 years | 98% |
| (iii) greater than 10 years | 95% |
| (C) (x) Negotiable debt obligations issued by the Federal Home Loan Mortgage Corporation (“Freddie Mac”) or the Federal Home Loan Mortgage Association (“Fannie Mae”) or (y) mortgage backed securities issued by Freddie Mac or Fannie Mae but excluding interest only or principal only stripped securities, securities representing residual interests in mortgage pools, or securities that are not listed on a national securities exchange or regularly quoted in a national quotation service. | 95% |
| (D) Any other collateral acceptable to SANDAG’s sole discretion. | The valuation percentage shall be determined by the Valuation Agent from time to time and in its reasonable discretion. |

For example, if a counterparty is required to post \$1.0 million of collateral and wished to use Ginnie Mae’s with five years remaining to maturity, it would be required to post \$1,052,632 ($\$1.0 \text{ million} / 0.95$) to satisfy the collateral requirement.

APPENDIX B: GLOSSARY OF TERMS

Asset/Liability Matching

Matching the term and amount of assets and liabilities in order to mitigate the impact of changes in interest rates.

Bid/Ask Spread

The difference between the bid price (at which a market maker is willing to buy) and the ask price (at which a market maker is willing to sell).

Call Option

The right to buy an underlying asset (e.g. a municipal bond) after a certain date at a certain price. A call option is frequently embedded in a municipal bond, giving the issuer the right to buy, or redeem, the bonds at a certain price.

Collateral

Assets pledged to secure an obligation. The assets are potentially subject to seizure in event of default.

Downgrade

A negative change in credit ratings.

Forward Starting Swap

Interest rate swap that starts at some time in the future. Used to lock-in current interest rates.

Hedge

A transaction that reduces the interest rate risk of an underlying security.

Interest Rate Exchange Agreement

An agreement detailing the contractual exchange of interest payment streams between counterparties. Often the exchange of a fixed and a floating interest rate between two parties. Also called an interest rate swap.

Interest Rate Swap

An agreement detailing the contractual exchange of interest payment streams between counterparties. Often the exchange of a fixed and a floating interest rate between two parties. Also called an interest rate exchange agreement.

Liquidity Support:

An agreement by a bank to make payment on a variable rate security to assure investors that the security can be sold.

LIBOR

London Interbank Offered Rate. Often used as an index to compute the variable rate paid on an interest rate swap.

Maximum Net Termination Exposure

The aggregate termination payment for all existing and projected swap transactions that would be paid by an individual counterparty. For purposes of this calculation, the aggregate termination payment is equal to: (i) the termination payment based on the market value of all existing swaps, plus (ii) the expected worst-case termination payment of the proposed transaction. The expected worst-case termination payment shall be

calculated assuming interest rates, as measured by the appropriate index (typically the Bond Buyer Revenue Bond Index or Bond Market Association), increase (or decrease) by two standard deviations from the sample mean over a period of time corresponding to the term of the swap.

Notional Amount

The amount used to determine the interest payments on a swap.

Termination Payment

A payment made by a counterparty that is required to terminate the swap. The payment is commonly based on the market value of the swap, which is computed using the rate of the initial swap and the rate on a replacement swap.



BOARD POLICY No. **036**

SAN DIEGO COUNTY REGIONAL TRANSPORTATION COMMISSION DEBT POLICY

The purpose of the Debt Policy for the San Diego County Regional Transportation Commission (SANDAG) is to establish guidelines for the issuance and management of SANDAG's current and future debt. The Debt Policy is designed to inform decision making and provide transparency to SANDAG's financial market participants and the general public. The Debt Policy confirms the commitment of the Board of Directors, management, staff, and other decision makers to adhere to sound financial management practices. Objectives of the Debt Policy are as follows:

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

1. Scope and Authority

This Debt Policy will govern, except as otherwise covered by the SANDAG Investment Policy (SANDAG Board Policy No. 003) and Interest Rate Swap Policy (SANDAG Board Policy No. 032), the issuance and management of all debt funded through the capital markets.

Section 10 of the *TransNet* Extension and Ordinance (Ordinance 04-01) specifies:

Upon voter approval of the ballot proposition to approve the extension of the tax and the issuance of bonds payable from the proceeds of the tax, bonds may be issued by SANDAG pursuant to Division 12.7 of the Public Utilities Code, at any time, and from time to time, payable from the proceeds of the existing tax and its extension and secured by a pledge of revenues from the proceeds of the tax, in order to finance and refinance improvements authorized by Ordinance 87-1 and this Ordinance. SANDAG, in allocating the annual revenues from the measure, shall meet all debt service requirements prior to allocating funds for other projects.

Day-to-day responsibility for managing the SANDAG debt and finance program will reside with the Executive Director. This Debt Policy requires that the Board specifically authorize each debt financing.

Board of Directors Responsibility:

- 1.1 Before making a decision regarding any bond issuance, the Board should review all of the documents to become familiar with their contents. Board members should pay particular attention to the information contained in the Official Statement to ensure there are no inaccuracies concerning SANDAG.

