STAFF REPORT FOR CALENDAR ITEM NO.: 13
FOR THE MEETING OF: November 9, 2017

TRANSBAY JOINT POWERS AUTHORITY

BRIEF DESCRIPTION:

Approval of updated versions of the following financial policies: Board Policy No. 003, Budget Policy; Board Policy No. 009, Investment Policy; Board Policy No. 012, Reserve Policy; and Board Policy No. 014, Capitalization Policy. Annual review of Board Policy No. 017, Debt Management Policy.

SUMMARY:

The TJPA Investment Policy and the TJPA Debt Management Policy both require annual review by the TJPA Board. Both were last reviewed and updated in December 2016. Staff proposes that the Board approve minor changes to the Investment Policy to align with various modifications to California local agency investment guidelines. No changes are proposed to the Debt Policy.

While the Budget, Reserve, and Capitalization policies do not require review, changes to these policies are being recommended by staff as part of the transition planning for operations.

BUDGET POLICY BACKGROUND:

The Board approved Board Policy No. 003: Budget on June 23, 2004. The policy guides the TJPA's annual budget process and establishes an annual budget schedule. The Policy also establishes parameters for mid-year budget transfers and the submission of supplemental budget requests to the Board of Directors. Consistent with current best practice in public sector budgeting, the policy calls for the agency to consider its vision, mission and goals in the budget process. The TJPA adopted its vision, mission and goals in 2005.

The attached Board Policy No. 003 reflects an update to the budget development schedule to be consistent with the AC Transit Lease and Use Agreement and leases under negotiation with other transit operators. Under these agreements, the TJPA Board is to approve an Operating Budget Projection for the Transit Center in January for the upcoming fiscal year (or within 120 days of rent commencement in the first year of operations if rent commencement occurs after September 15), following presentation of the Operating Budget Projection to and consultation with the Primary Tenants Committee over the course of the preceding fall (September – December). The Primary Tenants Committee is made up of the transit operators that have leases for exclusive use space within the transit center. The Operating Budget Projection will include the projected Tenant Operating Charges for the upcoming fiscal year, which the transit operators require to develop their annual budgets.

The attached Board Policy No. 003 also includes a few other minor corrections and is updated since the vision, mission and goals have been adopted, which they had not been when the policy was originally approved.

INVESTMENT POLICY BACKGROUND:
The Government Finance Officers Association recommends that all governmental investors develop written investment policies, and the State of California also recommends that an investment policy be in place. The investment policy ensures that TJPA cash balances are safe, sufficiently liquid to meet cash flow needs, and maximize investment earnings. Board Policy No. 009 sets forth the scope of funds to be invested; establishes safety, liquidity and return on investment as primary objectives, in that priority order; and sets forth permitted investment instruments. The Policy delegates authority over the investment program to the TJPA Chief Financial Officer (CFO) or his/her designee. Permitted investment instruments are a subset of those allowed by California state law. The TJPA Investment Policy applies to investment of funds primarily received from land sales. The policy does not apply to investment of employee retirement or OPEB funds (invested by CalPERS or, for defined contribution plans, at the direction of the employee) or debt proceeds (invested as allowed by the debt documents).

The TJPA Board approved the Investment Policy in 2006, and approved amendments to the policy in 2008, 2011, 2015 and 2016. The changes made in 2016 resulted in certification of the Investment Policy by the California Municipal Treasurers Association. The only changes proposed to the policy this year incorporate changes in the State code related to rating requirements, and to add a specific retention period for trade confirmations in line with a recommendation of the California Debt and Investment Advisory Commission.

The policy does not describe actual investment practices or procedures, which may change over time and shall be summarized for the Board as part of this annual policy review. In practice, TJPA currently adheres to the policy by maintaining a cash balance in U.S. Bank checking accounts sufficient to meet short-term project and payroll obligations, and investing the balance with the City & County of San Francisco or California Local Agency investment pools. TJPA also has trust accounts established with U.S. Bank for net tax increment and land sales proceeds, and the Trustee is required to adhere to all elements of the policy. Investments are made from these accounts in permitted investments with maturities currently laddered through the early part of 2018. TJPA utilizes a buy and hold strategy, holding all securities until maturity, regardless of fluctuations in the market. TJPA also conservatively only places its money market investments in money market mutual funds that are invested in U.S. Treasuries and government securities and repurchase agreements for those securities. As each investment matures, TJPA staff reviews investment options and forecasted cash flow needs to choose an appropriate investment vehicle. The monthly investment transaction report for October 2017 is attached; the quarterly investment report through September 30, 2017 was sent to the Board and posted on the TJPA website prior to this meeting.

RESERVE POLICY BACKGROUND:
The TJPA Board approved Board Policy No. 012: Reserve Policy on October 27, 2006 and approved an amendment to the policy on September 9, 2010 to incorporate an Operating and Maintenance (O&M) Reserve. In addition to the O&M Reserve, the policy includes an Emergency Reserve to be used in case of extraordinary events, and a Fiscal Reserve to be used for working capital. Board Policy 012 sets the Emergency Reserve at $500,000 and the Fiscal Reserve at 15% of the annual budgeted expenses not including Right of Way costs. The policy approved on September 9, 2010 did not set a targeted amount for the O&M Reserve.

The attached revised Board Policy No. 012 would establish a target for the O&M Reserve of 25% of the annual operations and maintenance budget. The O&M Reserve would assist the TJPA to withstand national, regional and local major economic disruptions, as well as unanticipated expenditure demands due to natural disasters, insurance loss and other unforeseeable events. As a major multi-modal transit hub, the Transit Center must remain operational during such disruptions. An O&M Reserve of 25% represents approximately 3 months of Transit Center operations.

The O&M Reserve target of 25% for the TJPA is based on the unique nature of the TJPA's mission and its limited access to operating and maintenance funding. For comparative purposes, the operating and maintenance reserve goals for regional transit operators include:

- AC Transit: 20% of annual operating budget
- SFMTA: 10% of annual operating expenditures
- Caltrain JPB: 15% of annual operating budget
- Marin Transit: 4 months of operations
- VTA: 15% of operating budget in the VTA Transit Enterprise Fund
- Golden Gate Bridge, Highway and Transportation District: 7.5% of annual operating budget

The TJPA's O&M budget is substantially more concentrated on keeping this single facility operational than other transit agencies' budgets. In addition, half of operating revenue at stabilization comes from retail rents, sponsorship, and advertising. These revenues may be more sensitive to economic disruptions than other revenue sources in TJPA's operating budget.

CAPITALIZATION POLICY BACKGROUND:

For governmental agencies, the ways in which capital assets are defined and accounted for are set forth in generally accepted accounting principles (GAAP) and standards adopted by the Government Accounting Standards Board (GASB). TJPA's Capitalization Policy for Capital Assets ensures that the TJPA appropriately tracks the cost of its capital assets and records those assets in its financial statements in accordance with GAAP and GASB's guidance on capital asset reporting.

Board Policy No. 014 was adopted in 2008 and modified in 2013. The capital asset categories included in the policy currently are: Land, Intangible Assets – Easements, Intangible Assets – Information Technology, Transbay Transit Center, Downtown Extension, and Furniture and Equipment. One of the modifications to the policy recommended at this time is to add an additional category for artwork that is stand-alone—that is, not incorporated into the building design such as the Julie Chang terrazzo floor or Ned Kahn bus jet fountain. Another recommended change in the attached revised policy is to adopt different capitalization thresholds for different classes of assets, and add a section regarding treatment of impairments and dispositions. The policy for valuing donated capital assets has also been updated to meet the most recent relevant GASB standard.

DEBT MANAGEMENT POLICY BACKGROUND:

A debt management policy is a recommended financial best practice, as it proactively safeguards public agencies from making unsuitable debt-related decisions, and establishes an effective

management mechanism for post-issuance disclosure and tax compliance. The TJPA Debt Management Policy was developed by staff and financial advisors and legal counsel in 2014, in conjunction with the procurement process that culminated in financial close of the Goldman Sachs/Wells Fargo bridge loan that has since been repaid. Changes were approved in 2016 to comply with California SB 1029. The policy is intended to provide general guidance on debt issuance and also includes procedures required to be in place by the Commodities Future Trading Commission (CFTC) related to interest rate derivative instruments.
There are three annual action items in the policy, compliance with which TJPA staff reports upon here:

- Section V. A. 3 requires that TJPA monitor the performance of each Qualified Independent Representative (QIR) that TJPA has contracted with in accordance with CFTC regulations, and request a certification at least annually from each QIR. *TJPA has received QIR certifications from Sperry Capital and Swap Financial Group each year.*

- Section V. C requires that TJPA staff entering into discussions or an International Swaps and Derivatives Association (ISDA) master agreement with a swap counterparty acknowledges, agrees and consents that the discussions will be recorded by the swap counterparty and executes an annual acknowledgement form. *As the TJPA representative conducting discussions and having executed the ISDA master agreement for the interest rate cap associated with the bridge loan, the TJPA CFO has signed such acknowledgements.*

- Section V. E requires the TJPA CFO to prepare a report summarizing derivative exposure at least annually. *TJPA currently has one derivative instrument, the interest rate cap associated with the interim City Financing, purchased in January 2017 for $1.26 million. The cap limits TJPA's variable interest rate exposure by providing that the cap provider, SMBC Capital Markets, will make payments to the TJPA to the extent that 1-month LIBOR exceeds 1.75%. No payments have been required to-date. The cap has a notional amount that started at $25 million but rises and then falls in accordance with an estimated City Financing draw profile; the current notional amount is $162 million.*

No changes are recommended to the policy this year. There is currently no legal requirement for regular or periodic review of a debt policy by a local agency board; however, TJPA's Debt Management Policy shall continue to be reviewed by the Board on at least an annual basis.

ENCLOSURES:

1. Resolution
2. October Monthly Investment Transaction Report
3. Board Policy No. 003: Budget Policy – clean and redline versions
4. Board Policy No. 009: Investment Policy – clean and redline versions
5. Board Policy No. 012: Reserve Policy – clean and redline versions
6. Board Policy No. 014: Capitalization Policy for Capital Assets – clean and redline versions
7. Board Policy No. 017: Debt Management Policy (no changes)

TRANSBAY JOINT POWERS AUTHORITY
BOARD OF DIRECTORS

Resolution No. _____________

WHEREAS, The Transbay Joint Powers Authority is a joint powers agency organized and existing under the laws of the State of California; and

WHEREAS, Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (the "Agreement"), the TJPA has the authority to adopt annual or multi-year budgets; and

WHEREAS, The TJPA on June 23, 2004 adopted a Budget Policy that, among other things, sets forth the requirements for the annual budget schedule, mid-year budget reallocations, supplemental budget requests, and multi-year financial planning; and

WHEREAS, The TJPA entered into the AC Transit Lease and Use Agreement on September 10, 2008; and

WHEREAS, The TJPA wishes to revise the Budget Policy to include the adoption of an Operating Budget Projection in accordance with the AC Transit Lease and Use Agreement; and to make other clarifying changes; and

WHEREAS, Pursuant to the Agreement, the TJPA also has the authority to receive, collect, invest and disburse moneys; and

WHEREAS, The Agreement also establishes that the Chief Financial Officer will receive, invest, and disburse funds only in accordance with procedures established by the Board and in conformity with applicable law; and

WHEREAS, The TJPA adopts an Investment Policy to follow the recommendations of the Government Finance Officers Association and the State of California, and to ensure that cash balances are safe, sufficiently liquid to meet cash flow needs, and to maximize investment earnings; and

WHEREAS, The TJPA adopted an Investment Policy in conformance with federal, state, and other legal requirements on February 16, 2006 and approved revisions to that policy on May 15, 2008, May 12, 2011, November 10, 2011, December 10, 2015, and December 8, 2016; and

WHEREAS, Clarifying changes are proposed to language in the Investment Policy, and both the Investment Policy and the Debt Management Policy shall continue to undergo annual review by the TJPA Board; and

WHEREAS, The TJPA adopted a Reserve Policy in conformance with federal, state and other legal requirements on October 27, 2006; and

WHEREAS, The TJPA adopted a revised Reserve Policy that, among other things, established an Operating and Maintenance Reserve on September 9, 2010; and

WHEREAS, The TJPA wishes to revise the Reserve Policy to include a target funding level for the Operating and Maintenance Reserve equal to twenty-five percent of the annual operations and maintenance budget; and

WHEREAS, The TJPA adopted a Capitalization Policy for Capital Assets on October 17, 2008, which was amended on November 14, 2013; and

WHEREAS, Clarifying changes are proposed for the Capitalization Policy; now, therefore, be it

RESOLVED, That the TJPA Board adopts the revised Budget Policy identified as Board Policy No. 003; and, be it further

RESOLVED, That the TJPA Board adopts the revised Investment Policy identified as Board Policy No. 009; and, be it further

RESOLVED, That the TJPA Board adopts the revised Reserve Policy identified as Board Policy No. 012; and, be it further

RESOLVED, That the TJPA Board adopts the revised Capitalization Policy for Capital Assets identified as Board Policy No. 014.

I hereby certify that the foregoing resolution was adopted by the Transbay Joint Powers Authority Board of Directors at its meeting of November 9, 2017.

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Secretary, Transbay Joint Powers Authority

Transbay Joint Powers Authority
Monthly Investment Transaction Report
October 2017

This report includes securities transactions for all trust accounts held by TJPA, and is being presented to the TJPA Board for compliance with California Government Code section 56307.

