

DEBT POLICY

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DEBT POLICY

I. Introduction

The purpose of the Debt Policy is to establish guidelines for the issuance and management of our debt. This Debt Policy confirms the commitment of the Board, management, staff, advisors and other decision makers to adhere to sound financial management practices, including full and timely repayment of all borrowings, achieving the lowest possible cost of capital within prudent risk parameters and encouraging the use of local, emerging and disadvantaged business enterprises and California-based advisors and underwriters when appropriate and feasible. Priorities of the Debt Policy are as follows:

1. Achieve the lowest cost of capital
2. Maintain a prudent level of financial risk
3. Preserve future financial flexibility
4. Maintain strong credit ratings and good investor relations
5. Ensure that local, emerging and disadvantaged business enterprise investment banking and financial firms will be considered for, and utilized in, lead and senior manager roles when appropriate

II. Scope and Authority

This Debt Policy shall govern, except as otherwise covered by the Investment Policy, Defeased Lease Policy or Interest Rate Swap Policy, the issuance and management of all debt and lease financings funded from the capital markets, including the selection and management of related financial services and products, and investment of bond and lease proceeds.

While adherence to this Policy is required in applicable circumstances, it is recognized that changes in the capital markets, our programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained or is authorized in this policy. The Chief Executive Officer, the Chief Financial Services Officer, the Treasurer and Assistant Treasurer, each, an "Authorized Signatory," are each individually authorized to take all reasonable actions necessary to issue the debt and administer the debt on an ongoing basis. The administration is herein defined as "Administrative Actions",. Administrative Actions may be taken when in the reasonable judgment of an Authorized Signatory such action will be beneficial and consistent with the original objectives for entering into the transaction. Administrative Actions include both day-to-day administrative activities as well as actions that need to be taken to correct problems, such as with providers of services or financial facilities, agreements, insurance policies or surety policies. Such Administrative Actions may include, but are not limited to amendment of

terms and pricing, replacement of providers, amendment or replacement of agreements and facilities and substitution using different products and providing for the issuance of commercial paper, all to achieve the original purpose in the transaction.

The Debt Policy shall be reviewed and updated at least annually and presented to the Board for approval. The Treasurer shall have the day-to-day responsibility and authority for structuring, implementing and managing the debt and finance program. The Debt Policy requires that the Board specifically authorize each long-term debt and lease financing. However, as detailed in the following section, the authority is ongoing regarding issuance of commercial paper in support of Board authorized capital projects and expenditures, and to remedy matters being addressed as Administrative Actions.

III. Capital Budgeting and Debt Issuance Process

A. Capital Budgeting

1. The Capital Plan. A Capital Plan, the “CP,” shall be developed for consideration and adoption by the Board. The CP should have a planning horizon of at least a 5-year period and shall be updated at least annually. It is our current practice to include the CP in the Annual Budget for consideration and adoption.
2. Authorization for Issuance of Bonds and Leases. Each long-term financing or lease shall be presented to the Board for authorization. The Board’s adoption of the Annual Budget does not constitute authorization for issuance of long-term debt or a lease.
3. Authorization for Issuance of Commercial Paper. Issuance of commercial paper is authorized on an ongoing basis through the Board’s periodic authorizations of the commercial paper programs. The Authorized Signatories may then take all actions necessary to cause the issuance of commercial paper to fund, refund or reimburse expenditures related to Board approved capital projects and expenditures, as well as to remedy matters being addressed as Administrative Actions.

B. Debt Financing

1. Appropriate Use of Long-Term Debt
 - a) Purpose for Long-Term Debt. Long-term debt should be used to finance essential capital facilities, projects and

certain equipment where it is cost effective and fiscally prudent. The scope, requirements, and demands of the Annual Budget or CP, and the ability or need to expedite or maintain the programmed schedule of approved capital projects will also be factors in the decision to issue long-term debt. In general, the use of debt recognizes that future taxpayers can benefit from the capital investment and it is, therefore, an appropriate way in which they pay a share of the asset cost. Long-term debt will not be used to fund non-capital operational expenditures.