- 1.2 The Board members also should ensure that to the best of their knowledge all of the factual statements are true and correct in all material respects and that the information does not contain any untrue or misleading statement of a material fact or omit to state any material fact that would make the information in any of the documents regarding SANDAG misleading. It is the SANDAG Board of Directors, in its role as the San Diego County Regional Transportation Commission, that has responsibility for approving the transaction.
- 1.3 When carrying out their fiduciary responsibilities, public officials may rely upon employees, bond counsel, disclosure counsel, and other professionals to assure that they are in compliance with the antifraud provisions of the federal securities laws, as long as the reliance is reasonable. In order for the reliance to be considered reasonable, the public official must: (1) make complete disclosure to the appropriate professional of any potentially material mistake or omission in the documents; (2) request the professional's advice as to what disclosure is proper; (3) receive advice regarding the appropriate disclosure; and (4) rely in good faith on that advice.

2. Capital Budgeting and Planning for Debt Issuance

Borrowing needs will be identified and examined within the capital planning and budgetary framework of SANDAG. The primary elements of SANDAG capital planning and budgetary framework are described below.

- 2.1 Annual SANDAG Program Budget: The annual SANDAG Program budget is a Board-approved document that identifies current-year expenditures and funding sources. The Capital Program chapter is a multi-year budget updated on an annual basis that is developed within the context of the SANDAG long-range Transportation Plan, and serves to as a basis for the annual update to the *TransNet* Plan of Finance.
- 2.2 Transportation Sales Tax: *TransNet*:
 - 2.1.1 TransNet Plan of Finance: In 2004, SANDAG adopted the San Diego County Transportation Improvement Program *TransNet* Ordinance and Expenditure Plan (Ordinance 04-01), which provides for an extension of the retail transactions and use tax for a 40-year period commencing on April 1, 2008, through March 31, 2048. The Ordinance outlines eight specific sub-programs that are funded with sales tax revenues. In accordance with the Ordinance, SANDAG may borrow for eligible projects within the sub-programs outlined in the Ordinance, with the debt service to be paid from each respective sub-program funds.
 - 2.1.2 The Early Action Program: is the major focus of the *TransNet* Plan of Finance and forms the basis for determining near to medium-term borrowing needs. The Early Action Program identifies projects within the Ordinance to advance for early delivery, based upon Board direction. Generally, projects included in the Early Action Program are candidates for delivery over the next 10 years. As such, the Early Action Program has a comparatively near-term horizon compared to the Plan of Finance, which extends through 2048.

- 2.1.3 Financial Feasibility Requirements: The Early Action Program includes projects that SANDAG is either currently delivering or will soon be entering the project delivery phase. As such, the Early Action Program demonstrates financial feasibility and accounts for all project funding and costs, including debt service.
- 2.3 Borrowing requirements are determined for each eligible sub-program and debt service is allocated to each sub-program based upon its pro rata share of bond proceeds. It is the general principal for the *TransNet* Plan of Finance that the annual debt service for each sub-program be less than the annual sales tax revenue allocated to a sub-program on an annual basis. This 1.0x program debt service coverage requirement ensures that no single sub-program incurs more debt than it can afford.

3. Standards For and Appropriate Use of Debt Financing

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

- 3.1 Long Term Capital Projects: Long-term debt should be used to finance essential capital projects where it is cost-effective and fiscally prudent. The weighted average maturity of the tax exempt bonds may not exceed 120 percent of the weighted average useful life of the capital assets being financed. The ability or need to expedite or maintain the programmed schedule of approved capital projects will be a factor in the decision to issue long-term debt. Inherent in its long-term debt policies, SANDAG recognizes that future taxpayers will benefit from the capital investment and that it is appropriate that they pay a share of the asset cost. Consistent with Internal Revenue Service code and tax law, long-term debt will not be used to fund operations.
- 3.2 Debt Financing Mechanism: SANDAG will evaluate the use of financial alternatives available including but not limited to long-term debt, short-term debt, and variable-rate debt. SANDAG will consider cost, risk to the portfolio, stability, and future flexibility when considering alternative borrowing alternatives.
- 3.3 Credit Quality: Credit quality is an important consideration for SANDAG. All SANDAG debt management activities for new debt issuances will be conducted in a manner conducive to receiving the highest credit ratings possible consistent with SANDAG debt management and project delivery objectives.

4. Purpose of Financing

The general purpose of bond financing falls into two general categories: (1) to finance new capital infrastructure or, (2) to refinance existing bonds to reduce financing costs, risk, or both. These two purposes are described in more detail below.

- 4.1 New Money Financing: New money issues are those financings that generate additional funding to be available for expenditure on capital projects. These funds will be used for acquisition, construction, and major rehabilitation of capital assets. New money bond proceeds may not be used to fund operational activities. New money issues will be

proposed in the context of the Plan of Finance, Early Action Program, and the annual Program Budget and will be consistent with the Expenditure Plan and Ordinance and SANDAG Board Policy No. 031, "*TransNet* Ordinance and Expenditure Plan Rules."

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

As a general guideline, SANDAG will target a minimum debt service savings threshold goal of 3.0 percent of the refunded bond principal amount, on a maturity-by-maturity basis, unless there are other compelling reasons for defeasance.

5. Types of Debt

The market for municipal finance is well developed and provides numerous products or types of debt that SANDAG will evaluate on a case-by-case basis. The types of debt typically available to SANDAG are described in this section.