Securities purchased in the month of October (excluding money market shares purchased with earnings or deposits into pooled investment accounts):

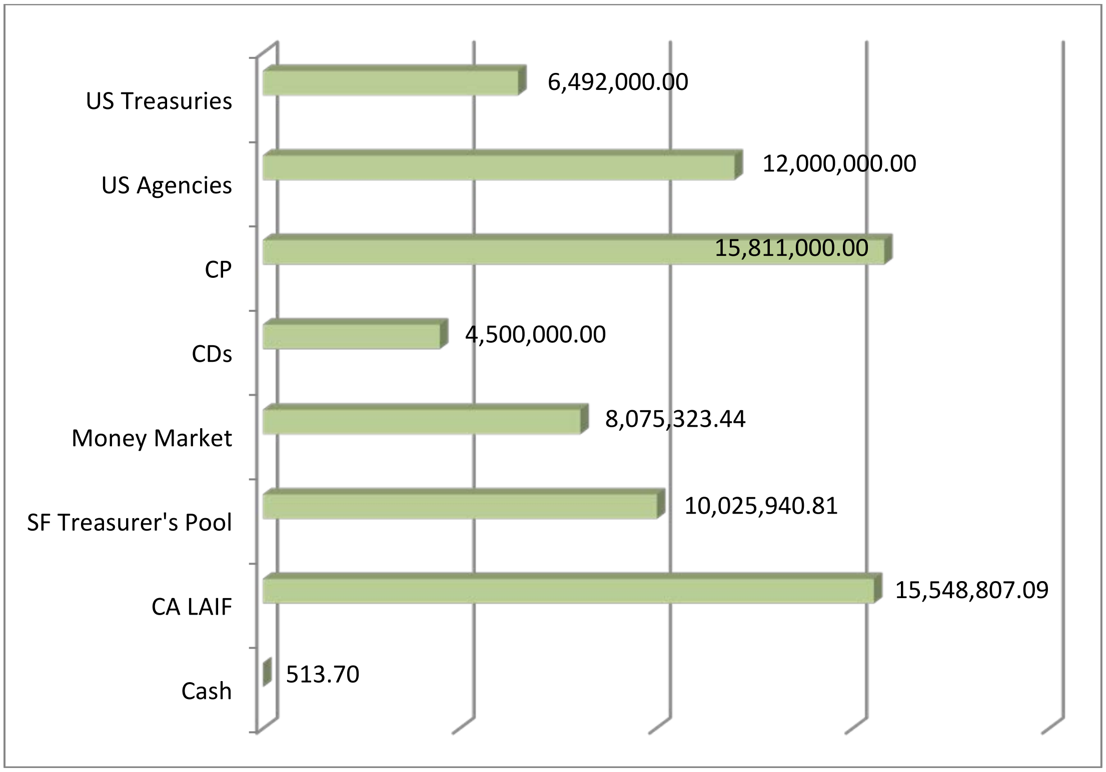
Investment	Settled	Matures	Par Amount	Cost	Yield
State Bank of India CD	10/11/17	4/11/18	$250,000.00	$250,000.00	1.25%
BMO Harris Bank CD	10/13/17	4/13/18	250,000.00	250,000.00	1.25%
Wex Bank CD	10/18/17	5/18/18	250,000.00	250,000.00	1.30%
First Savings Bank CD	10/23/17	5/23/18	250,000.00	250,000.00	1.25%
Northpointe Bank CD	10/26/17	4/26/18	250,000.00	250,000.00	1.25%
Hingham Inst for Savings CD	10/27/17	4/27/18	250,000.00	250,000.00	1.25%
Abbey National CP	10/10/17	12/8/17	6,011,000.00	5,999,966.48	1.12%
U.S. Treasury Note	10/10/17	12/31/17	4,992,000.00	4,988,979.94	1.02%
Federal Home Loan Bank Note	10/19/17	1/12/18	4,000,000.00	3,989,894.44	1.07%
GE Company CP	10/31/17	12/29/17	5,000,000.00	4,990,002.78	1.22%
U.S. Treasury Bills	10/31/17	1/18/18	1,500,000.00	1,496,675.42	1.01%
Purchases (Wtd. Average Maturity 78 days):			**$23,003,000.00**	**$22,965,519.06**	

Securities matured during the month of October (excluding money market shares sold or withdrawals from pooled investment accounts for investment purchases or to pay invoices):

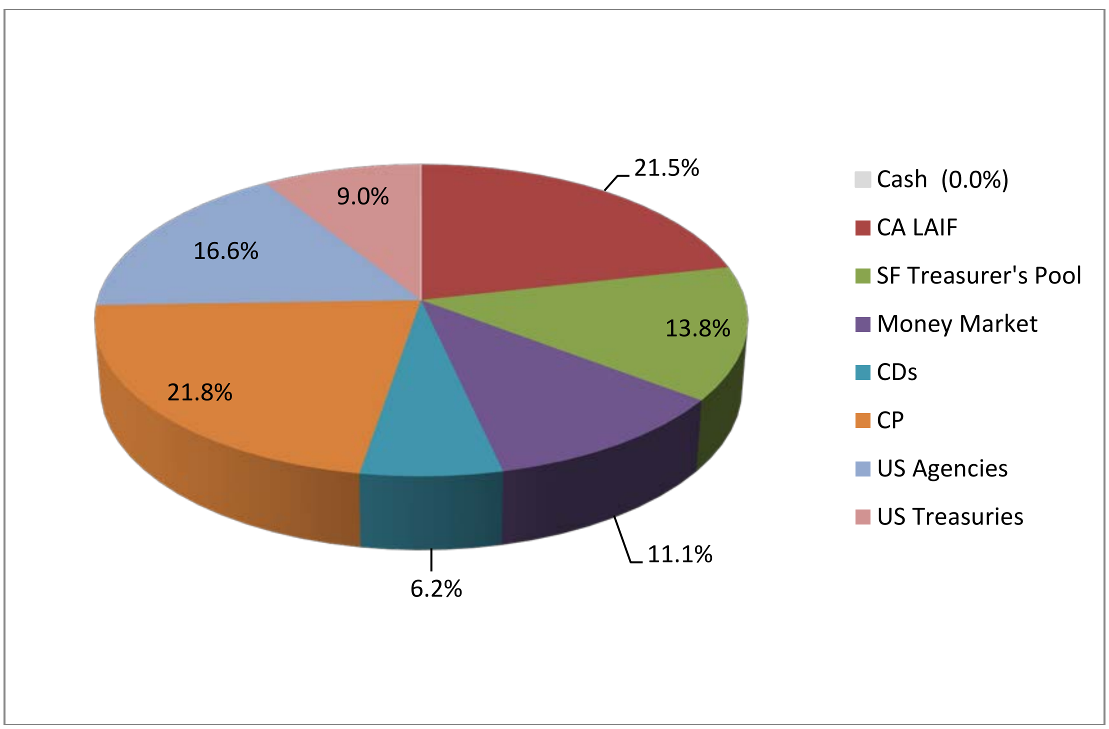
Investment	Settled	Matured	Par Amount	Cost	Net Interest
Cardinal Bank CD	3/31/17	10/2/17	$250,000.00	$250,000.00	$1,140.41
Peoples United Bank NA CD	4/5/17	10/5/17	250,000.00	250,000.00	1,128.08
Federal Home Loan Bank Note	6/23/17	10/10/17	11,000,000.00	10,996,028.33	3,971.67
Abbey National CP	8/10/17	10/11/17	5,000,000.00	4,990,011.11	9,988.89
Security State Bank CD	4/13/17	10/13/17	250,000.00	250,000.00	1,065.42
Dallas Capital Bank NA CD	4/17/17	10/17/17	250,000.00	250,000.00	1,002.74
U.S. Treasury Bills	8/3/17	10/19/17	4,000,000.00	3,991,358.89	8,641.11
Natixis CP	7/31/17	10/30/17	7,000,000.00	6,978,412.78	21,587.22
Maturities (Wtd. Average Maturity 94 days):			**$28,000,000.00**	**$27,955,811.11**	**$48,525.54**

Net interest is total interest earned less any accrued interest paid at time of purchase. All investments were made in compliance with the TJPA Investment Policy and the appropriate debt documents where applicable. Commercial paper (CP), U.S. Treasury and U.S. Agency purchases were made through the U.S. Bank Money Center and certificates of deposit (CD) were purchased through Umpqua Investments, Inc., with delivery of all purchased securities to the U.S. Bank trustee.

Par Value of Investments held at October 31



Allocation of Portfolio at October 31



BUDGET POLICY

The Transbay Joint Powers Authority (the "TJPA" or "Authority") is a joint powers agency organized and existing under the laws of the State of California. Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (the "Agreement"), the TJPA has the authority to exercise all powers necessary and proper to carry out the provisions of the Agreement. The Agreement establishes the fiscal year of the Authority as beginning on July 1 and ~~ends~~ ending on June 30, and provides the TJPA Board of Directors with the authority to adopt, at its sole discretion, an annual or multi-year budget before the beginning of each fiscal year.

The Joint Powers Agreement designates the City and County of San Francisco ("City") as Administrator, charged with executing the provisions of the Joint Powers Agreement and implementing programs undertaken by the Authority. With respect to the manner of exercising its powers, the Authority is subject to the policies and procedures of the City.

The policies and procedures governing procurements of the Authority derive from the laws of the City, as limited by applicable provisions of state and federal law. The Authority intends to be guided by the budgetary policies and procedures set forth in Title IX of the City Charter (Budget Process), and relevant provisions of Chapter 3 of the San Francisco Administrative Code (Budget Process Ordinances), to the extent they are applicable.

By accepting federal funding, the Authority is obligated to comply with various federal regulations regarding financial management. In the event of any conflict between federal law and the laws of the City or this Budget Policy, federal law shall supersede the City law and this Budget Policy.

I. City Charter and Administrative Code Budget Guidance

With respect to budgetary procedures, Title IX of the City Charter requires:

- The development of a schedule and procedures for the orderly preparation and submission of an annual budget;
- A description of the form of the annual proposed budget consistent with the financial records required by Section 3.105 of the Charter (outlining the duties of the City Controller); and

- A procedure to include public participation in the budgetary process, including public hearings.

The TJPA Budget Policy has been developed consistent with these City Charter budget requirements.

In addition, the TJPA recognizes the importance of clearly articulating the agency's vision, its mission, and its long-term goals for stakeholders and members of the public. The Authority also understands the value of strategic planning in creating a framework for day-to-day decision-making. ~~These documents will guide the TJPA in a broad range of activities, including the development of its annual budget.~~

~~II. Development of Vision, Mission, Goals and Strategic Plan~~

~~Prior to commencing the FY2005-06 budget development process, the TJPA shall adopt a vision and mission statement and long-term organizational goals. The Executive Director shall present the Finance Committee of the Board of Directors with a proposed mission statement and set of organizational goals. The Finance Committee shall then recommend a proposed mission statement and set of organizational goals to the Board of Directors, which shall be made available for public review and comment prior to their adoption by the TJPA Board of Directors.~~

~~Based on the TJPA's vision and mission statement and organizational goals, the Executive Director shall prepare a proposed Authority Strategic Plan for the review by the Finance Committee of the Board of Directors, and then adoption by the TJPA Board of Directors. The Strategic Plan will be developed with opportunities for input from the Authority's stakeholders and members of the public. The Strategic Plan shall present the Authority's adopted mission statement and goals, as well as specific policies, action plans and managements strategies that are designed to achieve the Authority's long-term goals. The Authority's strategic plan is expected to evolve over time, and should be designed to enable the TJPA to respond flexibly and effectively to changes in its circumstances and operating environment.~~

The development of the TJPA's annual budget shall promote the Authority's mission, vision, and goals and allocate resources to implement ~~specific policies, plans, and management strategies set forth in the TJPA's Strategic Plan~~them, within the constraint of available resources.

~~I~~II. TJPA Budget Procedures

A. Budget Preparation

~~Following the completion of the mission, goals and strategic planning process, t~~The Executive Director or his or her designee shall prepare a proposed Annual Budget for submission to the TJPA Board of Directors. The annual budget shall be:

1. Presented in line-item form;

2. Balanced with proposed revenues equal (or exceeding) to proposed expenditures; and

3. Sufficiently detailed to provide Board members and stakeholders with a clear understanding of the Authority's near term financial plan.

For reference, the proposed budget shall include a comparison to the prior year's approved budget.

B. Annual Budget Schedule

To the extent possible, ~~beginning with the development of the FY2005-06 budget,~~ the TJPA shall adhere to the following schedule for the preparation of its annual budget:

1. Briefing to Finance Committee of the Board of Directors (or Board of Directors sitting as committee-of-the-whole) concerning budget outlook for upcoming fiscal year and submission of the Operating Budget Projection for the upcoming fiscal year – ~~– March~~ January preceding the beginning of the upcoming fiscal year ~~(for the FY2005-06 budget process, this briefing shall occur in March 2005)~~.

2. Submission of proposed annual budget to the Finance Committee (if established) of the Board of Directors for upcoming fiscal year – April preceding the beginning of the upcoming fiscal year.

3. Submission of and ~~P~~public hearing on proposed annual budget to the full Board of Directors – May preceding the beginning of the upcoming fiscal year.

4. Adoption of annual budget by the TJPA Board of Directors for upcoming fiscal year – June preceding the beginning of the upcoming fiscal year.

5. In the event that an annual budget is not adopted by July 1, the first day of the new fiscal year, the Board of Directors shall be required to adopt a monthly interim budget equal to one-twelfth of the prior year's annual budget. The adoption of the monthly interim budget should occur prior to July 1st, and shall continue on a monthly basis until a new annual budget has been approved.

6. Following the adoption of an annual budget, the Executive Director or his or her designee shall provide the Board of Directors with reports summarizing the status of budget versus actual expenditures for that fiscal year on a quarterly basis.