- b) Lease Financing. Lease obligations are a routine and appropriate means of financing capital equipment. These types of obligations should be considered where lease financing will be more beneficial, either economically or from a policy perspective. The useful life of the capital equipment, the terms and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. Efforts will be made to fund capital equipment on a pay-as-you-go basis where feasible. Cash flow sufficiency, capital program requirements, lease program structures and cost, and market factors will be considered in conjunction with a pay-as-you-go strategy in lieu of lease financing. All leases providing tax-exempt financing are subject to this policy, as are all leases, master leases and leasing programs having a cumulative value exceeding \$10 million. All tax-exempt leases shall be implemented and maintained by the Treasury Department.

2. Use of Short-Term and Variable Rate Debt

- a) Commercial Paper. The commercial paper programs are cash management tools that are primarily used to provide interim funding for capital expenditures that will ultimately be funded from another source such as a grant or long-term bond. The Board has previously authorized the ongoing use of both the Proposition A and Proposition C commercial paper programs for \$350 million and \$150 million, respectively, to fund Board approved programs and expenditures. Commercial paper may be issued from time to time, but its use will generally be restricted to providing interim financing for capital projects programmed for long-term debt or grant funding. Periodic issuances or retirements of commercial paper notes do not require further Board action.

- b) Tax and Revenue Anticipation Notes. Borrowing for cash flow purposes through the use of tax and revenue anticipation notes may be used to bridge temporary cash flow deficits within a fiscal year.
- c) Grant Anticipation Notes. Short-term notes may be issued and secured with the receipts of State or Federal grants if appropriate for the project and in our best interests. Generally, grant anticipation notes will only be issued if other funding sources are unavailable or uncertain.
- d) Variable Rate Debt: It is often appropriate to issue short-term or long-term variable rate debt to diversify the debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of variable rate assets to liabilities. The amount of unhedged variable rate debt will generally not exceed 20% of all outstanding debt, and the total of hedged and un-hedged variable rate debt will not exceed 50% of all outstanding debt. Under no circumstances will variable rate debt be issued solely for the purpose of earning interest through arbitrage. If unhedged variable rate debt is outstanding, at least annually, it shall be determined whether it is appropriate to convert the debt to fixed interest rates.

IV. Debt Affordability Targets and Policy Limits

Target and policy maximum amounts of revenues to be used to pay debt service are listed as percentages of the respective revenue sources. These limits in combination with the CP and multi-year planning documents ensure that we will be able to continue providing our essential operational services while planning for replacement, rehabilitation and expansion of our capital investments.

Proposition A Sales Tax Revenue Debt Affordability Targets		
Category	Allowable Uses & Status	Debt Policy Maximum
Prop A Rail 35%	<i>Rail Operations & Capital.</i> Is currently committed to debt service in an amount close to the Policy Maximum.	87% of Prop A 35% Rail revenues.
Discretionary 40%	<i>Any transit purpose.</i> Current state law directs these funds to bus subsidies and incentives.	No further issuance.
Local Return 25%	<i>Any transit purpose.</i> Distributed	N/A

	to localities based on population.	
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Proposition C Sales Tax Revenue Debt Affordability Targets		
Category	Allowable Uses & Status	Debt Policy Maximum
Discretionary 40%	<i>Bus & Rail, Capital & Operating.</i>	40% of Prop C 40% Discretionary revenues.
Highway 25%	<i>Streets, Highways and Fixed Guideway Projects on Railroad Right-of-Way.</i>	60% of Prop C 25% Highway.
Commuter Rail 10%	<i>Commuter Rail and Park and Ride. Operations or capital.</i>	40% of Prop C 10% Commuter Rail.
Security 5%	<i>Transit Security. Operations or capital.</i>	No debt issuance.
Local Return 20%	<i>Any transit purpose and certain roadways heavily used by transit. Distributed to localities based on population.</i>	N/A

Other Revenue Debt Affordability Targets		
Category	Allowable Uses & Status	Debt Policy Maximum
Fare Box Revenue	<i>Any transit purpose.</i>	No further issuance.
Federal Grant Revenues	<i>In accordance with grant.</i>	No further issuance
State Grant Revenues	<i>In accordance with grant.</i>	No debt issuance.
TDA	<i>Various transit purposes.</i>	No further issuance.
Benefit Assessment Levies	<i>Historically to support rail construction.</i>	100% of levies.
Lease Revenues	<i>Any transit purpose.</i>	Limited issuance for special projects.
Other System Revenues	<i>Any transit purpose.</i>	Limited issuance for special projects.