5.1 Long-Term Debt

- 5.1.1 Current Coupon Bonds: are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions.
- 5.1.2 Transportation Infrastructure Finance Innovation Act (TIFIA) Loan: is a loan provided by the United States Department of Transportation for certain transportation projects of regional importance. SANDAG may elect to apply for a TIFIA loan if it is determined that it is the most cost effective debt financing option or if the loan provides flexibility to the benefit of the larger *TransNet* Program.
- 5.1.3 Federally Subsidized Taxable Bonds: are municipal bonds whose interest cost is subsidized by the federal government. The subsidized interest cost creates a taxable bond that is cost-competitive with traditional tax-exempt bonds. SANDAG will consider the issuance of federally subsidized taxable bonds that may be available in the future and will compare the net cost to traditional tax-exempt options.

5.2 Short-Term Debt

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

- 5.2.2 Grant Anticipation Notes: are short-term notes that are repaid with the proceeds of state or federal grants of any type.
 - 5.2.3 Lines of Credit: will be considered as an alternative to or credit support for other short-term borrowing options.
 - 5.2.4 Bond Anticipation Notes: are short-term notes that are repaid with the proceeds of future borrowings.
- 5.3 Variable Rate Debt: It is sometimes appropriate to issue short-term or long-term variable rate debt to diversify the debt portfolio, reduce interest costs, provide interim funding for capital projects, and/or improve the match of variable rate assets to variable rate liabilities.

6. Terms and Structure of Bonds

The terms and structure of a specific bond issuance will be developed within a prudent legal framework (e.g., SANDAG existing bond indenture) and with the objective of maintaining strong credit ratings, addressing investor concerns, minimizing risk to SANDAG, and preserving future flexibility in a cost-effective manner. A primary, but not exhaustive list of some of the terms and structural considerations are discussed below.

- 6.1 Term: All capital improvements financed through the issuance of debt will be financed for a period not to exceed the expiration date of the sales tax measure. Further, the weighted average maturity of the tax exempt bonds may not exceed 120 percent of the weighted average useful life of the capital assets being financed.
- 6.2 Lien Levels: Senior and subordinate liens for each revenue source may be utilized in a manner that will maximize the most critical constraint - typically either cost or capacity - thus allowing for the most beneficial use of the revenue source securing the bond.
- 6.3 Debt Service Structure: SANDAG will examine debt service structures in the context of program needs. Combined principal and interest payments for any particular bond issue will first be examined as a level payment structure. Deferred principal can create increased program and project delivery capacity and also will be examined. The SANDAG debt service structure will be sized within conservative revenue constraints and with the objective of maintaining strong credit ratings.
- 6.4 Additional Bonds Test: Any new senior lien debt issuance must not cause the SANDAG debt service to exceed the level at which prior year revenues are less than two times (2.0x) the maximum annual principal and interest for the aggregate outstanding senior lien bonds, including the debt service for the new issuance.
- 6.5 Call Provisions: In general, fixed-rate, tax-exempt bonds will be issued with a provision that allows SANDAG to call outstanding bonds 10 years after the bond delivery date at par (i.e., no call premium). Shorter or longer call provisions may be utilized if there is a specific benefit to or need for their use.

6.6 Derivative Products: SANDAG 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. Interest rate swaps will be considered in the context of the SANDAG Interest Rate Swap Policy (SANDAG Board Policy No. 032). Derivative products will only be utilized with prior approval from the Board.

7. Credit Enhancement

SANDAG will consider the cost and benefit of credit enhancement strategies on a case-by-case basis with each separate bond issuance.

7.1 Bond Insurance: SANDAG will 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.

7.2 Debt Service Reserves: When beneficial to SANDAG from a bond pricing and credit perspective, a reserve fund may be established. SANDAG will 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 will be evaluated in comparison to cash funding of reserves on a net present value basis.

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

8. Method of Bond Sale

SANDAG will determine on a case-by-case basis which method to use to sell its bonds. Generally, there are three methods of sale: competitive, negotiated, and private placement. Each type of bond sale has advantages and the potential to provide the lowest cost given the right conditions. SANDAG will work with its financial advisor to determine the appropriate method of sale under specific market conditions.

9. Market Relationships

As a periodic issuer who values cost-effective market-access, SANDAG will actively provide requested information and maintain relationships with rating agencies, investors, and other market participants, as needed. Staff will provide relevant market updates to the Board on a quarterly basis.

9.1 Rating Agencies: The Director of Finance will be primarily responsible for maintaining our relationships with those rating agencies (i.e., Moody's Investors Service, Standard & Poor's, and Fitch Ratings) from whom SANDAG requests and holds ratings. SANDAG may, from time to time, choose to deal with only one or two of these agencies as circumstances dictate.

- 9.2 Investor Relations: Timely and accurate information will be provided in response to inquiries from investors in order to maintain positive, ongoing investor relations.
- 9.3 Board Communication: As a means of providing feedback from rating agencies and/or investors regarding our financial strengths and weaknesses as perceived by the marketplace, information will be provided to the Board as material information develops. SANDAG staff currently provides written quarterly reports to the Board, which include current market information, an update on the SANDAG debt portfolio, relevant financial metrics (e.g., debt service coverage ratios), and anticipated borrowing needs over the next one to two years.