C. Mid-Year Adjustments

1. Mid-Year Reallocations

Once an annual budget has been adopted, the Executive Director may augment an existing line-item appropriation by reallocating funding within and among expenditure categories (i.e. salaries and ~~fringe~~ benefits, ~~non-personal~~professional and specialized services, administration, other operating ~~and overhead~~) without further Board action, so long as the aggregate amount reallocated during the fiscal year does not exceed 10 percent of the original appropriation for that category, and the total amount of spending does not vary from the total amount of the approved annual budget. The Finance Committee (if established) of the Board of Directors may approve a proposed reallocation of greater than 10 percent of the original appropriation for a budget category, without further approval by the Board of Directors.

2. Mid-Year Budget Reductions

Due to the nature of the Transbay Program's numerous funding sources, contingency planning may play a significant role in management of the Authority's budget. During the course of a fiscal year, if the Authority's staff determines that annual revenues shall not meet or exceed budgeted expenditures, then the Executive Director shall be prepared to implement measures to reduce expenditures to the level of expected revenues. The Executive Director shall report to the Finance Committee (if established) of the Board of Directors regarding the measures taken, and the affect on the TJPA's program, and at the discretion of the Finance Committee, to the full TJPA Board.

3. Mid-Year Supplemental Budget Requests

During the course of the fiscal year, the Executive Director shall return to the Board of Directors with a proposed supplemental budget in the event that total revenues are projected to exceed the original annual budget, or if the Executive Director proposes to reallocate more than 10 percent of the original appropriation for a budget category to another budget category. All supplemental budget requests shall be reviewed by the Finance Committee (if established) of the Board of Directors prior to their submittal to the full TJPA Board. In the event that total revenues are projected to exceed the original annual budget, the proposed supplemental budget shall identify how the additional funds would be utilized in the current fiscal year, or if some or all of the additional funds would be carried forward to a future fiscal year.

D. Multi-Year Financial Plans

The TJPA's ~~current~~ role is to execute a large-scale, multi-year construction program, which will require significant levels of capital funding from multiple sources over several years. Upon completion of the construction program, the TJPA ~~will~~ transitions into the role of operator of a major multi-modal transportation facility. In both ~~of these~~ roles, long-term financial planning will play a significant part in the Authority's success.

In addition to the Annual Budget process described in this Policy, the Authority shall maintain a long-term financial plan, describing how the Authority intends to fund the construction of the Transbay Program over the life of the Program's construction, and through the term of any loan or debt repayment undertaken in connection with the Program. This long-term financial plan shall be updated periodically, as circumstances change, and shall be presented to the Finance Committee (if established) of the Board of Directors on a regular basis for review, and to the full Board of Directors at the direction of the Finance Committee.

BUDGET POLICY

The Transbay Joint Powers Authority (the "TJPA" or "Authority") is a joint powers agency organized and existing under the laws of the State of California. Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (the "Agreement"), the TJPA has the authority to exercise all powers necessary and proper to carry out the provisions of the Agreement. The Agreement establishes the fiscal year of the Authority as beginning on July 1 and ending on June 30, and provides the TJPA Board of Directors with the authority to adopt, at its sole discretion, an annual or multi-year budget before the beginning of each fiscal year.

The Joint Powers Agreement designates the City and County of San Francisco ("City") as Administrator, charged with executing the provisions of the Joint Powers Agreement and implementing programs undertaken by the Authority. With respect to the manner of exercising its powers, the Authority is subject to the policies and procedures of the City.

The policies and procedures governing procurements of the Authority derive from the laws of the City, as limited by applicable provisions of state and federal law. The Authority intends to be guided by the budgetary policies and procedures set forth in Title IX of the City Charter (Budget Process), and relevant provisions of Chapter 3 of the San Francisco Administrative Code (Budget Process Ordinances), to the extent they are applicable.

By accepting federal funding, the Authority is obligated to comply with various federal regulations regarding financial management. In the event of any conflict between federal law and the laws of the City or this Budget Policy, federal law shall supersede the City law and this Budget Policy.

I. City Charter and Administrative Code Budget Guidance

With respect to budgetary procedures, Title IX of the City Charter requires:

- The development of a schedule and procedures for the orderly preparation and submission of an annual budget;
- A description of the form of the annual proposed budget consistent with the financial records required by Section 3.105 of the Charter (outlining the duties of the City Controller); and

- A procedure to include public participation in the budgetary process, including public hearings.

The TJPA Budget Policy has been developed consistent with these City Charter budget requirements.

In addition, the TJPA recognizes the importance of clearly articulating the agency's vision, its mission, and its long-term goals for stakeholders and members of the public. The Authority also understands the value of strategic planning in creating a framework for day-to-day decision-making. The development of the TJPA's annual budget shall promote the Authority's mission, vision, and goals and allocate resources to implement them, within the constraint of available resources.

II. TJPA Budget Procedures

A. Budget Preparation

The Executive Director or his or her designee shall prepare a proposed Annual Budget for submission to the TJPA Board of Directors. The annual budget shall be:

1. Presented in line-item form;
2. Balanced with proposed revenues equal (or exceeding) to proposed expenditures; and
3. Sufficiently detailed to provide Board members and stakeholders with a clear understanding of the Authority's near term financial plan.

For reference, the proposed budget shall include a comparison to the prior year's approved budget.

B. Annual Budget Schedule

To the extent possible, the TJPA shall adhere to the following schedule for the preparation of its annual budget:

1. Briefing to Finance Committee of the Board of Directors (or Board of Directors sitting as committee-of-the-whole) concerning budget outlook for upcoming fiscal year and submission of the Operating Budget Projection for the upcoming fiscal year – January preceding the beginning of the upcoming fiscal year.
2. Submission of proposed annual budget to the Finance Committee (if established) of the Board of Directors for upcoming fiscal year – April preceding the beginning of the upcoming fiscal year.
3. Submission of and public hearing on proposed annual budget to the full Board of Directors – May preceding the beginning of the upcoming fiscal year.

4. Adoption of annual budget by the TJPA Board of Directors for upcoming fiscal year – June preceding the beginning of the upcoming fiscal year.

5. In the event that an annual budget is not adopted by July 1, the first day of the new fiscal year, the Board of Directors shall be required to adopt a monthly interim budget equal to one-twelfth of the prior year's annual budget. The adoption of the monthly interim budget should occur prior to July 1st, and shall continue on a monthly basis until a new annual budget has been approved.

6. Following the adoption of an annual budget, the Executive Director or his or her designee shall provide the Board of Directors with reports summarizing the status of budget versus actual expenditures for that fiscal year on a quarterly basis.

C. Mid-Year Adjustments

1. Mid-Year Reallocations

Once an annual budget has been adopted, the Executive Director may augment an existing line-item appropriation by reallocating funding within and among expenditure categories (i.e. salaries and benefits, professional and specialized services, administration, other operating) without further Board action, so long as the aggregate amount reallocated during the fiscal year does not exceed 10 percent of the original appropriation for that category, and the total amount of spending does not vary from the total amount of the approved annual budget. The Finance Committee (if established) of the Board of Directors may approve a proposed reallocation of greater than 10 percent of the original appropriation for a budget category, without further approval by the Board of Directors.

2. Mid-Year Budget Reductions

Due to the nature of the Transbay Program's numerous funding sources, contingency planning may play a significant role in management of the Authority's budget. During the course of a fiscal year, if the Authority's staff determines that annual revenues shall not meet or exceed budgeted expenditures, then the Executive Director shall be prepared to implement measures to reduce expenditures to the level of expected revenues. The Executive Director shall report to the Finance Committee (if established) of the Board of Directors regarding the measures taken, and the affect on the TJPA's program, and at the discretion of the Finance Committee, to the full TJPA Board.

3. Mid-Year Supplemental Budget Requests

During the course of the fiscal year, the Executive Director shall return to the Board of Directors with a proposed supplemental budget in the event that total revenues are projected to exceed the original annual budget, or if the Executive Director proposes to reallocate more than 10 percent of the original appropriation for a budget category to another budget category. All supplemental budget requests shall be reviewed by the Finance Committee (if established) of the Board of Directors prior to their submittal to the full TJPA Board. In the event that total revenues are projected to exceed the original annual budget, the proposed supplemental budget shall identify how the additional funds would be utilized in the current fiscal year, or if some or all of the additional funds would be carried forward to a future fiscal year.

D. Multi-Year Financial Plans

The TJPA's role is to execute a large-scale, multi-year construction program, which will require significant levels of capital funding from multiple sources over several years. Upon completion of the construction program, the TJPA transitions into the role of operator of a major multi-modal transportation facility. In both roles, long-term financial planning will play a significant part in the Authority's success.

In addition to the Annual Budget process described in this Policy, the Authority shall maintain a long-term financial plan, describing how the Authority intends to fund the construction of the Transbay Program over the life of the Program's construction, and through the term of any loan or debt repayment undertaken in connection with the Program. This long-term financial plan shall be updated periodically, as circumstances change, and shall be presented to the Finance Committee (if established) of the Board of Directors on a regular basis for review, and to the full Board of Directors at the direction of the Finance Committee.

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 009 Category: Financial Matters

INVESTMENT POLICY

I. Introduction

The purpose of this policy is to set forth the scope, objectives, standards of care, authorized financial institutions, permitted investment instruments and parameters, and review and reporting requirements for all investments made by the Transbay Joint Powers Authority (TJPA) and its Trustees. It is the policy of the TJPA to invest funds in a manner which will comply with all federal and state laws governing the investment of public funds, preserve capital, meet the daily cash flow demands of the TJPA, and provide investment return.

II. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including applicable provisions of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code (Sections 53600 et seq.).

III. Scope

This policy applies to the investment of all funds, excluding the investment of debt funds and employees' retirement funds, which are outside the scope of this policy. The investment of debt proceeds and retirement funds shall be governed by the relevant documents. All other investments will be managed to insure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.

IV. Objectives

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

1. **Safety**. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The safety of the portfolio is provided by investing in high quality securities and enhanced in three ways by maintaining a prudent mix (i.e., diversity) of investments:
   a. Spreading investments over different investment types minimizes the impact that any one industry/investment class can have on the portfolio;
   b. Spreading investments over multiple credits/issuers with an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and

c. Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates.

The portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio. Limitation and eligibility as to specific investments are to be determined by the TJPA Chief Financial Officer or his/her designee, and the Executive Director, collectively; investments shall be diversified by limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury and federal Agency securities), limiting investments in securities that have higher credit risks, and investing in securities with varying maturities.

2. **Liquidity**. The investment portfolio shall remain sufficiently liquid to meet all cash flow requirements that may be reasonably anticipated. The TJPA will maintain a cash position anticipated to meet short-term obligations.

3. **Return on Investment**. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

V. Standard of Prudence

In managing its overall portfolio, the TJPA shall observe the "Prudent Investor Standard" as stated in California Government Code 53600.3. Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the TJPA, that a prudent person acting in a like capacity, and with familiarity of those matters, would use to safeguard the principal and maintain the liquidity needs of the TJPA. Investment officers acting in accordance with state and local law and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

VI. Delegation of Authority

Management's responsibility for the investment program is derived from the TJPA Board of Directors and is hereby delegated to the TJPA Chief Financial Officer or his or her designee. The Board may rescind the delegation pursuant to this section.

The following individuals are authorized to sign investment documents and/or execute cash transfers and make investments of the TJPA's funds:

- Executive Director or his/her designee
- Chief Financial Officer or his/her designee

All investment documents and cash transfer authorization forms shall be approved by one of the two signature authorities from the above list. The Board's designees are responsible for the establishment of a system of controls to regulate activities of subordinate employees and their procedures in the absence of the designees.

VII. Ethics and Conflict of Interest

Officers and employees involved in the investment process will not engage in personal business activities that could conflict with the proper and lawful execution and management of the investment program, or that could impair their ability to make impartial decisions. Pursuant to the TJPA's Conflict of Interest code, the Executive Director and Chief Financial Officer shall disclose any material interests in financial institutions with which they conduct business in their Annual Statement of Economic Interests. They shall further disclose to the TJPA Board any personal financial/investment positions that could be related to the performance of the TJPA's investment portfolio. Other TJPA Finance staff shall disclose any personal financial/investment positions that could be related to the performance of the TJPA's investment portfolio to the Chief Financial Officer.

All persons, broker/dealers, financial institutions, and advisors providing investment services shall disclose to the TJPA Chief Financial Officer all fee sharing, fee splitting, and commission arrangements with other entities or persons prior to TJPA agreeing to purchase an investment.

VIII. Authorized Financial Institutions and Dealers

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

TJPA will not do business with a firm which has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board (MSRB), and any other relevant MSRB rules that may be promulgated, to the City & County of San Francisco Treasurer, any member of the TJPA Board, or any candidate for those offices.

TJPA may choose a Trustee to hold custody of moneys gained by the sale of formerly State-owned land parcels, tax increment proceeds, and other moneys as deemed necessary by the Executive Director and the Chief Financial Officer. Moneys held by the Trustee shall be invested and reinvested by the Trustee solely at the direction of the TJPA in those certain investment securities listed in "Exhibit A" hereto entitled "Permitted Investments".

IX. Permitted Investment Instruments

California Government Code Section 53601 governs and limits the investments permitted for purchase by local governments. Within those limitations, the TJPA further restricts eligible investments to the following types of investments below, as more fully described in Exhibit A:

1. U.S. Treasury Obligations
2. U.S. Agency Obligations
3. City & County of San Francisco Obligations
4. Bankers Acceptances
5. Commercial Paper (domestic)
6. Negotiable Certificates of Deposit
7. Non-negotiable Certificates of Deposit
8. Repurchase Agreements
9. Medium-Term Notes
10. Money Market Mutual Funds
11. Collateralized Bank/Time Deposits
12. City & County of San Francisco Pooled Investment Fund
13. Local Agency Investment Fund (LAIF)

The maximum percentage share of investments in these instruments as a share of the TJPA's portfolio, the credit quality and the maximum maturities of investments shall conform to the restrictions in Exhibit A, based primarily on California Government Code, and shall be domestic investments only. Percentage holding limits apply at the time the security is purchased. Investment pools and mutual funds shall be investigated and assessed prior to investing and on a continual basis. All funds under management shall be combined for the purpose of evaluating portfolio limits.