V. Purpose of Financing

A. New Money Financing

New money issues are those financings that generate additional funding to be available for expenditure on capital projects. These funds will be used for acquisition, construction and major rehabilitation of capital assets. New money bond proceeds may not be used to fund non-capital operational expenditures. The funding requirement by sales tax

ordinance category is determined in the context of the CP and Annual Budget. For competitive bond sales, the financial advisor will recommend the financing structure based on the type of financial products to be used and in consideration of market conditions at the time of the sale.

The commercial paper programs are used primarily to provide interim new money funding. Proceeds from the sale of commercial paper are used to provide interim funding for capital expenditures identified in the CP, the approved Annual Budget or other Board authorized capital expenditures pending receipt of grant funds or long-term bond proceeds to permanently fund those expenditures. The commercial paper notes are retired upon receipt of the grant funds or bond proceeds. The retirement of commercial paper is most commonly a result of the issuance of long-term bonds.

B. Refunding Bonds

Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance at a lower interest rate to reduce debt service. Alternatively, some refundings are executed for a reason other than to achieve cost savings, such as to restructure the repayment schedule of the debt, to change the type of debt instruments being used, or to retire an indenture in order to remove undesirable covenants. In any event, a present value analysis must be prepared that identifies the economic effects of any refunding being proposed to the Board. The target savings amounts listed below are not applicable for refunding transactions that are not solely undertaken to achieve cost savings.

The target savings amount shall be measured using either a call option pricing model or the savings as percentage of par method. When using the call option model to evaluate a refunding whose sole purpose will be to achieve cost savings, the target savings from any particular refunding candidate shall be approximately 80% or more of the expected value of the call option, net of all transaction expenses. The Treasurer shall have discretion in making the final determination to include individual refunding candidates that are above or below the target in order to optimize the policy and/or financial objectives.

Alternatively, the more traditional methodology of measuring the net present value savings as a percentage of the refunded par amount may be used with a minimum savings of 3% for each refunding candidate.

In the event that an interest rate swap or other derivative product is to be used as part of a refunding, the target savings shall be increased to account for any additional ongoing administrative costs, financial risk

beyond that of a traditional fixed rate refunding, and loss of future financial flexibility. When a proposed refunding interest rate swap has a variable interest rate swap payment to us that is indexed to the Securities Industry and Financial Markets Association "SIFMA" Municipal Swap Index, then the target savings for each refunding candidate shall be approximately 85% using the call option method or 3.5% using the percentage of par method.

When a proposed refunding interest rate swap involves a variable interest rate swap payment to us that is indexed to LIBOR the target savings for each refunding candidate shall be approximately 90% using the call option method or 5.0% using the percentage of par method.

VI. Types of Products

A. Current Coupon Bonds

Current coupon bonds are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Current coupon bonds may be structured to meet the demands of the investor and, thereby, reduce the cost of borrowing. Bond features may be adjusted to accommodate the market conditions at the time of sale, including changing the dollar amounts for annual principal maturities, offering discount and premium bond pricing, modifying the terms of the call provisions, and utilizing bond insurance.

B. Zero Coupon and Capital Appreciation Bonds

Zero coupon bonds and capital appreciation bonds have principal amortization that is much slower than level debt service resulting in increased interest expenditure over the life of the bond and, therefore, shall only be recommended in limited situations.

C. Lease Purchase Financing

Lease purchase financing represents a long-term financing lease that is suitable for financing capital expenditures, including the acquisition and/or construction of land, facilities, equipment and rolling stock.

1. **Equipment.** We shall have the ability to consider lease purchase transactions, including certificates of participation, long-term vendor leases, and the use of master lease programs. Financing of equipment will be limited to contracts of at least \$20,000 and a useful life that is greater than 3 years. The final maturity of equipment lease financings will be limited to the remaining useful life of the equipment.

2. Real Property. The final maturity of the financing shall not exceed the remaining useful life of the facility. A lease financing generally should not have a final maturity exceeding 30 years. Principal payments related to real property acquisition or construction are to be amortized so that there will be level debt service payments; although a more rapid amortization may be used to accelerate the repayment.