10. Continuing Disclosure

It is SANDAG policy to remain in compliance with SEC Rule 15c2-12 by filing annual financial statements and other financial and operating data for the benefit of bondholders within 210 days of the close of the fiscal year and file material event notices in a timely manner.

11. Consultants

SANDAG will select its primary consultant(s) through a competitive process, as required by Board Policy No. 016, "Procurement of Services."

12. Post-Issuance Compliance Procedures

SANDAG will establish and document procedures to ensure that SANDAG is in compliance with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied with respect to tax-exempt bonds and other obligations after the bonds are issued so that interest on the bonds is, and will remain, tax-exempt. Additionally, as part of the post issuance compliance procedures SANDAG will ensure that proceeds of the debt issuance are directed to the intended use. The Post-Issuance Compliance Procedures will be reviewed at least every three years.

Adopted October 2013
Amended January 2017



BOARD POLICY No. **037**

SAN DIEGO ASSOCIATION OF GOVERNMENTS DEBT POLICY

The purpose of this policy is to establish guidelines for the issuance and management of SANDAG's current and future debt, including but not limited to that issued related to the South Bay Expressway toll road, which SANDAG operates on a portion of State Route 125. The policy is designed to inform decision making and provide transparency to SANDAG's financial market participants and the general public. The policy confirms the commitment of the Board of Directors, management, staff, and other decision makers to adhere to sound financial management practices. Objectives of the policy are as follows:

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

1. Scope and Authority

This policy will govern, except as otherwise covered by the SANDAG Investment Policy (SANDAG Board Policy No. 003) and Interest Rate Swap Policy (SANDAG Board Policy No. 032), the issuance and management of all debt issued by SANDAG for the State Route 125 South Bay Expressway (SR 125) and funded through the capital markets.

SANDAG may issue bonds and borrow money pursuant to Article 8 of the San Diego Regional Transportation Consolidation Act, (Public Utilities Code Section 132370 et seq.) at any time, and from time to time, payable from the revenues of tolls and any other source of revenues available to SANDAG and pledged as security for the bonds or other debt.

Day-to-day responsibility for managing the SANDAG debt and finance program will reside with the Executive Director. This Debt Policy requires that the Board specifically authorize each debt financing.

Board of Directors Responsibility:

- 1.1 Before making a decision regarding any bond issuance, the Board should review all of the documents to become familiar with their contents. Board members should pay particular attention to the information contained in the Official Statement to ensure there are no inaccuracies concerning SANDAG or the South Bay Expressway.
- 1.2 Board members also should ensure that to the best of their knowledge all of the factual statements are true and correct in all material respects and that the information does not contain any untrue or misleading statement of a material fact or omit to state any

material fact that would make the information in any of the documents SANDAG or any of its facilities or operations misleading. It is the Board of Directors that has responsibility for approving the transaction.

- 1.3 When carrying out their fiduciary responsibilities, public officials may rely upon employees, bond counsel, disclosure counsel, and other professionals to assure that they are in compliance with the antifraud provisions of the federal securities laws, as long as the reliance is reasonable. In order for the reliance to be considered reasonable, the public official must: (1) make complete disclosure to the appropriate professional of any potentially material mistake or omission in the documents; (2) request the professional's advice as to what disclosure is proper; (3) receive advice regarding the appropriate disclosure; and (4) rely in good faith on that advice.

2. Capital Budgeting and Planning for Debt Issuance

SANDAG will develop an annual Program Budget and a comprehensive long-term Financial Plan. The Program Budget and Financial Plan shall include one or more specific elements focusing on the South Bay Expressway or any other operations programs upon which debt is issued. SANDAG will make annual updates to the Program Budget. The annual SANDAG Program Budget is a Board-approved document that identifies current-year expenditures and funding sources.

SANDAG will also develop a long-term Financial Plan with regard to operation of the South Bay Expressway. This Financial Plan will include forecasted operating costs, toll revenues, ongoing capital expenditures related to the South Bay Expressway, other available funding sources, borrowing needs, if any, through the life of the Development Franchise Agreement (i.e., through 2042). This Financial Plan will be prepared no less often than every two years and presented to the Board for review and approval. This Financial Plan will demonstrate that forecasted net revenues will be sufficient to satisfy the toll and revenue covenants included in the legal documents securing any toll revenue bonds and obligations. In particular, the Financial Plan must ensure that the revenues of tolls and any other source of revenues available to SANDAG through the South Bay Expressway and pledged as security for the bonds are at least 150 percent of projected annual debt service on all Outstanding First Senior Lien Obligations; 135 percent of projected annual debt service on all Outstanding First and Second Senior Lien Obligations; 115 percent of projected annual debt service on all Outstanding First Senior, Second Senior, and Subordinate Obligations; and 100 percent of current year's debt service on all liens plus any funds required to be deposited in funds established under the legal documents (such as Reserve Funds)

In the context of the Financial Plan, the Board will also concurrently review Board Policy 038: (Full Title of Toll Policy) and determine the need, if any, to adjust toll rates to meet the financial and operational objectives of SANDAG and satisfy the related legal covenants to bond holders.