X. Ineligible Investments

The following investments are either prohibited by law, or authorized by law but prohibited by this policy:

Prohibited by Law

1. Securities not listed in California Government Code
2. Inverse floaters
3. Range notes
4. Interest only strips derived from a pool of mortgages
5. Any security that could result in zero interest accrual
6. Unregistered securities

Prohibited by TJPA Investment Policy

1. Securities not listed in Section IX, Permitted Investment Instruments
2. State and local agency obligations and bonds, other than City & County of San Francisco
3. Placement service deposits and certificates of deposit
4. Reverse repurchase agreements and securities lending agreements
5. Mortgage pass-through securities
6. Joint Powers Authority pool
7. Voluntary Investment Program fund
8. Supranational obligations

XI. Collateralization

Collateral for certificates of deposit (both negotiable and non-negotiable) and repurchase agreements must comply with the various relevant California Government Code sections. If a certificate of deposit is not FDIC insured, collateral posted by the depository institution is required to be equal to 110 percent of principal. Collateral required to be posted by the depository institution for repurchase agreements is required to be equal to 102 percent of principal.

XII. Safekeeping and Custody

To protect against fraud, embezzlement, or potential losses caused by collapse of individual securities dealers, all securities purchased by the TJPA shall be held in safekeeping by a third-party bank trust department, acting as an agent for the TJPA, in compliance with California Government Code Section 53608. All trades executed by a dealer will settle delivery vs. payment (DVP) through the TJPA's safekeeping agent.

XIII. Internal Controls; Record-keeping

TJPA shall maintain a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in the financial markets, or imprudent actions by employees and officers of the TJPA. The internal control procedures include explicit designation of authority to persons responsible for investment transaction, as well as references to compliance monitoring and safekeeping. No person may engage in an investment transaction except as provided under the terms of this policy and the internal controls. The internal controls shall be provided to and reviewed by the independent auditor to assure compliance with this policy and the controls.

Trade confirmations shall be kept for a minimum of six years.

XIV. Performance Standard

TJPA's investment strategy is passive, with the aim of holding securities until maturity. Purchases of investments, other than deposits in financial institutions and pooled investment funds, are made from land sales and debt proceeds that are anticipated to be fully liquidated with completion of construction of the Transbay Transit Center. For this reason, a rate of return benchmark is not being utilized by TJPA at this time.

XV. Review of Investment Portfolio and Reporting Requirements

The TJPA Chief Financial Officer shall submit a list of investment holdings and an investment report to the TJPA Board of Directors on a quarterly basis. The report will include, at a minimum, investment types, issuer, maturity, par value, dollar amount invested, market value as of the date of the report and the source of the valuation, and accrued interest. In addition, the investment report shall state compliance of the portfolio with the investment policy and a statement noting the ability of TJPA to meet expenditure requirements for the next six months in accordance with California Government Code Section 53646 (b) (2) and (3).

The TJPA Chief Financial Officer shall also submit a monthly report of investment transactions to the TJPA Board. Both quarterly and monthly reports shall be submitted to the Board within 30 days of the quarter or month end.

The securities held by TJPA must be in compliance with the above Section IX Permitted Investment Instruments at the time of purchase. Because some securities may not comply subsequent to the date of purchase, the TJPA Chief Financial Officer shall review the portfolio at least monthly to identify any securities that do not comply. Any major incidents of non-compliance and any realized losses identified by the Chief Financial Officer shall be reported to the Board.

XVI. Social and Environmental Concerns

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. Investments are discouraged in entities that manufacture tobacco products, firearms or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing and deferred deposit (payday-lending) businesses.

XVII. Investment Policy Review

TJPA's investment policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually at a regular meeting of the TJPA Board. Any modifications to this policy must be approved by resolution of the TJPA Board.

EXHIBIT A

Permitted Investments

Per State Government Code (As of January 1, ~~2016~~2017)[i]

Investment Type	Maximum Maturity	Maximum Specified Percentage of Portfolio	Minimum Quality Requirements
U.S. Treasury Obligations	5 years	None	None
U.S. Agency and GSE Obligations	5 years	None	None
City & County of San Francisco Obligations	5 years	None	None
Banker's Acceptances	180 days	40% [ii]	None
Commercial Paper (CP)	270 days	25% [iii]	~~"A-1"; if the issuer has issued long-term debt it must be rated "A" without regard to modifiers~~Highest letter and number rating by an NRSRO; if the issuer has issued debt other than CP it must be rated "A" or its equivalent or higher[iv]
Negotiable Certificates of Deposit	5 years	30% [v, vi]	None
Non-negotiable Certificates of Deposit	5 years	None [vi]	None
Repurchase Agreements	1 year	None	None
Medium-Term Notes[vii]	5 years	30%	"A" rating or equivalent
Money Market Mutual Funds	n/a	20% [viii]	Multiple[ix]
Collateralized Bank/Time Deposits	5 years	None	None
City & County of San Francisco Pooled Investment Fund [x]	n/a	None	None
Local Agency Investment Fund (LAIF) [xi]	n/a	None	None

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

See endnotes next page.

[i] Sources: Government Code Sections 16429.1, 16430, 53601, 53601.8, 53635, 53635.2, 53635.8 and 53638.
[ii] No more than 30 percent of the agency's money may be in Bankers Acceptances of any one commercial bank.
[iii] No more than 10 percent of the agency's money may be invested in the commercial paper of any one corporate issuer.
[iv] Issuing corporation must be organized and operating within the U.S. and have assets in excess of $500,000,000.
[v] No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8 and 53601(i).
[vi] Per TJPA policy: individual CD purchases limited to $250,000 from each financial institution to take advantage of FDIC coverage.
[vii] "Medium-term notes" are defined in Government Code Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."
[viii] No more than 10 percent invested in any one mutual fund.
[ix] A mutual fund or a money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration with assets under management in excess of $500 million who has not less than five years experience investing in instruments authorized by Sections 53601 and 53635 (mutual funds) or ~~not less than five years experience investing in~~ experience in managing the types of instruments that can be purchased by money market funds as specified in SEC Regulation 2a-7 (money market ~~instruments~~funds). Mutual funds must abide by the same investment restrictions and regulations that apply to public agencies in California (Section 53601(a-k, m-o)). Money market funds must follow regulations specified by the SEC under the investment company act of 1940 (15 USC Section 80a-1, *et seq.*)
[x] Not a permitted investment for Trustee Accounts. ~~Also referred to as "CCSF Equity in Pool".~~
[xi] Not a permitted investment for Trustee Accounts. Maximum account balance is capped by LAIF at $65 million.
[xii] Zero interest accrual means the security has the potential to realize zero interest depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level below the face value are legal because their value does increase.

Glossary of Terms

Accrued Interest: Interest accumulated since the last interest payment.

Banker's Acceptance (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Basis Point: 1/100th of 1 percent of yield. If a yield increases from 1.25% to 1.50%, the difference is referred to as a 25 basis point increase.

Bond: A debt obligation of a firm or public entity. Represents the agreement to repay the debt in principal and, typically, interest on the principal.

Book Value: The value at which an asset is carried on a balance sheet.

Broker: A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account. The term does not include a dealer bank.

Broker/Dealer: A general term for a securities firm that is engaged in both purchasing and selling securities on behalf of customers as well as on its own account. The term does not include a dealer bank.

Buy and Hold Strategy: A strategy based on holding all securities until maturity, regardless of fluctuations in the market.

Certificate of Deposit (CD): A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender (purchaser) at the end of the loan period. Certificates of Deposit differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

Negotiable Certificates of Deposit: Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by the FDIC up to $250,000, but they are not collateralized beyond that amount.

Non-negotiable Certificates of Deposit: CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the FDIC up to $250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or Agency securities.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

Corporate Notes and Bonds: Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years.

County Pooled Investment Funds: The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

Coupon: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; a certificate attached to a bond evidencing interest due on a payment date.

Credit Rating: Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses AAA, AA, A, BAA, BA, B, CAA, CA, and D. Each of the services use pluses (+) and minuses (-), or numerical modifiers to indicate steps within each category. The top four letter categories are considered investment grade ratings.

Credit Risk: The chance that an issuer will default, or otherwise be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of an issuer/borrower's credit will cause the market value of a security to fall, even if default is not expected.

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

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

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, including underwriting, buying and selling securities, including from his/her own account.

Default Risk: The risk that issuers/borrowers will be unable to make the required payments on their debt obligations.

Delivery vs. Payment (DVP): The payment of cash for securities as they are delivered and accepted for settlement.

Depository Institutions: These institutions hold agency monies in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts. To be eligible to receive local agency money, a financial institution must receive an overall rating of not less than "satisfactory" from the appropriate federal supervisory agency for meeting the criteria specified in the Community Reinvestment Act of 1977.

Discount: The difference between the cost of a security and the par value of a security, when the cost is below par. Investors purchase securities at a discount when return to the investor (yield) is higher than the stated coupon (interest rate) on the investment.

Diversification: The allocation of different types of assets in a portfolio to mitigate risks and improve overall portfolio performance.

Event Risk: The risk associated with a changing portfolio value due to a market event causing swings in market prices and/or spreads.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

Government Sponsored Enterprises (GSE): Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government.

Interest: The amount a borrower pays to a lender (investor) for the use of its money.

Interest Rate Risk: The risk that an investment's value will change due to a change in the absolute level of interest rates, spread between two rates, shape of the yield curve, or any other interest rate relationship.

Liquidity: The measure of the ability to convert an instrument to cash on a given date at full face or par value.

Liquidity Risk: The risk that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

Local Agency Investment Fund (LAIF): A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

Local Government Investment Pool: Investment pools that range from the State Treasurer's Office LAIF to county pools.

Market Risk: The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly. Buying and holding a security to maturity eliminates the effects of market risk.

Market Value: The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

Maturity: The date on which the principal or stated value of an investment becomes due and payable.

Medium-Term Note: Corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) with a remaining maturity of five years or less, issued by corporations organized and operating in the United States.

Money Market: The segment of the financial market in which financial instruments with high liquidity and very short maturities (U.S. Treasury bills, commercial paper, bankers' acceptances, negotiable CDs, etc.) are issued and traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year.

Money Market Mutual Funds (MMF): MMF's are mutual funds that invest exclusively in short-term money market instruments. MMF's seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short term investments.

Nationally Recognized Statistical Rating Organization (NRSRO): Credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

Par Amount or Par Value: The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

Portfolio: Combined holding of more than one bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

Premium: Premium means the difference between the par value of a security and the cost of a security, when the cost is above par. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

Prudent Investor Standard: A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Repurchase Agreement (RP or REPO): An agreement of one party (for example, a financial institution) to sell securities to a second party (such as the local agency) and simultaneous agreement to repurchase them at a fixed price on demand or at a fixed date.

Rule G-37 of the Municipal Securities Rulemaking Board: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

Safekeeping Service: Offers storage and protection of assets provided by an institution serving as an agent.

Safety: In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

Securities and Exchange Commission (SEC): a federal agency which holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States.

U.S. Agency Obligations: Debt obligations issued by federal agencies and/or U.S. government-sponsored enterprises. Examples include Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Federal Agricultural Mortgage Corporation (Farmer Mac).

U.S. Treasury Obligations: Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more (and thus are not eligible local agency investments).

Weighted Average Maturity (WAM): The weighted average amount of time until the maturities of all the securities that comprise a portfolio, expressed in days or years. The WAM is calculated by computing the percentage value of each instrument in the portfolio. The number of days until the security's maturity is multiplied by the security's percentage of the portfolio, and the sum of the subtotals equals the WAM.

Yield: The current rate of return on an investment security generally expressed as a percentage of the security's current price.

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 009 Category: Financial Matters

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3. **Return on Investment**. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

V. Standard of Prudence

In managing its overall portfolio, the TJPA shall observe the "Prudent Investor Standard" as stated in California Government Code 53600.3. Investments shall be made with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the TJPA, that a prudent person acting in a like capacity, and with familiarity of those matters, would use to safeguard the principal and maintain the liquidity needs of the TJPA. Investment officers acting in accordance with state and local law and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

VI. Delegation of Authority

Management's responsibility for the investment program is derived from the TJPA Board of Directors and is hereby delegated to the TJPA Chief Financial Officer or his or her designee. The Board may rescind the delegation pursuant to this section.

The following individuals are authorized to sign investment documents and/or execute cash transfers and make investments of the TJPA's funds:

- Executive Director or his/her designee
- Chief Financial Officer or his/her designee

All investment documents and cash transfer authorization forms shall be approved by one of the two signature authorities from the above list. The Board's designees are responsible for the establishment of a system of controls to regulate activities of subordinate employees and their procedures in the absence of the designees.

VII. Ethics and Conflict of Interest

Officers and employees involved in the investment process will not engage in personal business activities that could conflict with the proper and lawful execution and management of the investment program, or that could impair their ability to make impartial decisions. Pursuant to the TJPA's Conflict of Interest code, the Executive Director and Chief Financial Officer shall disclose any material interests in financial institutions with which they conduct business in their Annual Statement of Economic Interests. They shall further disclose to the TJPA Board any personal financial/investment positions that could be related to the performance of the TJPA's investment portfolio. Other TJPA Finance staff shall disclose any personal financial/investment positions that could be related to the performance of the TJPA's investment portfolio to the Chief Financial Officer.

All persons, broker/dealers, financial institutions, and advisors providing investment services shall disclose to the TJPA Chief Financial Officer all fee sharing, fee splitting, and commission arrangements with other entities or persons prior to TJPA agreeing to purchase an investment.