D. Derivative Products

Derivative products 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 risk of fluctuations in expense or revenue, or alternatively, where it will reduce total financing cost. The Board approved Interest Rate Swap Policy sets forth the guidelines for interest rate swaps. For derivatives not addressed in the Interest Rate Swap Policy, an analysis of early termination costs and other conditional terms given certain financing and marketing assumptions will be completed. Such analysis will document the risks and benefits associated with the use of the particular derivative product. Derivative products will only be utilized with prior Board approval except as otherwise specified in the Interest Rate Swap Policy.

VII. Structural Features

A. Maturity of Debt

The final maturity of the debt shall be equal to or less than the remaining useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average life of the assets being financed.

B. Debt Service Structure

Combined principal and interest payments for any particular bond issue will be structured to have approximately level annual debt service payments over the life of the bond. Exceptions will occur for refunding bonds that will have varying principal repayments structured to fill in the gaps created by refunding specific principal maturities. The objective is to have level debt service in aggregate for each lien, with the debt service declining as bonds mature.

C. Lien Levels

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

D. Capitalized Interest

Unless otherwise required, capitalized interest will not be employed. This avoids unnecessarily increasing the bond size. Certain types of financings such as certificates of participation, lease-secured financings, and certain revenue bond projects may require that interest on the debt be paid from capitalized interest until we have constructive use of the project and project related revenues are expected to be available to pay debt service.

E. Discount and Premium Bonds

While discount and deep discount bonds may slightly reduce the interest cost of the bonds below that of non-discount bonds, the amount of discount will be structured to minimize the negative impact of the resulting lower bond coupon on the ability to subsequently refund bonds for interest savings.

The impact of certain premium bonds that are priced to their call date instead of their maturity date will be analyzed to quantify the possible increased cost of the bonds relative to pricing for par bonds, in comparison to the benefit from the higher future refunding potential from premium bonds. We will generally attempt to limit the amount of premium bonds issued, as well as the amount of the premium.

F. Debt Service Reserve Fund

The debt service reserve fund "DSRF," is generally cash funded with bond proceeds. The trustee maintains the DSRF throughout the life of the bonds. A cash funded DSRF is invested pursuant to investment of proceeds guidelines within the respective indenture and interest earnings are generally used to offset debt service payments. In the final year of the bond issue, the cash available in the DSRF is usually used to make the final debt service payment. Since a cash funded DSRF generates interest income, the DSRF has the potential to be cost neutral if the interest earnings equal or exceed the interest rate of the bonds.

An alternative to having a cash funded DSRF is to use a DSRF surety policy obtained from a highly rated bond insurer. The surety policy

requires an up-front fee payment to the insurer and results in a loss of future income to the DSRF. The Treasurer will evaluate and document the DSRF funding decision. Factors to be considered in this evaluation include: arbitrage yield restrictions, current interest rates, availability and cost of a surety policy, foregone interest and capital gains from a cash funded DSRF, the relative size of the reserve requirement compared to the prior reserve requirement (refunding issues only), and opportunities for the use of the funds withdrawn from the DSRF including additional capital projects or investment opportunities.

G. Amortization

Debt will be amortized within each lien to achieve overall level debt service or may utilize more accelerated repayment schedules after giving consideration to bonding capacity constraints. The use of heavily back-loaded principal repayment, bullet and balloon maturities should be avoided, except to achieve wrapped debt service so as to level the aggregate outstanding debt service.

H. Financial and Risk Analysis of Issuance

Net present value cost analysis, assessment of structural risks and complexities, and consideration of restrictions to future financing flexibility will be assessed and documented to determine the most efficient bond type and structuring features. Our long-term pooled investment rate will be used as the discount rate when comparing alternatives.

I. Call Provisions

In general, bonds issued should not include a non-call feature which is longer than 10 years. However, if determined to be financially advantageous, bonds may be issued that are non-callable for periods longer than 10 years. Prior to the use of any non-call provision, the option-adjusted yields on the bonds with and without a non-call provision will be analyzed to determine which is most financially beneficial.