3. Standards for and Appropriate Use of Debt Financing

As borrowing needs are identified, SANDAG will evaluate the nature of the capital investment (e.g., the use and useful life of the asset) to ensure that long-term debt is the appropriate

financing mechanism to meet the funding need. Standards for the appropriate use of debt financing will include those described below.

- 3.1 Long Term Capital Projects: Long-term debt should be used to finance essential capital projects where it is cost-effective and fiscally prudent. The weighted average maturity of the tax-exempt bonds may not exceed 120 percent of the weighted average useful life of the capital assets being financed. The ability or need to expedite or maintain the programmed schedule of approved capital projects will be a factor in the decision to issue long-term debt. Inherent in its long-term debt policies, SANDAG recognizes that future users of SR 125 will benefit from the capital investment and that it is appropriate that they pay a share of the asset cost. Consistent with Internal Revenue Service code and tax law, long-term debt will not be used to fund operations.
- 3.2 Debt Financing Mechanism: SANDAG will evaluate the use of financial alternatives available including but not limited to long-term debt, short-term debt, and variable-rate debt. SANDAG will consider cost, risk to the portfolio, stability, and future flexibility when considering alternative borrowing alternatives.
- 3.3 Credit Quality: Credit quality is an important consideration for SANDAG. All SANDAG debt management activities for new debt issuances will be conducted in a manner conducive to receiving the highest credit ratings possible consistent with SANDAG debt management and project delivery objectives.

4. Purpose of Financing

The general purpose of bond financing falls into two general categories: (1) to finance new capital infrastructure or, (2) to refinance existing bonds to reduce financing costs, risk, or both. These two purposes are described in more detail below.

- 4.1 New Money Financing: New money issues are those financings that generate additional funding to be available for expenditure on capital projects. These funds will be used for acquisition, construction, and major rehabilitation of capital assets. A new money issuance may also include the need to fund capitalized interest, the initial funding of reserves for a new asset, or a debt service reserve fund. New money bond proceeds may not be used to fund operational activities. New money issues will be proposed in the context of the SR 125 Financial Plan and the annual Program Budget.
- 4.2 Refunding Bonds: Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance at a lower interest rate to reduce debt service. Alternatively, some refundings are executed for a reason other than to achieve cost savings, such as to restructure the repayment schedule of the debt, to change the type of debt instruments being used, or to retire a trust indenture for removal of undesirable bond covenants that may excessively restrict SANDAG's ability to issue additional bonds. In any event, a present value analysis must be prepared that identifies the economic effects of any refunding being proposed to the Board.

As a general guideline, SANDAG will target a minimum debt service savings threshold goal of 3.0 percent of the refunded bond principal amount, on a maturity-by-maturity basis, unless there are other compelling reasons for defeasance.

5. Types of Debt

The market for municipal finance is well developed and provides numerous products or types of debt that SANDAG will evaluate on a case-by-case basis. The types of debt typically available to SANDAG are described in this section.

5.1 Long-Term Debt

5.1.1 Current Coupon Bonds: are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions.

5.1.2 Transportation Infrastructure Finance Innovation Act (TIFIA) Loan: is a loan provided by the United States Department of Transportation for certain transportation projects of regional importance. SANDAG may elect to apply for a TIFIA loan if it is determined that it is the most cost effective debt financing option.

5.1.3 Federally Subsidized Taxable Bonds: are municipal bonds whose interest cost is subsidized by the federal government. The subsidized interest cost creates a taxable bond that is cost-competitive with traditional tax-exempt bonds. SANDAG will consider the issuance of federally subsidized taxable bonds that may be available in the future and will compare the net cost to traditional tax-exempt options.

5.2 Short-Term Debt

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

5.2.2 Grant Anticipation Notes: are short-term notes that are repaid with the proceeds of state or federal grants of any type.

5.2.3 Lines of Credit: will be considered as an alternative to or credit support for other short-term borrowing options.

5.2.4 Bond Anticipation Notes: are short-term notes that are repaid with the proceeds of future borrowings

5.3 **Variable Rate Debt**: It is sometimes appropriate to issue short-term or long-term variable rate debt to diversify the debt portfolio, reduce interest costs, provide interim funding for capital projects, and/or improve the match of variable rate assets to variable rate liabilities.

6. Terms and Structure of Bonds

The terms and structure of a specific bond issuance will be developed within a prudent legal framework (e.g., SANDAG existing bond indenture) and with the objective of maintaining strong credit ratings, addressing investor concerns, minimizing risk to SANDAG, and preserving future flexibility in a cost-effective manner. A primary, but not exhaustive list of some of the terms and structural considerations are discussed below.

- 6.1 Term: All capital improvements financed through the issuance of debt will be financed for a period not to exceed the expiration date of the Development Franchise Agreement. Further, the weighted average maturity of the tax-exempt bonds may not exceed 120 percent of the weighted average useful life of the capital assets being financed.
- 6.2 Lien Levels: First Senior, Second Senior, and Subordinate Liens for each revenue source may be utilized in a manner that will maximize the most critical constraint - typically either cost or capacity - thus allowing for the most beneficial use of the revenue source securing the bond.
- 6.3 Debt Service Structure: SANDAG will examine debt service structures in the context of program needs and forecasted revenues. The toll revenue bond debt service structure will be sized within appropriate revenue constraints and with the objective of maintaining stable credit ratings.
- 6.4 Additional Bonds Test: Any new issuance of First Senior Lien Obligations must not cause the SANDAG debt service to exceed the level at which either prior year Net Revenues or projected annual Net Revenues are less than 175 percent of the maximum annual principal and interest for the aggregate outstanding first senior lien bonds, including the debt service for the new issuance of First Senior Lien Obligations.