VIII. Authorized Financial Institutions and Dealers

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

TJPA will not do business with a firm which has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board (MSRB), and any other relevant MSRB rules that may be promulgated, to the City & County of San Francisco Treasurer, any member of the TJPA Board, or any candidate for those offices.

TJPA may choose a Trustee to hold custody of moneys gained by the sale of formerly State-owned land parcels, tax increment proceeds, and other moneys as deemed necessary by the Executive Director and the Chief Financial Officer. Moneys held by the Trustee shall be invested and reinvested by the Trustee solely at the direction of the TJPA in those certain investment securities listed in "Exhibit A" hereto entitled "Permitted Investments".

IX. Permitted Investment Instruments

California Government Code Section 53601 governs and limits the investments permitted for purchase by local governments. Within those limitations, the TJPA further restricts eligible investments to the following types of investments below, as more fully described in Exhibit A:

1. U.S. Treasury Obligations
2. U.S. Agency Obligations
3. City & County of San Francisco Obligations
4. Bankers Acceptances
5. Commercial Paper (domestic)
6. Negotiable Certificates of Deposit
7. Non-negotiable Certificates of Deposit
8. Repurchase Agreements
9. Medium-Term Notes
10. Money Market Mutual Funds
11. Collateralized Bank/Time Deposits
12. City & County of San Francisco Pooled Investment Fund
13. Local Agency Investment Fund (LAIF)

The maximum percentage share of investments in these instruments as a share of the TJPA's portfolio, the credit quality and the maximum maturities of investments shall conform to the restrictions in Exhibit A, based primarily on California Government Code, and shall be domestic investments only. Percentage holding limits apply at the time the security is purchased. Investment pools and mutual funds shall be investigated and assessed prior to investing and on a continual basis. All funds under management shall be combined for the purpose of evaluating portfolio limits.

X. Ineligible Investments

The following investments are either prohibited by law, or authorized by law but prohibited by this policy:

Prohibited by Law

1. Securities not listed in California Government Code
2. Inverse floaters
3. Range notes
4. Interest only strips derived from a pool of mortgages
5. Any security that could result in zero interest accrual
6. Unregistered securities

Prohibited by TJPA Investment Policy

1. Securities not listed in Section IX, Permitted Investment Instruments
2. State and local agency obligations and bonds, other than City & County of San Francisco
3. Placement service deposits and certificates of deposit
4. Reverse repurchase agreements and securities lending agreements
5. Mortgage pass-through securities
6. Joint Powers Authority pool
7. Voluntary Investment Program fund
8. Supranational obligations

XI. Collateralization

Collateral for certificates of deposit (both negotiable and non-negotiable) and repurchase agreements must comply with the various relevant California Government Code sections. If a certificate of deposit is not FDIC insured, collateral posted by the depository institution is required to be equal to 110 percent of principal. Collateral required to be posted by the depository institution for repurchase agreements is required to be equal to 102 percent of principal.

XII. Safekeeping and Custody

To protect against fraud, embezzlement, or potential losses caused by collapse of individual securities dealers, all securities purchased by the TJPA shall be held in safekeeping by a third-party bank trust department, acting as an agent for the TJPA, in compliance with California Government Code Section 53608. All trades executed by a dealer will settle delivery vs. payment (DVP) through the TJPA's safekeeping agent.

XIII. Internal Controls; Record-keeping

TJPA shall maintain a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in the financial markets, or imprudent actions by employees and officers of the TJPA. The internal control procedures include explicit designation of authority to persons responsible for investment transaction, as well as references to compliance monitoring and safekeeping. No person may engage in an investment transaction except as provided under the terms of this policy and the internal controls. The internal controls shall be provided to and reviewed by the independent auditor to assure compliance with this policy and the controls.

Trade confirmations shall be kept for a minimum of six years.

XIV. Performance Standard

TJPA's investment strategy is passive, with the aim of holding securities until maturity. Purchases of investments, other than deposits in financial institutions and pooled investment funds, are made from land sales and debt proceeds that are anticipated to be fully liquidated with completion of construction of the Transbay Transit Center. For this reason, a rate of return benchmark is not being utilized by TJPA at this time.

XV. Review of Investment Portfolio and Reporting Requirements

The TJPA Chief Financial Officer shall submit a list of investment holdings and an investment report to the TJPA Board of Directors on a quarterly basis. The report will include, at a minimum, investment types, issuer, maturity, par value, dollar amount invested, market value as of the date of the report and the source of the valuation, and accrued interest. In addition, the investment report shall state compliance of the portfolio with the investment policy and a statement noting the ability of TJPA to meet expenditure requirements for the next six months in accordance with California Government Code Section 53646 (b) (2) and (3).

The TJPA Chief Financial Officer shall also submit a monthly report of investment transactions to the TJPA Board. Both quarterly and monthly reports shall be submitted to the Board within 30 days of the quarter or month end.

The securities held by TJPA must be in compliance with the above Section IX Permitted Investment Instruments at the time of purchase. Because some securities may not comply subsequent to the date of purchase, the TJPA Chief Financial Officer shall review the portfolio at least monthly to identify any securities that do not comply. Any major incidents of non-compliance and any realized losses identified by the Chief Financial Officer shall be reported to the Board.

XVI. Social and Environmental Concerns

Investments are encouraged in entities that support community well-being through safe and environmentally sound practices and fair labor practices. Investments are encouraged in entities that support equality of rights regardless of sex, race, age, disability or sexual orientation. Investments are discouraged in entities that manufacture tobacco products, firearms or nuclear weapons. In addition, investments are encouraged in entities that offer banking products to serve all members of the local community, and investments are discouraged in entities that finance high-cost check-cashing and deferred deposit (payday-lending) businesses.

XVII. Investment Policy Review

TJPA's investment policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually at a regular meeting of the TJPA Board. Any modifications to this policy must be approved by resolution of the TJPA Board.

EXHIBIT A

Permitted Investments

Per State Government Code (As of January 1, 2017)[i]

Investment Type	Maximum Maturity	Maximum Specified Percentage of Portfolio	Minimum Quality Requirements
U.S. Treasury Obligations	5 years	None	None
U.S. Agency and GSE Obligations	5 years	None	None
City & County of San Francisco Obligations	5 years	None	None
Banker's Acceptances	180 days	40% [ii]	None
Commercial Paper (CP)	270 days	25% [iii]	Highest letter and number rating by an NRSRO; if the issuer has issued debt other than CP it must be rated "A" or its equivalent or higher[iv]
Negotiable Certificates of Deposit	5 years	30% [v, vi]	None
Non-negotiable Certificates of Deposit	5 years	None [vi]	None
Repurchase Agreements	1 year	None	None
Medium-Term Notes[vii]	5 years	30%	"A" rating or equivalent
Money Market Mutual Funds	n/a	20% [viii]	Multiple[ix]
Collateralized Bank/Time Deposits	5 years	None	None
City & County of San Francisco Pooled Investment Fund [x]	n/a	None	None
Local Agency Investment Fund (LAIF) [xi]	n/a	None	None

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

See endnotes next page.

[i] Sources: Government Code Sections 16429.1, 16430, 53601, 53601.8, 53635, 53635.2, 53635.8 and 53638.
[ii] No more than 30 percent of the agency's money may be in Bankers Acceptances of any one commercial bank.
[iii] No more than 10 percent of the agency's money may be invested in the commercial paper of any one corporate issuer.
[iv] Issuing corporation must be organized and operating within the U.S. and have assets in excess of $500,000,000.
[v] No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8 and 53601(i).
[vi] Per TJPA policy: individual CD purchases limited to $250,000 from each financial institution to take advantage of FDIC coverage.
[vii] "Medium-term notes" are defined in Government Code Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."
[viii] No more than 10 percent invested in any one mutual fund.
[ix] A mutual fund or a money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration with assets under management in excess of $500 million who has not less than five years experience investing in instruments authorized by Sections 53601 and 53635 (mutual funds) or experience in managing the types of instruments that can be purchased by money market funds as specified in SEC Regulation 2a-7 (money market funds). Mutual funds must abide by the same investment restrictions and regulations that apply to public agencies in California (Section 53601(a-k, m-o)). Money market funds must follow regulations specified by the SEC under the investment company act of 1940 (15 USC Section 80a-1, *et seq.*)
[x] Not a permitted investment for Trustee Accounts.
[xi] Not a permitted investment for Trustee Accounts. Maximum account balance is capped by LAIF at $65 million.
[xii] Zero interest accrual means the security has the potential to realize zero interest depending upon the structure of the security. Zero coupon bonds and similar investments that start at a level below the face value are legal because their value does increase.

Glossary of Terms

Accrued Interest: Interest accumulated since the last interest payment.

Banker's Acceptance (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Basis Point: 1/100th of 1 percent of yield. If a yield increases from 1.25% to 1.50%, the difference is referred to as a 25 basis point increase.

Bond: A debt obligation of a firm or public entity. Represents the agreement to repay the debt in principal and, typically, interest on the principal.

Book Value: The value at which an asset is carried on a balance sheet.

Broker: A person or firm that acts as an intermediary by purchasing and selling securities for others rather than for its own account. The term does not include a dealer bank.

Broker/Dealer: A general term for a securities firm that is engaged in both purchasing and selling securities on behalf of customers as well as on its own account. The term does not include a dealer bank.

Buy and Hold Strategy: A strategy based on holding all securities until maturity, regardless of fluctuations in the market.

Certificate of Deposit (CD): A short-term, secured deposit in a financial institution that usually returns principal and interest to the lender (purchaser) at the end of the loan period. Certificates of Deposit differ in terms of collateralization and marketability. Those appropriate to public agency investing include:

Negotiable Certificates of Deposit: Generally, short-term debt instrument that usually pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. The majority of negotiable CDs mature within six months while the average maturity is two weeks. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer or initial depositor (investor). Negotiable CDs are insured by the FDIC up to $250,000, but they are not collateralized beyond that amount.

Non-negotiable Certificates of Deposit: CDs that carry a penalty if redeemed prior to maturity. A secondary market does exist for non-negotiable CDs, but redemption includes a transaction cost that reduces returns to the investor. Non-negotiable CDs issued by banks and savings and loans are insured by the FDIC up to $250,000, including principal and interest. Amounts deposited above this amount may be secured with other forms of collateral through an agreement between the investor and the issuer. Collateral may include other securities including Treasuries or Agency securities.

Collateral: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: An unsecured short-term promissory note issued by corporations or municipalities, with maturities ranging from 2 to 270 days.

Corporate Notes and Bonds: Debt instruments, typically unsecured, issued by corporations, with original maturities in most cases greater than one year and less than ten years.

County Pooled Investment Funds: The aggregate of all funds from public agencies placed in the custody of the county treasurer or chief finance officer for investment and reinvestment.

Coupon: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; a certificate attached to a bond evidencing interest due on a payment date.

Credit Rating: Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch Ratings use the same system, starting with their highest rating, of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Service uses AAA, AA, A, BAA, BA, B, CAA, CA, and D. Each of the services use pluses (+) and minuses (-), or numerical modifiers to indicate steps within each category. The top four letter categories are considered investment grade ratings.

Credit Risk: The chance that an issuer will default, or otherwise be unable to make scheduled payments of interest and principal on an outstanding obligation. Another concern for investors is that the market's perception of an issuer/borrower's credit will cause the market value of a security to fall, even if default is not expected.

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

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

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, including underwriting, buying and selling securities, including from his/her own account.

Default Risk: The risk that issuers/borrowers will be unable to make the required payments on their debt obligations.

Delivery vs. Payment (DVP): The payment of cash for securities as they are delivered and accepted for settlement.

Depository Institutions: These institutions hold agency monies in the forms of certificates of deposit (negotiable or term), public time deposits and public demand accounts. To be eligible to receive local agency money, a financial institution must receive an overall rating of not less than "satisfactory" from the appropriate federal supervisory agency for meeting the criteria specified in the Community Reinvestment Act of 1977.

Discount: The difference between the cost of a security and the par value of a security, when the cost is below par. Investors purchase securities at a discount when return to the investor (yield) is higher than the stated coupon (interest rate) on the investment.

Diversification: The allocation of different types of assets in a portfolio to mitigate risks and improve overall portfolio performance.

Event Risk: The risk associated with a changing portfolio value due to a market event causing swings in market prices and/or spreads.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per deposit.

Government Sponsored Enterprises (GSE): Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Securities issued by GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government.

Interest: The amount a borrower pays to a lender (investor) for the use of its money.

Interest Rate Risk: The risk that an investment's value will change due to a change in the absolute level of interest rates, spread between two rates, shape of the yield curve, or any other interest rate relationship.

Liquidity: The measure of the ability to convert an instrument to cash on a given date at full face or par value.

Liquidity Risk: The risk that a security, sold prior to maturity, will be sold at a loss of value. For a local agency, the liquidity risk of an individual investment may not be as critical as how the overall liquidity of the portfolio allows the agency to meet its cash needs.

Local Agency Investment Fund (LAIF): A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

Local Government Investment Pool: Investment pools that range from the State Treasurer's Office LAIF to county pools.

Market Risk: The chance that the value of a security will decline as interest rates rise. In general, as interest rates fall, prices of fixed income securities rise. Similarly, as interest rates rise, prices fall. Market risk also is referred to as systematic risk or risk that affects all securities within an asset class similarly. Buying and holding a security to maturity eliminates the effects of market risk.

Market Value: The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

Maturity: The date on which the principal or stated value of an investment becomes due and payable.

Medium-Term Note: Corporate or depository institution debt securities meeting certain minimum quality standards (as specified in the California Government Code) with a remaining maturity of five years or less, issued by corporations organized and operating in the United States.

Money Market: The segment of the financial market in which financial instruments with high liquidity and very short maturities (U.S. Treasury bills, commercial paper, bankers' acceptances, negotiable CDs, etc.) are issued and traded. The money market is used by participants as a means for borrowing and lending in the short term, from several days to just under a year.