J. Credit Enhancement

1. Bond insurance. Bond insurance will be used when it provides an economic advantage to a particular bond maturity or entire issue. Bond insurance from the highest-rated insurers provides improved credit quality for the bonds as a result of the insurance provider's guarantee of the payment of principal and interest on the bonds. Because of the decreased risk of non-payment, investors are willing to purchase bonds with lower yields than uninsured bonds, thus providing the issuer with interest cost savings.

- a) Benefit analysis. The decision to use bond insurance is an economic decision. The analysis compares the present value of the interest savings to the cost of the insurance premium. Insurance will be purchased when the premium cost is less than the present value of the projected interest savings.
 - b) Provider selection. The financial advisor will undertake a competitive selection process when soliciting pricing for bond insurance, or in the case of a competitive bond sale, facilitate the pre-qualification of bonds by highly-rated insurance providers. It is recognized that all providers may not be interested in providing bids or pre-qualifying the issue. Generally, the winning underwriter in a competitive bond sale will determine whether it will purchase insurance for the issue. For a negotiated sale, the Treasurer shall have the authority to purchase bond insurance when deemed advantageous and the terms and conditions governing the guarantee are satisfactory.
2. Letters of Credit. When used for credit enhancement, letters of credit, "LOC," represent a bank's promise to pay principal and interest when due for a defined period of time, subject to certain conditions. In the case of a direct pay LOC, the trustee can draw upon the letter of credit to make debt service payments. A stand-by LOC can be used to ensure the availability of funds to pay principal and interest of an obligation.
- a) Liquidity Facility. The issuance of most variable rate debt, including variable rate demand bonds and commercial paper, requires the use of a liquidity facility.
 - b) Provider selection. Depending on market conditions, the financial advisor will conduct a competitive process to recommend a letter of credit provider. Only those banks with short-term ratings of at least P-1/A-1, by Moody's Investors Service and Standard & Poor's, respectively, may be solicited.
 - c) Selection criteria will include, but not be limited to the following:
 - (1) the bank(s) has short-term ratings of at least P-1/A-1;
 - (2) the bank's acceptance of terms and conditions acceptable to us. A term sheet will be provided along with the request for qualifications to which the

- banks will highlight modifications;
- (3) review of representative list of clients for whom the bank has provided liquidity facilities;
- (4) evaluation of fees; specifically, cost of LOC, draws, bank counsel and other administrative charges and estimate of trading differential cost.

VIII. Documentation of Transactions

The decision processes used in each financing process will be fully documented. The documentation will capture information regarding the selection of the financing team, decisions on product selection and structuring features, selection of vendors providing ancillary services and selection of investment securities or products. This information will be compiled into a post-pricing book "transaction file" which will be retained for each financing.

IX. Credit Objectives

We will actively seek to:

1. Maintain and improve the credit ratings of our outstanding bonds.
2. Adhere to benchmarks, overall debt ratios and affordability targets.
3. Have frequent communications with the credit rating agencies.

X. Method of Bond Sale

A. The competitive bond sale process will be utilized when it will provide the lowest interest cost for the bond. However, there are three methods of sale: competitive, negotiated and private placement. Each type of bond sale has the potential to provide the lowest cost given the right conditions. The conditions under which each type of bond sale is best used are provided below.

1. Competitive Sale

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

- i) Manageable transaction size.

2. *Negotiated Sale*

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

3. *Private Placement* is a sale that is structured specifically for one purchaser such as a bank. While this method has not previously been used, the policy reserves to the ability to place its securities privately if the need arises.

XI. Investment of Bond Proceeds

- A. Purchase and Sale of Investments. We shall competitively bid the purchase of securities, investment agreements, float contracts, forward purchase contracts and any other investment products used to invest bond proceeds. Compliance shall be maintained with all applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds as well as restrictions on the time period over which some bond proceeds may be invested. The Treasurer may direct the investment of bond and lease proceeds in accordance with the permitted investments for any particular bond issue or lease. Providers of structured investment products and professional services required to implement the product or agreement will be recommended

based on a competitive process conducted by the financial advisor or investment advisor.