Any new issuance of First or Second Senior Lien Obligations must not cause the SANDAG debt service to exceed the level at which either prior year Net Revenues or projected annual Net Revenues are less than 135 percent of the maximum annual principal and interest for the aggregate outstanding first and second senior lien bonds, including the debt service for the new issuances of First and Second Senior Lien Obligations.

Any new issuance of First Senior Lien, Second Senior Lien, or Subordinate Lien Obligations must not cause the SANDAG debt service to exceed the level at which either prior year Net Revenues or projected annual Net Revenues are less than 115 percent of the maximum annual principal and interest for the aggregate outstanding senior lien bonds, including the debt service for the new issuances of First Senior Lien, Second Senior Lien, or Subordinate Lien Obligations.

- 6.5 Call Provisions: In general, fixed-rate, tax-exempt bonds will be issued with a provision that allows SANDAG to call outstanding bonds 10 years after the bond delivery date at par (i.e., no call premium). Shorter or longer call provisions may be utilized if there is a specific benefit to or need for their use.

6.6 Derivative Products: SANDAG 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. Interest rate swaps will be considered in the context of the SANDAG Interest Rate Swap Policy (SANDAG Board Policy No. 032). Derivative products will only be utilized with prior approval from the Board.

7. Credit Enhancement

SANDAG will consider the cost and benefit of credit enhancement strategies on a case-by-case basis with each separate bond issuance.

7.1 Bond Insurance: SANDAG will 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.

7.2 Debt Service Reserves: When beneficial to SANDAG from a bond pricing and credit perspective, a reserve fund may be established. SANDAG will 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 will be evaluated in comparison to cash funding of reserves on a net present value basis.

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

8. Method of Bond Sale

SANDAG will determine on a case-by-case basis which method to use to sell its bonds. Generally, there are three methods of sale: competitive, negotiated, and private placement. Each type of bond sale has advantages and the potential to provide the lowest cost given the right conditions. SANDAG will work with its financial advisor to determine the appropriate method of sale under specific market conditions.

9. Market Relationships

SANDAG will actively provide requested information and maintain relationships with rating agencies, investors, and other market participants, as needed. Staff will provide relevant market updates to the Board on a quarterly basis.

9.1 Rating Agencies: The Director of Finance will be primarily responsible for maintaining relationships with those rating agencies from whom SANDAG requests and holds ratings. SANDAG may, from time to time, choose to deal with only one or two of these agencies as circumstances dictate.

- 9.2 Investor Relations: Timely and accurate information will be provided in response to inquiries from investors in order to maintain positive, ongoing investor relations.
- 9.3 Board Communication: As a means of providing feedback from rating agencies and/or investors regarding our financial strengths and weaknesses as perceived by the marketplace, information will be provided to the Board as material information develops. On an annual basis Audited Financial Statements are presented to the Board, along with the highlights of the operations report.

10. Continuing Disclosure

It is SANDAG policy to remain in compliance with SEC Rule 15c2-12 and SANDAG will have a process in place to ensure they meet the requirements of the continuing disclosure undertaking.

11. Consultants

SANDAG will select its primary consultant(s) through a competitive process, as required by Board Policy No. 016: Procurement of Services.

12. Post-Issuance Compliance Procedures

SANDAG will establish and document procedures to ensure that SANDAG is in compliance with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied with respect to tax-exempt bonds and other obligations after the bonds are issued so that interest on the bonds is, and will remain, tax-exempt. Additionally, as part of the post issuance compliance procedures SANDAG will ensure that proceeds of the debt issuance are directed to the intended use. The Post-Issuance Compliance Procedures will be reviewed at least every three years.

Adopted September 2017

**San Diego County Regional Transportation Commission
Post-Issuance Tax Compliance Procedures for Tax-Exempt and Build America Bonds**

Statement of Purpose

These post-issuance compliance procedures (the "Procedures") set forth specific procedures and guidelines of the San Diego Association of Governments ("SANDAG") designed to monitor post-issuance compliance of tax-exempt qualified Bonds¹ and Build America Bonds ("BABs") (the "Bonds") issued by the San Diego County Regional Transportation Commission ("Commission") with applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations promulgated thereunder (the "SANDAG Procedures"). The procedures do not address other financing obligations that are issued by other member agencies, boards and authorities. Such other bond-issuing organizations may adopt their own post-issuance compliance procedures for the Bonds they issue.

The procedures document existing practices and describe various procedures and systems designed to identify on a timely basis facts relevant to demonstrating compliance with the requirements that must be satisfied subsequent to the issuance of Bonds in order to preserve the tax-exempt or BABs status of such Bonds. SANDAG recognizes that compliance with applicable provisions of the Code and SANDAG Procedures is an on-going process, necessary during the entire term of the Bonds, and is an integral component of SANDAG's debt management. Accordingly, the analysis of those facts and implementation of the procedures will require on-going monitoring and consultation with Bond Counsel and other legal counsel or expert advisors beyond the scope of its initial engagement with respect to the issuance of particular Bonds.