Money Market Mutual Funds (MMF): MMF's are mutual funds that invest exclusively in short-term money market instruments. MMF's seek the preservation of capital as a primary goal while maintaining a high degree of liquidity and providing income representative of the market for short term investments.

Nationally Recognized Statistical Rating Organization (NRSRO): Credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

Par Amount or Par Value: The principal amount of a note or bond which must be paid at maturity. Par, also referred to as the "face amount" of a security, is the principal value stated on the face of the security. A par bond is one sold at a price of 100 percent of its principal amount.

Portfolio: Combined holding of more than one bond, commodity, real estate investment, cash equivalent, or other asset. The purpose of a portfolio is to reduce risk by diversification.

Premium: Premium means the difference between the par value of a security and the cost of a security, when the cost is above par. Investors pay a premium to purchase a security when the return to the investor (yield) is lower than the stated coupon (interest rate) on the investment.

Prudent Investor Standard: A standard of conduct where a person acts with care, skill, prudence, and diligence when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing funds. The test of whether the standard is being met is if a prudent person acting in such a situation would engage in similar conduct to ensure that investments safeguard principal and maintain liquidity.

Repurchase Agreement (RP or REPO): An agreement of one party (for example, a financial institution) to sell securities to a second party (such as the local agency) and simultaneous agreement to repurchase them at a fixed price on demand or at a fixed date.

Rule G-37 of the Municipal Securities Rulemaking Board: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

Safekeeping Service: Offers storage and protection of assets provided by an institution serving as an agent.

Safety: In the context of investing public funds, safety relates to preserving the principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

Securities and Exchange Commission (SEC): a federal agency which holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States.

U.S. Agency Obligations: Debt obligations issued by federal agencies and/or U.S. government-sponsored enterprises. Examples include Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Federal Agricultural Mortgage Corporation (Farmer Mac).

U.S. Treasury Obligations: Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more (and thus are not eligible local agency investments).

Weighted Average Maturity (WAM): The weighted average amount of time until the maturities of all the securities that comprise a portfolio, expressed in days or years. The WAM is calculated by computing the percentage value of each instrument in the portfolio. The number of days until the security's maturity is multiplied by the security's percentage of the portfolio, and the sum of the subtotals equals the WAM.

Yield: The current rate of return on an investment security generally expressed as a percentage of the security's current price.

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 012 Category: Financial Matters

RESERVE POLICY

I. Introduction

The purpose of this policy is to set forth appropriate levels of financial reserves to mitigate current and future financial risks, such as revenue shortfalls or unanticipated expenses and short-term cash shortages, and to set forth the purposes and procedures for and by which the reserve funds may be used for the payment of services or goods.

The Transbay Joint Powers Authority (TJPA) will create three reserves as follows:

1. **Emergency Reserve** is to be used in extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Local, Regional, State and Federal legislative actions
2. **Fiscal Reserve** is to be used as working capital.
3. **Operating and Maintenance Reserve** is to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs.

All reserves will be funded from eligible revenue sources including but not limited to (1) gains on sale of real property, (2) interest and investment earnings, (3) lease and other operating income, and (4) other funds designated for reserve purposes.

II. Objectives

The objective of the reserve policy is to help insulate the TJPA from fiscal crisis, provide a positive cash balance, enhance short term and long term financial health to help achieve the highest credit and bond ratings, and to promote long term financial stability by establishing clear and consistent reserve policy guidelines.

III. General Standards & Delegation of Authority

A. Emergency Reserve: The Emergency Reserve may be used in an emergency situation with the Board of Directors' approval. Emergency situations may include, but are not limited to, extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Regional, State and Federal legislative actions. The Emergency Reserve shall be set at five hundred thousand dollars ($500,000).

The Board of Directors must approve the release or addition of any amount from/to the Emergency Reserve. In the event that the Board of Directors' cannot convene in time to respond to an emergency situation, two of the four following TJPA positions may approve the use of the Emergency Reserve: 1) Chair of the Board, 2) Vice Chair of the Board, 3) Executive Director, 4) Chief Financial Officer.

B. **Fiscal Reserve:** There are often times when an agency experiences disparity between the availability of financial resources and when actual payments are due. The Fiscal Reserve may be used as a short-term cash resource for payment to vendors or contractors prior to the receipt of funds from funding partners. A commitment from the funding partners must be in place prior to the temporary "borrowing" of cash from this reserve. It is the goal of the TJPA to maintain a balance in the Fiscal Reserve equal to fifteen percent (15%) of the annual budgeted expenses not including Right of Way costs. This amount will approximate 60 days of working capital.

The Board of Directors must approve the release of any amount from the Fiscal Reserve or the addition to the Fiscal Reserve above 15%. The TJPA Chief Financial Officer and the TJPA Executive Director may authorize the temporary use of cash from the Fiscal Reserve for cash flow purposes.

C. **Operating and Maintenance Reserve:** The Operating and Maintenance (O&M) Reserve is established to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs. The Board shall annually establish the Operating and Maintenance Reserve amount for the following fiscal year. It is the goal of the TJPA to maintain a balance in the Operating and Maintenance Reserve equal to 25% of the annual budgeted operating and maintenance expenses. This amount will approximate three months of operations and maintenance expenses for the Transit Center. This level is expressed as a goal to recognize that fund balances may fluctuate from year-to-year due to the normal course of operations. All available carryover funds may be allocated to this Reserve Fund annually until the reserve reaches the maximum 25% of adopted budget operating appropriations. Whenever reserve funds are used, the reserve shall be replenished as soon as possible.

Expenditures from the Operating and Maintenance Reserve funds must meet at least one of the following criteria:

- Necessary for the safety or security of the public or the facility;
- Required by the Lease and Use Agreements with operators or other agreements or contracts entered into by the TJPA;
- Authorized under the annual Operating and Maintenance budget approved by the Board; or

- Other unforeseen circumstances wherein the use of the reserve funds is deemed necessary by the Executive Director, designee, or by the Board of Directors.

In addition to the expenditures described above, the TJPA may use funds in the Operating and Maintenance Reserve as working capital as described in section III B to fulfill contractual or other obligations. To the extent possible, the use of these funds as working capital should not result in the Operating and Maintenance Reserve balance dropping below two months of direct operating and maintenance costs. The use of the Operating and Maintenance Reserve funds as working capital must be authorized by the Executive Director or designee.

IV. Internal Controls

In no case shall the implementation of this policy be inconsistent with the TJPA's procurement, budget, or internal accounting control policies. The TJPA ~~Finance Coordinator~~Chief Financial Officer shall assure that internal accounting controls are followed as required by Board Policy No. 007, "Internal Accounting Control Policy".

V. Reporting Requirements

The financial records of the TJPA will segregate the Fiscal Reserve, Emergency Reserve and O&M Reserve by recording activity in a separate account. The TJPA shall incorporate the budgeted and actual Reserve amounts into the quarterly financial reports submitted to the TJPA Board of Directors. The reports will include additions or approved releases of the Reserves and the period ending balances.

VI. Reserve Policy Review

TJPA's Reserve Policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually by TJPA Staff and Chief Financial Officer. Any modifications to this policy must be approved by resolution of the TJPA Board.

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 012 Category: Financial Matters

RESERVE POLICY

I. Introduction

The purpose of this policy is to set forth appropriate levels of financial reserves to mitigate current and future financial risks, such as revenue shortfalls or unanticipated expenses and short-term cash shortages, and to set forth the purposes and procedures for and by which the reserve funds may be used for the payment of services or goods.

The Transbay Joint Powers Authority (TJPA) will create three reserves as follows:

1. **Emergency Reserve** is to be used in extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Local, Regional, State and Federal legislative actions
2. **Fiscal Reserve** is to be used as working capital.
3. **Operating and Maintenance Reserve** is to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs.

All reserves will be funded from eligible revenue sources including but not limited to (1) gains on sale of real property, (2) interest and investment earnings, (3) lease and other operating income, and (4) other funds designated for reserve purposes.

II. Objectives

The objective of the reserve policy is to help insulate the TJPA from fiscal crisis, provide a positive cash balance, enhance short term and long term financial health to help achieve the highest credit and bond ratings, and to promote long term financial stability by establishing clear and consistent reserve policy guidelines.

III. General Standards & Delegation of Authority

A. **Emergency Reserve:** The Emergency Reserve may be used in an emergency situation with the Board of Directors' approval. Emergency situations may include, but are not limited to, extraordinary events such as natural disasters or calamities, and unforeseen liabilities caused by Regional, State and Federal legislative actions. The Emergency Reserve shall be set at five hundred thousand dollars ($500,000).

The Board of Directors must approve the release or addition of any amount from/to the Emergency Reserve. In the event that the Board of Directors' cannot convene in time to respond to an emergency situation, two of the four following TJPA positions may approve the use of the Emergency Reserve: 1) Chair of the Board, 2) Vice Chair of the Board, 3) Executive Director, 4) Chief Financial Officer.

B. **Fiscal Reserve:** There are often times when an agency experiences disparity between the availability of financial resources and when actual payments are due. The Fiscal Reserve may be used as a short-term cash resource for payment to vendors or contractors prior to the receipt of funds from funding partners. A commitment from the funding partners must be in place prior to the temporary "borrowing" of cash from this reserve. It is the goal of the TJPA to maintain a balance in the Fiscal Reserve equal to fifteen percent (15%) of the annual budgeted expenses not including Right of Way costs. This amount will approximate 60 days of working capital.

The Board of Directors must approve the release of any amount from the Fiscal Reserve or the addition to the Fiscal Reserve above 15%. The TJPA Chief Financial Officer and the TJPA Executive Director may authorize the temporary use of cash from the Fiscal Reserve for cash flow purposes.

C. **Operating and Maintenance Reserve:** The Operating and Maintenance (O&M) Reserve is established to ensure that sufficient operating and maintenance funds are available in the event of unanticipated revenue shortfalls and unavoidable expenditure needs. The Board shall annually establish the Operating and Maintenance Reserve amount for the following fiscal year. It is the goal of the TJPA to maintain a balance in the Operating and Maintenance Reserve equal to 25% of the annual budgeted operating and maintenance expenses. This amount will approximate three months of operations and maintenance expenses for the Transit Center. This level is expressed as a goal to recognize that fund balances may fluctuate from year-to-year due to the normal course of operations. All available carryover funds may be allocated to this Reserve Fund annually until the reserve reaches the maximum 25% of adopted budget operating appropriations. Whenever reserve funds are used, the reserve shall be replenished as soon as possible.

Expenditures from the Operating and Maintenance Reserve funds must meet at least one of the following criteria:

- Necessary for the safety or security of the public or the facility;
- Required by the Lease and Use Agreements with operators or other agreements or contracts entered into by the TJPA;
- Authorized under the annual Operating and Maintenance budget approved by the Board; or

- Other unforeseen circumstances wherein the use of the reserve funds is deemed necessary by the Executive Director, designee, or by the Board of Directors.

In addition to the expenditures described above, the TJPA may use funds in the Operating and Maintenance Reserve as working capital as described in section III B to fulfill contractual or other obligations. To the extent possible, the use of these funds as working capital should not result in the Operating and Maintenance Reserve balance dropping below two months of direct operating and maintenance costs. The use of the Operating and Maintenance Reserve funds as working capital must be authorized by the Executive Director or designee.

IV. Internal Controls

In no case shall the implementation of this policy be inconsistent with the TJPA's procurement, budget, or internal accounting control policies. The TJPA Chief Financial Officer shall assure that internal accounting controls are followed as required by Board Policy No. 007, "Internal Accounting Control Policy".

V. Reporting Requirements

The financial records of the TJPA will segregate the Fiscal Reserve, Emergency Reserve and O&M Reserve by recording activity in a separate account. The TJPA shall incorporate the budgeted and actual Reserve amounts into the quarterly financial reports submitted to the TJPA Board of Directors. The reports will include additions or approved releases of the Reserves and the period ending balances.

VI. Reserve Policy Review

TJPA's Reserve Policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually by TJPA Staff and Chief Financial Officer. Any modifications to this policy must be approved by resolution of the TJPA Board.

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 014 Category: Financial Matters

CAPITALIZATION POLICY FOR CAPITAL ASSETS

The Transbay Joint Powers Authority ("TJPA") is a joint powers agency organized and existing under the laws of the State of California. Pursuant to the Joint Powers Agreement creating the TJPA, dated April 4, 2001 (the "Agreement"), the TJPA has the authority to exercise all powers necessary and proper to carry out the provisions of the Agreement. This Capitalization Policy will be a comprehensive policy which will address the capitalization of assets and infrastructure; the established threshold for reporting a capital asset; the determination of the useful life and depreciation of a capital asset; and all other ancillary costs necessary to place the capital assets into service.

I. BACKGROUND

For government agencies, the ways in which capital assets are defined and accounted for are set forth in "Generally Accepted Accounting Principles" (GAAP), which are promulgated by the Governmental Accounting Standards Board (GASB). Within the parameters established by GASB, there are alternative approaches that agencies may choose from. This Policy will establish how the TJPA will account for its capital assets within those parameters. Specifically, this Policy will: (1) Establish the level of detail that will be used for capital asset reporting (individual assets versus networks of assets); (2) Determine whether to treat some capital assets as infrastructure assets; and, (3) Determine whether to depreciate infrastructure assets, or to treat those assets under a modified approach, and not depreciate them. Also, this Policy will establish how demolition costs will be reported and identify other costs that will be capitalized as "Land." Assets that are categorized as land are not depreciated. Typically, capital assets are recorded in an agency's financial records at their historical cost, and are depreciated over their estimated useful lives. Contributed assets will be valued at "fair value."

