SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT

DEBT POLICY

Revised and approved by the BART Board of Directors, August 15, 2024

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SAN FRANCISCO BAY AREA RAPID TRANSIT DISTRICT
DEBT POLICY
Dated as of August 15, 2024

I. Purpose

The purpose of this Debt Policy (the "Debt Policy") of the San Francisco Bay Area Rapid Transit District ("District") is to establish comprehensive guidelines for the issuance and management of the District's bonds, lease financing and other obligations for borrowed money (collectively, "Debt Obligations"). This Debt Policy is intended to help ensure that: (i) the District, the Board of Directors of the District (the "Board of Directors"), the District General Manager (the "General Manager"), the District Controller-Treasurer or the General Manager's designee (the "Controller-Treasurer") and other District management and staff adhere to sound debt issuance and management practices; (ii) the District achieves the most advantageous cost of borrowing commensurate with prudent levels of risk; (iii) the District preserves and enhances the credit ratings of its Debt Obligations and (iv) the District preserve financial flexibility. After the passage of California Assembly Bill 2325 (2024), all references to the Controller-Treasurer will be replaced by reference to the District Chief Financial Officer (the "Chief Financial Officer") as of January 1, 2025.

II. Scope of Debt Policy

This Debt Policy shall provide guidance for the issuance and management of Debt Obligations of the District, together with credit, liquidity and other ancillary instruments and agreements secured or executed in connection with such Debt Obligations. While adherence to this Debt Policy is recommended in applicable circumstances, the District recognizes that changes in the capital markets, District programs and other unforeseen circumstances may produce situations that are not covered by the Debt Policy or require modifications or exceptions to achieving Debt Policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained. The District may approve Debt Obligations and other related agreements the terms or provisions of which deviate from this Debt Policy, upon the recommendation and approval of the Controller-Treasurer, as circumstances warrant. The failure by the District to comply with any provision of this Debt Policy shall not affect the validity of any Debt Obligations that is otherwise duly authorized and executed.

The District's Controller-Treasurer is the designated administrator of the Debt Policy. The Controller-Treasurer shall have the day-to-day responsibility and authority for structuring, implementing and managing the Department's debt and finance program, in accordance with the Board authorized programs. The Debt Policy requires that each Debt Obligation be specifically authorized by the District's Board.

III. Legal Authority; Compliance with Laws, Resolutions, Indentures and Contracts

A) Legal Authority

The District has exclusive authority to plan and issue Debt Obligations for District related purposes subject to approval by the Board of Directors.

B) Compliance with Law

All Debt Obligations of the District shall be issued in accordance with applicable Federal and State laws, rules and regulations, including without limitation the Internal Revenue Code of 1986 (the "Code") with respect to the issuance of tax-exempt Debt Obligations, the Securities Act of 1934 and the Securities Exchange Act of 1933, in each case as supplemented and amended, and regulations promulgated pursuant to such laws.

C) Compliance with District Resolutions and Indentures

Debt Obligations of the District shall be issued in accordance with applicable resolutions and indentures of the District and in each case as supplemented and amended.

D) Compliance with Other Agreements

Debt Obligations of the District shall be issued in compliance with any other agreements of the District with credit or liquidity providers, bond insurers or other parties.

E) Compliance with SB 1029

This Debt Policy complies with California Senate Bill 1029 (2016). The following paragraph cross references the debt policy requirements of SB 1029 with the relevant sections of this policy.

1) California Government Code Section 8855(i)(1)(A): The purposes for which the debt may be used. See Section V: Purposes for Debt Obligations.

2) California Government Code Section 8855(i)(1)(B): The types of debt that may be issued. See Section VI: Types of and Limitations on Debt Obligations.

3) California Government Code Section 8855(i)(1)(C): The relationship of the debt to, and integration with, the issuer's capital improvement program or budget. See Section XV: Capital Planning, Budgeting and Administration.

4) California Government Code Section 8855(i)(1)(D): Policy goals related to the issuer's planning goals and objectives. See Section I: Purpose.

5) California Government Code Section 8855(i)(1)(E): The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use. See Section IV: Administration of Debt Policy.