Procedure Components

The SANDAG Board of Directors approves the terms and structure of executed Bonds. Such Bonds are issued Pursuant to the San Diego County Regional Transportation Commission Act, Chapter 2 of Division 12.7 (Sections 132000 and following) of the Public Utilities Code of the State of California, (the "Act"). The monitoring of certain post-issuance compliance items may additionally involve Bond Counsel, the Participating Institutions², and the Trustee.

¹ For purposes of the Procedures, tax-exempt qualified obligations shall include (a) obligations the interest on which is excludable from gross income for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended, and regulations thereunder (collectively, the "Code") ("tax-exempt obligations"), and (b) obligations the interest on which is not excludable from gross income for federal income tax purposes, but federal law otherwise requires such obligations to satisfy requirements of the Code applicable to tax-exempt obligations. For example, Section 54AA of the Code, added by the American Recovery and Reinvestment Act of 2009, authorizes the issuance of "Build America Bonds," the interest on which is includible in gross income for federal income tax purposes, provided that (a) the interest on the Bonds would, but for such Section 54AA, be excludable from gross income for federal tax purposes under Section 103 of the Code, (b) such Bonds are issued before a specified date (currently January 1, 2011), and (c) the issuer makes an irrevocable election to have Section 54AA apply. Accordingly, the Procedures will apply to any Build America Bonds issued by the Commission.

² Participating Institutions may include any of the SANDAG member agencies, in which the respective governing Board enters into a Memorandum of Agreement with SANDAG to participate in the Commission's bond issuance by pledging the appropriate share of each member agency's TransNet apportioned revenues for debt service.

Specific post-issuance compliance procedures address the relevant areas described below. The following list is not intended to be exhaustive and further areas may be identified from time to time by SANDAG staff in consultation with Bond Counsel and other legal counsel or expert advisors.

- I. General Procedures – the procedures and systems for monitoring post-issuance compliance are generally as follows:
 - A. The Director of Finance (the "Director") shall be responsible for monitoring SANDAG post-issuance compliance issues. The Director shall also designate an appropriate Finance staff member(s) (the "Staff Designee(s)") to be responsible for supporting the monitoring of SANDAG post-issuance compliance issues. The Director shall be responsible for ensuring an adequate succession plan exists for transferring post-issuance compliance responsibility when changes in staff occur.
 - B. The Director and Staff Designee(s) will coordinate procedures for record retention and review of such records.
 - C. The Director will review post-issuance compliance procedures and systems on a periodic basis, but not less than annually.
 - D. Electronic media will be the preferred method for storage of all documents and other records maintained by SANDAG. In maintaining such electronic storage, SANDAG will comply with applicable Internal Revenue Service (the "IRS") requirements, such as those contained in Revenue Procedure 97-22.
 - E. SANDAG may use the services of a disclosure dissemination agent to provide notice of required and voluntary events and to file required documents with the Municipal Securities Rulemaking Board (MSRB). If a disclosure dissemination agent is used, the services provided will be memorialized in a continuing disclosure agreement (Attachment 1).
- II. Issuance of Bonds – the following procedures relate to the issuance of a specific issue of Bonds.

The Director and Staff Designee(s) will:

- A. Obtain and store a closing binder and/or CD or other electronic copy of the relevant and customary transaction documents in the Finance Department Library.
- B. Confirm that Bond Counsel has filed the applicable information report (e.g., Form 8038-G, Form 8038-CP) for such issue with the IRS on a timely basis.
- C. Coordinate receipt and retention of relevant books and records with respect to the investment and expenditure of the proceeds of such Bonds with other applicable SANDAG staff.

- D. The Director and Staff Designee(s) shall consult with Bond Counsel and other legal counsel and expert advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for the appropriate tax status. Those requirements and procedures shall be documented in the Commission's resolution(s), Tax Certificate(s) and / or other documents finalized at or before issuance of the Bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the Bonds.
- E. The Director and Staff Designee(s) also shall consult with Bond Counsel and other legal counsel and expert advisors, as needed, following issuance of the Bonds to ensure that all applicable post-issuance requirements in fact are met. This shall include, without limitation, consultation in connection with future contracts with respect to the use of Bond-financed assets.

III. Arbitrage – the following procedures relate to the monitoring and calculating of arbitrage and compliance with specific arbitrage rules and regulations.

The Director and Staff Designee(s) will:

- A. Coordinate the tracking of expenditures, including the expenditure of any investment earnings, with assistance from other applicable SANDAG staff.
- B. Obtain a computation of the yield on such issue from an arbitrage rebate specialist and maintain a system for tracking investment earnings, currently via TTrak, the sales tax revenue database tracking system and provide the arbitrage rebate specialist documents and information as reasonably requested.
- C. Develop and maintain a reasonable method for the allocation of proceeds of the issue and investment earnings to expenditures, including the reimbursement of pre-issuance expenditures.
- D. Coordinate with an arbitrage rebate specialist to monitor compliance with the applicable "temporary period" (as defined in the Code and Treasury Regulations) exceptions for the expenditure of proceeds of the issue, and provide for yield restriction on the investment of such proceeds if such exceptions are not satisfied.
- E. Coordinate with the Trustee to ensure they provide monthly statements regarding the investments and transactions involving Bond proceeds and coordinate with the Trustee and Investment Manager(s) to ensure that investments acquired with proceeds of such issue are purchased at fair market value.
- F. Coordinate with the Trustee to avoid formal or informal creation of funds reasonably expected to be used to pay debt service on such issue without determining in advance whether such funds must be invested at a restricted yield.