II. LEVEL OF DETAIL OF CAPITAL ASSET FINANCIAL REPORTING

GASB Statement Number 34 (GASB 34) defines "capital assets" as including land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. GASB 34 provides public agencies with the option of reporting their capital assets at the "network, subsystem, or individual asset level". GASB defines "network" as a group of assets where the individual members either provide similar services or work together to provide one service. A network can range from one asset that is made up of many components to a collection of assets that are roughly the same.

The TJPA cannot identify a business need to classify each component individually for financial reporting purposes, although the TJPA will maintain subsidiary records which provide additional detail. As a result, the following six capital asset categories will be delineated in the Authority's financial statements:

- Land;
- ~~Intangible Assets –~~ Easements (Intangible Assets);
- ~~Intangible Assets –~~Information Technology (Intangible Assets);
- Artwork (stand-alone);
- Transbay Transit Center;
- Downtown Extension; and
- Furniture and Equipment.

The Transbay Transit Center Underground Station, the Temporary Terminal, the Bus Storage Facility, Bus Ramp, the rooftop park, and artworks that are incorporated into the building design, will be considered components of the Transbay Transit Center and thus part of the "network" of assets.

Policy: **TJPA will categorize its capital assets at the network level, as such, all components of the Transit Center will be considered a single asset for financial reporting purposes. Furniture, Fixtures and Equipment will be depreciated as a separate asset category using a composite rate.**

III. DEPRECIATION AND COMPOSITE USEFUL LIFE

Capital asset categories will be depreciated over their estimated weighted average useful lives unless they are inexhaustible. Inexhaustible capital assets, such as land and land improvements, ~~and~~ intangibles, such as easements, and artwork will not be depreciated~~, nor will artwork~~. Land improvements that have determinable useful lives and deteriorate with use or passage of time (e.g., walking paths, landscaping, sprinklers) will be depreciated. Depreciation expense will be measured by allocating the historical cost over their estimated weighted average useful lives in a systematic and rational manner. TJPA assigns useful life of the asset based on the engineering design estimation of the useful life of the core assets and uses the weighted average as the composite useful life. Depreciation will be calculated for the network of assets at the completion of the Construction in Progress phase and the value of the capital asset will be depreciated annually using the straight-line method.

Composite depreciation refers to calculating depreciation for a collection of dissimilar assets, such as all assets composing a transportation network as long as they do not cross over asset classifications, e.g. buildings, buildings improvements, or equipment. A composite weighted average useful life will be used for the Transit Center "network" of assets, which work together to provide one service. Composite depreciation assumes that all assets are retired at the end of their useful lives, and therefore no gain or loss is recorded when the assets are removed or replaced.

The composite of the network of assets for the Transit Center will include the following types of assets:

Non-Infrastructure

- Temporary Terminal
- Transit Center Building
- Park Landscaping
- Concrete Pavement/Ramps
- Underground Station
- Bus Storage
- Foundation
- Art integrated as building components
- HVAC Systems
- Elevator and Escalator
- Engineering and costs for Utility Relocation

Policy: **Capital asset categories will be depreciated over their estimated weighted average useful lives unless they are inexhaustible. For the Transit Center asset, which is comprised of several components, a composite weighted average useful life will be developed at the time the asset is placed into services. Equipment and Furniture will be depreciated based on a composite rate for the classification.**

IV. INFRASTRUCTURE ASSETS AND DEPRECIATION

Infrastructure assets, as a subset of capital assets, are long-lived capital assets that normally are stationary in nature, and can normally be preserved for a significantly greater number of years than most capital assets. The Downtown Extension can be considered an infrastructure asset because it has rails and tunnels, and will utilize easements that are inexhaustible.

The traditional accounting approach for a capital asset, including infrastructure assets, is to depreciate the asset over its useful life, based on an asset's historical cost, thereby decreasing the book value of the asset as shown on the TJPA's financial statements by a given amount each year. An alternative is known as the "Modified Approach", under which an infrastructure asset is not depreciated, but continues to be reported at its original historical cost indefinitely. Using this financial reporting approach requires public agencies to meet several assessment, maintenance, investment and annual disclosure reporting requirements, which demonstrate the preservation and renewing of the asset as an annual budgeted operating expense.

TJPA cannot identify a compelling business reason for using the Modified Approach for infrastructure reporting, which would tie the TJPA's maintenance and preservation plans to the preparation of its financial statements. As a result, TJPA will depreciate its infrastructure assets.

Policy: **The Downtown Extension (DTX), which consists of the rails and tunnels, electric train power source, safety and cooling electrical systems will be recorded as capital asset/infrastructure and will be considered a single asset**

subsystem that will be assigned a weighted average useful life at the date the asset is placed into service.

V. TREATMENT OF DEMOLITION COSTS

GASB 34 gives no specific guidance concerning how to treat demolition costs for financial reporting purposes, but based on the approaches utilized by several other public agencies, demolition expenses incurred to prepare an acquired property for its intended use are categorized as improvement to land. TJPA will use this approach. However, demolition costs have been and will continue to be categorized as a construction expense for budget development purposes. It is entirely acceptable to treat demolition costs differently for budget versus financial reporting purposes. Once the project's construction-in-progress has been capitalized, if the TJPA should tear down any structures related to the Transit Center project (e.g. the demolition of the Temporary Terminal), those demolition costs would be capitalized as land improvements, as these costs will prepare the land for its intended use.

Policy: **TJPA will capitalize demolition costs incurred for newly acquired property as improvement to land. TJPA will capitalize demolition of the Temporary Terminal costs incurred on existing property.**

VI. CAPITALIZATION OF LAND IMPROVEMENTS

Policy: **TJPA will capitalize the following costs as Land Improvements:**

- Title and Closing Costs
- Relocation Services, Consultation and Assistance
- Appraisal Services
- Environmental Consulting – Soil Hazardous Materials
- American Land Title Association Design Surveys
- Cost to remove or demolish a building or structure existing at the time of acquisition
- Site Preparation (betterment that prepares land for its intended use)
- Reconstruction of Property of Others: Rails, Utilities, Parking Lots, Fencing and Landscaping

There may be similar costs that will be categorized by the Chief Financial Officer as "land improvements" in the future. Utility relocation will not be classified as land improvements, but rather as "Transit Center" costs, because the relocation of utilities takes place on property not owned by TJPA and is being performed for the purpose of the building of the Transit Center.

VII. CAPITALIZATION OF OTHER ANCILLARY COSTS

Only construction costs for betterment and improvements will be capitalized. The cost of repairs and maintenance will be expensed, as will replacements if the original useful life is not extended or the value of the asset significantly enhanced. As experience is generated with the assets, the useful life estimate will be evaluated and adjusted if necessary.

Policy: **The following ancillary costs will be capitalized as part of the "network of assets" of either the Transit Center or the Downtown Extension as costs necessary to place the asset in service.**

- Capitalizable ~~I~~interest costs related to debt ~~issuance~~ (generally for the period during or shortly after construction)
- ~~Freight costs~~
- Installation costs to put asset into service
- Internal costs such as salaries, benefits, administrati~~ive~~on (until commencement of Transit Center operations)

~~VII. CAPITALIZATION THRESHOLD~~

- ~~Equipment and Other Capital Expenditures not part of the network or subsystem of assets~~

~~Equipment means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals or exceeds the capitalization threshold level established at $5,000.~~

~~IX~~VIII. CAPITALIZATION OF ~~STATE CONVEYED LAND – ASSIGNING VALUE~~DONATED CAPITAL ASSETS

Prior to Fiscal Year 2015, ~~D~~donated capital assets ~~should~~ were to be reported at their estimated fair value at the time of acquisition. Fair value is the amount at which the asset could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. GASB 72, implemented for periods beginning after June 15, 2015, (i.e., Fiscal Year 2016) prospectively requires donated capital assets to be reported at their estimated acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential. GASB does not require a formal appraisal of the donated property to obtain the ~~fair value~~acquisition price. There is no prescribed guidance by GASB in determining the ~~fair value~~acquisition price for reporting of donated land and other real estate. GASB notes that there are many factors that can be considered when estimating the ~~fair value~~acquisition price of ~~land~~donated capital assets, making the estimation of ~~fair value~~acquisition price dependent on the unique facts and circumstances of the specific land, such as the future cash flow from its intended use or assessed values of surrounding properties. For any capital assets donated in the future, TJPA will assign an estimated acquisition price ~~fair value~~ at the time of conveyance based on a rational and systematic method.

IX. CAPITALIZATION OF INTANGIBLE ASSETS

GASB 51 requires the financial reporting of intangible assets, such as right-of-way easements, other types of easements, land use rights, licenses and permits, and certain types of information technology to be classified as capital assets. TJPA will acquire easements and certain types of information technology for the Transbay Transit Center and Downtown Extension projects, which will be valued based on the acquisition agreements and costs, and reported on the financial statements as non-depreciable capital assets.

X. CAPITALIZATION THRESHOLDS

- Artwork (stand-alone): $50,000
- Building or infrastructure improvements (significant structural alterations, material remodeling or renovation that increase the asset's usefulness, efficiency or Transit Center/Downtown Extension lives): $50,000
- Equipment (an article of nonexpendable, tangible personal property having a useful life of more than two years) and Furniture not part of the network or subsystem of assets: $5,000
- Information technology: $10,000 for initial purchase or application development
- Infrastructure assets (i.e., Downtown Extension): all
- Land and easements: all
- Land improvements (depreciable): $50,000

XI. IMPAIRMENTS AND DISPOSALS

A capital asset is considered to be impaired when its service utility has declined permanently, significantly and unexpectedly. Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, changes in legal or environmental factors, technological changes or evidence of obsolescence, changes in manner or duration of use of the asset, or construction stoppage. Generally, an asset would be considered impaired if both:

- The expenses associated with the potentially impaired asset (i.e., continued operation and maintenance, including depreciation, or costs associated with restoration) are significant compared to its useable capacity, and
- The event or change in circumstances was outside the normal life cycle of the asset.

In the event a capital asset is impaired, there are two options for reporting the impairment:

- If the asset will no longer be used then the book value of the asset should be written down to the lower of carrying value or fair market value, or
- If the asset will continue to be used, then the book value of the asset should be adjusted by the net of the impairment loss and restoration costs.

Disposals may occur when an asset is no longer considered useful (e.g., is considered excess or surplus, or is to be traded-in on a new purchase). A disposed-of asset should be removed from inventory and financial accounting records.

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 014 Category: Financial Matters

CAPITALIZATION POLICY FOR CAPITAL ASSETS

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I. BACKGROUND

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Policy: **TJPA will categorize its capital assets at the network level, as such, all components of the Transit Center will be considered a single asset for financial reporting purposes. Furniture, Fixtures and Equipment will be depreciated as a separate asset category using a composite rate.**

III. DEPRECIATION AND COMPOSITE USEFUL LIFE

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Composite depreciation refers to calculating depreciation for a collection of dissimilar assets, such as all assets composing a transportation network as long as they do not cross over asset classifications, e.g. buildings, buildings improvements, or equipment. A composite weighted average useful life will be used for the Transit Center "network" of assets, which work together to provide one service. Composite depreciation assumes that all assets are retired at the end of their useful lives, and therefore no gain or loss is recorded when the assets are removed or replaced.

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TJPA cannot identify a compelling business reason for using the Modified Approach for infrastructure reporting, which would tie the TJPA's maintenance and preservation plans to the preparation of its financial statements. As a result, TJPA will depreciate its infrastructure assets.

Policy: **The Downtown Extension (DTX), which consists of the rails and tunnels, electric train power source, safety and cooling electrical systems will be recorded as capital asset/infrastructure and will be considered a single asset**

subsystem that will be assigned a weighted average useful life at the date the asset is placed into service.

V. TREATMENT OF DEMOLITION COSTS

GASB 34 gives no specific guidance concerning how to treat demolition costs for financial reporting purposes, but based on the approaches utilized by several other public agencies, demolition expenses incurred to prepare an acquired property for its intended use are categorized as improvement to land. TJPA will use this approach. However, demolition costs have been and will continue to be categorized as a construction expense for budget development purposes. It is entirely acceptable to treat demolition costs differently for budget versus financial reporting purposes. Once the project's construction-in-progress has been capitalized, if the TJPA should tear down any structures related to the Transit Center project (e.g. the demolition of the Temporary Terminal), those demolition costs would be capitalized as land improvements, as these costs will prepare the land for its intended use.

Policy: **TJPA will capitalize demolition costs incurred for newly acquired property as improvement to land. TJPA will capitalize demolition of the Temporary Terminal costs incurred on existing property.**

VI. CAPITALIZATION OF LAND IMPROVEMENTS

Policy: **TJPA will capitalize the following costs as Land Improvements:**

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- Appraisal Services
- Environmental Consulting – Soil Hazardous Materials
- American Land Title Association Design Surveys
- Cost to remove or demolish a building or structure existing at the time of acquisition
- Site Preparation (betterment that prepares land for its intended use)
- Reconstruction of Property of Others: Rails, Utilities, Parking Lots, Fencing and Landscaping

There may be similar costs that will be categorized by the Chief Financial Officer as "land improvements" in the future. Utility relocation will not be classified as land improvements, but rather as "Transit Center" costs, because the relocation of utilities takes place on property not owned by TJPA and is being performed for the purpose of the building of the Transit Center.

VII. CAPITALIZATION OF OTHER ANCILLARY COSTS

Only construction costs for betterment and improvements will be capitalized. The cost of repairs and maintenance will be expensed, as will replacements if the original useful life is not extended or the value of the asset significantly enhanced. As experience is generated with the assets, the useful life estimate will be evaluated and adjusted if necessary.