IV. Administration of Debt Policy

A) Board of Directors

The Board of Directors shall be responsible for:

1) Approval of the issuance of all Debt Obligations and the terms and provisions thereof;

2) Appointment of financial advisors, bond counsel, disclosure counsel, District consultants, underwriters, feasibility consultants, trustee and other professionals retained in connection with the District's Debt Obligations;

3) Approval of this Debt Policy and any supplements or amendments;

4) Periodic approval of the District's capital improvement plans; and

5) Periodic approval of proposed District annual and supplemental budgets for submission to the Board of Directors, including without limitation provisions for the timely payment of principal of and interest on all Debt Obligations.

B) Controller-Treasurer

The Controller-Treasurer shall have responsibility and authority for structuring, issuing and managing the District's Debt Obligations and financing programs. This shall include, but not be limited to, the following:

1) Determining the appropriate structure and terms for all proposed Debt Obligations and other debt transactions;

2) Considering to issue Debt Obligations at the most advantageous interest and other costs consistent with prudent levels of risk balancing the District's funding needs;

3) Insuring compliance of any proposed Debt Obligations with any applicable additional debt limitations under State law, or the District's Debt Policy, resolutions and indentures;

4) Seeking approval from the Board of Directors for the issuance of Debt Obligations or other debt obligations;

5) Recommending to the Board of Directors the manner of sale of any Debt Obligations or other debt transactions;

6) Monitoring opportunities to refund outstanding Debt Obligations to achieve debt service savings, and recommending such refunding to the Board, as appropriate;

7) Providing for and participating in the preparation and review of all legal and disclosure documents in connection with the issuance of any Debt Obligations by the District;

8) Recommending the appointment of financial advisors, bond counsel, disclosure counsel, District consultants, underwriters, feasibility consultants and other

professionals retained in connection with the District's debt issuance as necessary or appropriate;

9) Distributing information regarding the business operations and financial condition of the District to appropriate external bodies on a timely basis in compliance with any applicable continuing disclosure requirements;

10) Communicating regularly with the rating agencies, bond insurers, investment providers, institutional investors and other market participants related to the District's Debt Obligations, as applicable;

11) Maintaining a database with information regarding all of the District's outstanding Debt Obligations and other debt obligations; and

12) Maintaining internal control procedures for the Debt Obligations proceeds such as the Project Administration and Grant Management Guidelines and Procedures.

C) Procedures for Approval of Debt Obligations

The proposed issuance of Debt Obligations by the District shall be submitted to and subject to approval by the District Board of Directors for authorization and approval.

D) Considerations in Approving Issuance of Debt Obligations

The District will take into consideration any or all of the following factors, as appropriate, prior to approving the proposed issuance of Debt Obligations:

1) Whether the proposed issuance complies with this Debt Policy;

2) Source(s) of payment and security for the Debt Obligations;

3) Projected operating, other costs and potential revenues and other benefits with respect to the proposed projects;

4) Impacts, if any, on tax rates, debt service coverage and funds required for operations;

5) Impacts, if any, on District credit ratings;

6) Period, if any, over which interest on the Debt Obligations should be capitalized;

7) Extent to which debt service on the Debt Obligations should be level or structured;

8) Appropriate lien priority of the Debt Obligations;

9) Adequacy of the proposed disclosure document.

V. Purposes for Debt Obligations

A) Permissible Purposes

The District may issue Debt Obligations for the purposes of financing and refinancing the costs of capital projects undertaken by the District. The District may also issue Debt Obligations to pay extraordinary unfunded costs, including without limitation: (i) termination or other similar payments due in connection with interest rate swaps and investment agreements entered into in connection with Debt Obligations; and (ii) legal judgments or settlements.

B) Prohibited Purposes

The District shall not issue Debt Obligations for the purpose of funding operating costs except under extraordinary circumstances or at minimal cost for cash flow management purposes where statutorily permitted.