- G. Coordinate and consult with Bond Counsel and the Financial Advisor prior to engaging in any post-issuance credit enhancement transactions, if applicable (e.g., bond insurance, letters of credit) or hedging transactions (e.g., interest rate swaps, caps).
- H. Coordinate with Investment Manager(s) to identify situations in which compliance with applicable yield restrictions depends upon later investments and monitor implementation of any such restrictions.
- I. Coordinate with an arbitrage rebate specialist to monitor compliance with 6-month, 12-month, 18-month or 2-year spending exceptions to the rebate requirement, as applicable.
- J. Coordinate with Bond Counsel to procure a timely computation of any rebate liability and, if rebate is due, to file a Form 8038-T and to arrange for payment of such rebate liability.
- K. The Director and Staff Designee(s) shall monitor efforts of the arbitrage rebate specialist and assure 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.
- L. In the case of any issue of refunding Bonds, coordinate with the Financial Advisor and any Escrow Agent to arrange for the purchase of the refunding escrow securities, obtain a computation of the yield on such escrow securities from an arbitrage rebate specialist and monitor compliance with applicable yield restrictions.

IV. Use of Bond Proceeds

The Director and Staff Designee(s) will:

- A. Coordinate with applicable Participating Agency staff to comply with the following items (B-E) and require the Participating Agency to notify SANDAG prior to any change in use or change in ownership of Bond-financed assets (e.g., facilities, furnishings or equipment).
- B. Monitor the use of Bond proceeds and the use of Bond-financed assets throughout the term of the Bonds (and in some cases beyond the term of the Bonds) to ensure compliance with covenants and restrictions set forth in applicable Commission resolutions, documents and Tax Certificates.
- C. Maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds.
- D. Consult with Bond Counsel and other professional expert advisers in the review of any contracts or arrangements involving use of Bond-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable Commission resolutions, documents and Tax Certificates.
- E. Maintain records for any contracts or arrangements involving the use of Bond-financed facilities as might be necessary or appropriate to document compliance with all

covenants and restrictions set forth in applicable Commission resolutions, documents and Tax Certificates.

- V. Reissuance – the following procedures relate to compliance with rules and regulations regarding the reissuance of Bonds for federal law purposes.

The Director and Staff Designee(s) will:

- A. Identify and consult with Bond Counsel regarding any post-issuance change to any terms of an issue of Bonds which could potentially be treated as a reissuance for federal tax purposes.
- B. Confirm with Bond Counsel whether any “remedial action” in connection with a “change in use” (as such terms are defined in the Code) would be treated as a reissuance for tax purposes and, if so, confirm the filing of any new Form 8038-G.

- VI. Record Retention – the following procedures relate to retention of records relating to the Bonds issued.

The Director and Staff Designee(s) will:

- A. Keep all material records for so long as the issue is outstanding (including any refunding), plus three years. Such records shall include:
 - 1. A copy of the Bond closing transcript(s) and other relevant documentation delivered to the Commission at or in connection with closing of the issue of Bonds.
 - 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, as well as documents relating to costs reimbursed with Bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with Bond proceeds.
 - 3. A copy of all contracts and arrangements involving private use of Bond-financed assets or for the private use of output or throughput of Bond-financed assets.
 - 4. Copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.
- B. Coordinate with applicable Participating Agency staff regarding the records to be maintained by SANDAG and each Participating Agency to establish and ensure that an issue remains in compliance with applicable federal tax requirements for the life of such issue.
- C. Coordinate with applicable Participating Agency staff to comply with provisions imposing specific recordkeeping requirements and cause the Participating Agencies to comply with such provisions, where applicable.

- D. Coordinate with applicable Participating Agency staff to submit the following to SANDAG upon request for reimbursement of eligible debt expenditures³:
1. Basic records relating to the transaction (e.g., any non-arbitrage certificate, Participating Agency certificates).
 2. Documentation evidencing expenditure of proceeds of the issue.
 3. Documentation regarding the types of facilities financed with the proceeds of an issue, including, but not limited to, whether such facilities are land, buildings or equipment, economic life calculations and information regarding depreciation.
 4. Documentation evidencing use of financed property by public and private entities (e.g., copies of management contracts and research agreements).
 5. Documentation evidencing all sources of payment or security for the issue.
- E. Coordinate the retention of all records in a manner that ensures their complete access to the IRS. While this is typically accomplished through the maintenance of hard copies, records may be kept in electronic format so long as applicable requirements, such as Revenue Procedure 97-22, are satisfied.

³ For example, the Participating Agencies will submit records for SANDAG to maintain relating to expenditures of proceeds, including requisitions, invoices, bills, asset lists of financed facilities and equipment and other documentation.