- B. Diversification. Invested proceeds shall be diversified in order to reduce risk exposure to investment providers, types of investment products and types of securities held.
- C. Disclosure. It shall be required that all fees resulting from investment services or sale of products to us be fully disclosed to ensure that there are no conflicts of interest and investments are being purchased at a fair market price. Underwriters of the bonds, but not the financial or investment advisor, may bid on the sale of investment products for the proceeds. The financial or investment advisor shall document the bidding process and results and shall certify in writing that a competitive and fair market price was received.

XII. Market Relationships

- A. Rating Agencies. The Chief Executive Officer and the Chief Financial Services Officer and Treasurer shall be primarily responsible for maintaining our relationships with Moody's Investors Service, Standard & Poor's and Fitch Ratings. In addition to general communications, the Chief Executive Officer and the Chief Financial Services Officer and Treasurer, or their appropriate designees, shall communicate with the analysts of each agency providing an underlying rating at least annually, and prior to each competitive or negotiated sale.
- B. Investor Relations. Provide information and respond to inquiries from investors in order to maintain positive ongoing investor relations.
- C. Board Communication. As a means of providing feedback from rating agencies and/or investors regarding our financial strengths and weaknesses as perceived by the marketplace, information will be provided to the Board as material information develops.

XIII. Continuing Disclosure

It is our policy to remain in compliance with Rule 15c2-12 by filing our annual financial statements and other financial and operating data for the benefit of our bondholders within 195 days of the close of the fiscal year and file material event notices in a timely manner.

XIV. Consultants

The financial advisor(s) and bond counsel will be selected by competitive process through a Request for Proposals "RFP." Our contracting policies that

are in effect at the time will apply to the contracts with finance professionals. Selection may be based on a best value approach for professional services or the lowest responsive cost effective bid based upon pre-determined criteria.

A. Financial Advisor. Financial advisor(s) will be selected to assist in the debt issuance and debt administration processes. Additionally, the financial advisor will conduct competitive processes to recommend providers of financial services and products, including but not limited to: bond underwriters, remarketing agents, trustees, bond insurance providers, letter of credit providers, investment advisors and managers, investment measurement services, and custody services. Selection of the financial advisor(s) should be based on the following:

1. Experience in providing consulting services to complex issuers.
2. Knowledge and experience in structuring and analyzing complex issues.
3. Ability to conduct competitive selection processes to obtain investment products and financial services.
4. Experience and reputation of assigned personnel.
5. Fees and expenses.

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

1. Evaluation of risks and opportunities associated with debt issuance.
2. Monitoring of the debt portfolio and bond proceeds investments to alert us to opportunities to refund or restructure bond issues or modify investments.
3. Evaluation and recommendation regarding proposals submitted by investment banking firms.
4. Structuring and pricing bond issues, financial instruments and investments.
5. Preparation of requests for proposals and selection of providers for bond counsel, underwriters, remarketing agents, letter of credit banks, investment products, financial products and financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, investment management services, custody services etc.).
6. Provide advice, assistance and preparation for presentations with rating agencies and investors.

B. Bond Counsel. Transaction documentation for debt issues shall include a written opinion by legal counsel affirming we are authorized to issue the proposed debt, that we have met all constitutional and statutory requirements necessary for issuance, and a determination of the

proposed debt's federal income tax status. A nationally recognized bond counsel firm with extensive experience in public finance and tax issues will prepare this approving opinion and other documents relating to the issuance of debt. The counsel will be selected from the pool of bond counsel firms.

- C. Disclosure Counsel. When undertaking a bond sale, disclosure counsel may be retained to prepare the official statement if additional independence or expertise is needed. Disclosure counsel will be responsible for ensuring that the official statement complies with all applicable rules, regulations and guidelines. Disclosure counsel will be a nationally recognized firm with extensive experience in public finance. The counsel will typically be selected from the pool of bond counsel firms. Most frequently, the disclosure counsel function will administered by either bond counsel or underwriter's counsel.

- D. Disclosure by Financing Team Members. We expect that all of our financial advisory team will at all times provide us with objective advice and analysis, maintain the confidentiality of our financial plans, and be free from any conflicts of interest. All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties that could compromise any firm's ability to provide independent advice that is solely in our best interests or that could be perceived as a conflict of interest. The extent of disclosure may vary depending on the nature of the transaction.

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