Policy: **The following ancillary costs will be capitalized as part of the "network of assets" of either the Transit Center or the Downtown Extension as costs necessary to place the asset in service.**

- Capitalizable interest costs related to debt (generally for the period during or shortly after construction)
- Installation costs to put asset into service
- Internal costs such as salaries, benefits, administration (until commencement of Transit Center operations)

VIII. CAPITALIZATION OF DONATED CAPITAL ASSETS

Prior to Fiscal Year 2015, donated capital assets were to be reported at their estimated fair value at the time of acquisition. Fair value is the amount at which the asset could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. GASB 72, implemented for periods beginning after June 15, 2015, (i.e., Fiscal Year 2016) prospectively requires donated capital assets to be reported at their estimated acquisition value. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential. GASB does not require a formal appraisal of the donated property to obtain the acquisition price. There is no prescribed guidance by GASB in determining the acquisition price for reporting of donated land and other real estate. GASB notes that there are many factors that can be considered when estimating the acquisition price of donated capital assets, making the estimation of acquisition price dependent on the unique facts and circumstances of the specific land, such as the future cash flow from its intended use or assessed values of surrounding properties. For any capital assets donated in the future, TJPA will assign an estimated acquisition price at the time of conveyance based on a rational and systematic method.

IX. CAPITALIZATION OF INTANGIBLE ASSETS

GASB 51 requires the financial reporting of intangible assets, such as right-of-way easements, other types of easements, land use rights, licenses and permits, and certain types of information technology to be classified as capital assets. TJPA will acquire easements and certain types of information technology for the Transbay Transit Center and Downtown Extension projects, which will be valued based on the acquisition agreements and costs, and reported on the financial statements as non-depreciable capital assets.

X. CAPITALIZATION THRESHOLDS

- Artwork (stand-alone): $50,000

- Building or infrastructure improvements (significant structural alterations, material remodeling or renovation that increase the asset's usefulness, efficiency or Transit Center/Downtown Extension lives): $50,000

- Equipment (an article of nonexpendable, tangible personal property having a useful life of more than two years) and Furniture not part of the network or subsystem of assets: $5,000

- Information technology: $10,000 for initial purchase or application development

- Infrastructure assets (i.e., Downtown Extension): all

- Land and easements: all

- Land improvements (depreciable): $50,000

XI. IMPAIRMENTS AND DISPOSALS

A capital asset is considered to be impaired when its service utility has declined permanently, significantly and unexpectedly. Events or changes in circumstances that may be indicative of impairment include evidence of physical damage, changes in legal or environmental factors, technological changes or evidence of obsolescence, changes in manner or duration of use of the asset, or construction stoppage. Generally, an asset would be considered impaired if both:

- The expenses associated with the potentially impaired asset (i.e., continued operation and maintenance, including depreciation, or costs associated with restoration) are significant compared to its useable capacity, and

- The event or change in circumstances was outside the normal life cycle of the asset.

In the event a capital asset is impaired, there are two options for reporting the impairment:

- If the asset will no longer be used then the book value of the asset should be written down to the lower of carrying value or fair market value, or

- If the asset will continue to be used, then the book value of the asset should be adjusted by the net of the impairment loss and restoration costs.

Disposals may occur when an asset is no longer considered useful (e.g., is considered excess or surplus, or is to be traded-in on a new purchase). A disposed-of asset should be removed from inventory and financial accounting records.

TRANSBAY JOINT POWERS AUTHORITY

Board Policy No. 017 Category: Financial Matters

DEBT MANAGEMENT POLICY

I. Introduction & Objectives

The purpose of this policy is to set forth debt issuance-related policies and procedures for the Transbay Joint Powers Authority to govern issuance and management of all debt, including the selection and management of related financial and advisory services and products. The primary objectives are to:

- maintain cost effective access to capital markets through prudent debt management policies and practices.
- maintain moderate and sustainable debt and debt service levels with effective long-term planning.
- meet capital needs through debt financing as needed.
- structure long term financings to minimize transaction specific risk and total debt portfolio risk.
- maintain the highest practical credit ratings to ensure efficient access to capital markets.
- maintain good investor relations through the timely dissemination of material financial information.

II. Governing Authority

This policy is subject to and limited by applicable provisions of federal and state law and prudent debt management principles.

III. Delegation of Authority

This policy requires that the Board authorize each debt financing. Responsibility for implementation of this policy, and day-to-day responsibility and authority for structuring and managing the TJPA's debt, is hereby delegated to the TJPA Chief Financial Officer or his or her designee.

While adherence to this policy is required in applicable circumstances, the TJPA recognizes that changes in the public and private debt markets, the Transbay Program, or other unforeseen circumstances may from time to time produce situations that are not covered by the policy or require modifications or exceptions to this policy to achieve policy goals. In such cases, management flexibility is appropriate. The provisions of this policy are directory only and any failure to comply with its provisions or any departure therefrom shall not affect the validity of any indebtedness or obligation of TJPA.

DEBT LIMITS & STRUCTURE

IV. Types of Debt

Term and Use

TJPA may issue debt when there is a defined repayment source. TJPA may incur short-term or long-term debt. Short-term debt is debt with a term to maturity of less than five years. Long-term debt has a term to maturity of five years or more. TJPA's long-term debt will be structured such that obligations do not exceed the maturity permitted by law or the average useful life of the capital asset as determined by the Internal Revenue Code, if applicable. Long-term debt may be used to finance the acquisition and construction of capital assets consistent with TJPA's capital improvement program and capital budget or plan. Long-term debt shall not be used to fund operating costs or operating deficits of the TJPA. Short-term debt may be used to either, 1) provide funds to finance cash flow deficits, or 2) provide capital financing.

Rate

To maintain a predictable debt service burden, TJPA may give preference to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is floating or variable rate debt. It may be appropriate to issue variable rate debt to reduce forecast interest costs, provide interim financing, and/or improve the match of assets to liabilities. Under no circumstances will TJPA issue variable rate debt solely for the purpose of earning arbitrage. In connection with each issuance of variable rate debt, TJPA should make a determination that the use of unhedged variable rate debt is not imprudent, taking into consideration the security source for repayment of the variable rate debt and the projected coverage if variable rate debt was to equal the maximum rate permitted under the applicable debt.

Adequate safeguards against the risk of adverse impacts from interest rate shifts in variable debt may include, but are not limited to, interest rate swaps, interest rate caps, and the matching of assets and liabilities. Financial strategies may result in a synthetic fixed rate debt, subject to the provisions of this policy regarding derivative products.

Instruments

TJPA may enter into or issue bonds, notes, bond anticipation notes, grant anticipation notes, revenue anticipation notes, tax anticipation notes, revenue bonds, lease revenue bonds, financing leases, installment purchase obligations, certificates of participation, tax increment financing, Mello-Roos financing, loans, commercial paper and any other evidence of indebtedness or financing permitted by law.

V. Financial Derivative Products

Financial derivative products such as interest rate swaps will be considered appropriate in the issuance or management of debt only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces the risk of fluctuations in expense or revenue, or alternatively where the derivative product will significantly reduce the project cost. Financial derivative products will only be considered, 1) after a thorough evaluation of risks associated therewith, including counterparty credit risk, basis risk, tax risk, termination risk, and liquidity risk; 2) after consideration of the potential impact on the TJPA's ability to refinance debt at a future date; and 3) in compliance with the requirements below.

A. Qualified Independent Representative

1. TJPA will enter into a contract with a firm or firms that will have the qualifications to act as a qualified independent representative ("QIR") to TJPA in accordance with the

requirements of Commodity Futures Trading Commission ("CFTC") Regulation §23.450, "Requirements for swap dealers and major swap participants acting as counterparties to Special Entities", and its related safe harbor provisions and in such contract such firm or firms will make representations and provide agreements to satisfy the requirements and safe harbors of CFTC Regulation §23.450 in a manner satisfactory to TJPA.

2. TJPA shall utilize the services of such QIR when (i) entering into a new swap transaction, (ii) modifying, terminating (in whole or in part), transferring or novating an existing swap transaction, or (iii) discussing the possibility of the transactions in (i) and/or (ii) with a swap counterparty.
3. TJPA shall monitor the continued performance of each QIR by requesting certifications at least annually from each QIR restating that the representations and agreements in the contract described in (1) above are true and correct and by requiring in the contract described in (1) above prompt notice by the QIR of any failure of a representation or agreement to be true and correct.

B. Recordkeeping and Retention

TJPA will maintain full records (in the manner specified in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act")) related to interest rate swap agreements, interest rate swap transactions, and similar agreements for at least five years following the final termination of each transaction. Such records must be retrievable within five business days.

C. Consent to Recording

Each employee or representative of TJPA that enters into discussions with a swap counterparty regarding a swap transaction or the International Swaps and Derivatives Association ("ISDA") master agreement (including the related schedule and credit support annex, if applicable) that governs such swap transaction acknowledges and agrees that the discussions will be recorded by the swap counterparty and consents to the recording and agrees to sign an annual acknowledgement form stating that they have notice of and consent to the recording of discussions of swap documentation and transactions.

D. Amendment of documentation for interest rate swap agreements, interest rate swap transactions, or similar agreements.

TJPA will work with legal counsel and a QIR to amend ISDA master agreements entered into with swap counterparties to comply with requirements of the Act and regulations thereunder and any additional legal and/or regulatory requirements relating to swap transactions and ISDA master agreements. TJPA will amend documentation through completion and distribution of applicable ISDA Protocol documentation and/or through direct negotiation of amendments with individual swap counterparties.

E. Counterparty and contract guidelines.

TJPA will not use derivative contracts that are purely speculative in nature or create extraordinary leverage or risk, or lack sufficient price transparency to allow reasonably transparent valuation.

TJPA will only work with counterparties (or their guarantors) with a long-term senior, unsecured debt credit rating of at least “A3” or “A-” from two of the nationally recognized rating agencies.

No derivative contract will be entered into with a structured terminating counterparty or be subject to automatic termination in any circumstance without the explicit approval of the Board.

All termination payments under any contract shall be expressly subordinate to the payment of debt service payments on the debt being hedged, unless the Board explicitly approves otherwise.

Each counterparty with TJPA must provide collateralization to secure any or all of its payment obligations under the derivative contract under terms and provisions acceptable to TJPA and the QIR, provided that, if any of the counterparty’s (or guarantor’s) ratings fall below investment grade, the credit support agreement must provide for a zero threshold limit for the initial deposit and for increments or decrements of collateral thereafter.

TJPA will consider diversifying its counterparties so that TJPA does not have an excessive amount of exposure to any counterparty.

The TJPA Chief Financial Officer is required to prepare a report summarizing derivative exposure at least annually.

VI. Structuring

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

Certain types of financings may require the use of capitalized interest from the issuance date until the TJPA has constructive use of the financed project. Capitalized interest is the interest added to the cost of a debt-financed long-term asset. Capitalized interest may be funded from the proceeds of TJPA debt.

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

DEBT ISSUANCE

VII. Method of Sale

TJPA will determine, on a case-by-case basis, whether to issue its debt competitively or through negotiation.

In a competitive sale, the transaction shall be awarded to the bidder providing the lowest true interest rate cost as long as the bid adheres to the requirements set forth in the procurement documents. A competitive sale may be the most appropriate when the debt type and structure are conventional and the issuer has a strong credit rating and is well known to investors.

TJPA recognizes that some transactions are best handled through negotiation, including situations when sale of the debt will require complex explanations about TJPA's projects, political structure and support, funding, or credit quality.

From time to time, TJPA may elect to privately place its debt with institutional investors. Such placement shall be considered if this method is likely to result in a cost savings or additional benefit to the TJPA relative to other methods of debt issuance, whether due to interest rate savings or costs of issuance.

VIII. Consultants

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

IX. Ethics and Conflict of Interest

Officers and employees involved in the debt management process will not engage in personal business activities or investments that could conflict with the proper and lawful execution and management of the debt management program, or that could impair their ability to make impartial decisions. Pursuant to the TJPA's Conflict of Interest code, employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to TJPA's debt.

DEBT MANAGEMENT

X. Internal Controls

TJPA shall maintain a system of internal controls, which shall be documented in writing. The internal controls shall be provided to and reviewed by the independent auditor. The controls shall be designed to ensure compliance with this policy, all debt covenants, and any applicable legal requirements. Such internal controls are incorporated herein by this reference to the same extent as if recited in full.

XI. Investment of Debt Proceeds

TJPA shall accurately account for all interest earnings in debt-related funds. TJPA will maximize the interest earnings on all funds within the investment parameters set forth in the respective indenture documents or as otherwise permitted by the TJPA Investment Policy. TJPA will implement a system of reporting interest earnings that relates to and complies with any tax certificates relating to its outstanding debt and Internal Revenue Code requirements, and make any required filings with federal and state agencies.

XII. Post-Issuance Compliance Procedures

TJPA will establish and document procedures to ensure compliance with all Internal Revenue Code requirements with respect to tax-exempt bonds and obligations so that the interest on the bonds and obligations is and will remain tax-exempt.

XIII. Recordkeeping

TJPA shall maintain all debt-related records for a period no less than six years after the final maturity of the debt. At a minimum, these records shall include all official statements, term sheets, bid documents, resolutions, disclosure reports, and consultant agreements.

XIV. Debt Management Policy Review

TJPA's debt management policy shall be adopted by resolution of the TJPA Board of Directors. This policy shall be reviewed annually at a regular meeting of the TJPA Board, or more frequently as required. Any modifications to this policy must be approved by resolution of the TJPA Board.

Glossary of Terms

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

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

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

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

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

Indenture: A legal and binding contract between a debt issuer and the debt holders. The indenture specifies all the important features of the debt, such as its maturity date, timing of interest payments, method of interest calculation, call features, investment requirements, etc.

Negotiated Sale: A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which an underwriter will purchase and market the debt.

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

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

Variable Rate: An interest rate on a security which changes at intervals according to an index or formula or other standard of measurement as stated in a debt contract.