VI. Types of and Limitations on Debt Obligations

A) General Obligation Debt Obligations

General Obligation Debt Obligations represent general obligations of the District and will be payable solely from a levy of ad valorem taxes in Alameda and Contra Costa Counties and the City and County of San Francisco without limitation as to rate or amount upon all property subject to taxation within the District (except certain property which is taxable at limited rates) for the payment of principal of and interest on the Debt Obligations. The District's Measure AA General Obligation Debt Obligations had an initial amount authorized of $980 million which was approved and duly authorized by at least two-thirds (2/3) of the qualified voters of the District voting at an election held on November 2, 2004. The District's Measure RR General Obligation Debt Obligations had an initial amount authorized of $3.5 billion which was approved and duly authorized by at least two-thirds of the qualified voters of the District voting at an election held on November 8, 2016. Prior authorized General Obligation bonds were issued utilizing a similar voter approved process. The Debt Obligations are issued pursuant to the provisions of Part 2 of Division 10 of the Public Utilities Code of the State of California, commencing with Section 28500, and other applicable law, and according to the terms and in the manner as authorized by the Board of Directors by resolutions.

B) Sales Tax Revenue Debt Obligations

Sales Tax Revenue Debt Obligations are special obligations of the District, payable from and secured by a pledge of sales tax revenues derived from a seventy-five percent (75%) portion of a transactions and use tax levied by the District in Alameda and Contra Costa Counties and the City and County of San Francisco in an amount equal to one-half of one percent (0.5%) of gross retail receipts. Sales Tax Revenue Debt Obligations are issued pursuant to the laws of the State of California, including Article 2, Chapter 7, Part 2, Division 10 of the California Public Utilities Code, as amended from time to time, and applicable portions of the Revenue Bond Law of 1941, as amended from time to time and pursuant to an Indenture and supplemental Indentures as appropriate.

C) Grant Revenue Debt Obligations

The District may issue Debt Obligations payable in whole or in part from grants to pay capital or other costs as permitted by the applicable provisions, conditions and requirements with respect to such grants. The District may also issue Debt Obligations in the form of notes payable from and in anticipation of the future receipt of grants (so-called "grant anticipation notes" or "GANs").

D) Farebox Revenue Debt Obligations

The District may issue Debt Obligations payable in whole or in part from a designated pledge of farebox revenues.

E) Lease and Installment Payment Obligations

The District may issue lease backed or installment payment certificates of participation or Debt Obligations payable in whole or in part from underlying lease or installment payment revenues.

F) New Money Debt Obligations

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 or reimbursement. New money bond proceeds may not be used to fund operational activities except under extraordinary circumstances or at minimal cost for cash flow management purposes where statutorily permitted.

G) Refunding Debt Obligations

The District may issue Debt Obligations to refund the principal of and interest on outstanding Debt Obligations of the District in order to (i) achieve debt service savings; (ii) restructure scheduled debt service; (iii) convert from or to a variable or fixed interest rate structure; (iv) change or modify the source or sources of payment and security for the refunded Debt Obligations; or (v) modify covenants otherwise binding upon the District. Refunding Debt Obligations may be issued either on a current or advance basis, as permitted by applicable Federal tax laws. The District may also utilize a tender offer process to refund bonds that are not otherwise subject to optional call by the District.

Refunding Debt Obligations should be issued to achieve debt service savings in most cases and should not be issued unless the estimated net present value savings, as determined by the District's external financial advisor(s) ("Financial Advisor" or "Financial Advisor") or internal management, are greater than or equal to five percent (5%) of the principal amount of the refunded Debt Obligations. Non-economic refundings, or ones producing less savings, will be permitted if justified based on extraordinary circumstances of upcoming fiscal deficits and/or the need for legal restructuring to correct major discrepancies or deficiencies in supporting bond documents that would benefit the current, short-term, or long term capital cost of the District.

H) Senior Lien Debt Obligations

Debt Obligations of the District may be issued on parity with outstanding Debt Obligations of the most senior open lien position in order to achieve the most advantageous borrowing costs.

I) Subordinate Lien Debt Obligations

Debt Obligations of the District may be issued on one or more subordinate lien levels relative to other outstanding Debt Obligations of the District where necessary or desirable, in the determination of the District, to accommodate the particular structure or terms of a given issue, or in circumstances where the issuance of senior lien Debt Obligations would be limited or restricted. Currently, the District has no outstanding subordinate lien bonds.

J) Long-Term Debt Obligations

The District may issue Debt Obligations with longer-term maturities to amortize District capital or other costs over a period commensurate with the expected life, use or benefit provided by the project, program or facilities financed from such Debt Obligations. Long-term Debt Obligations shall consist of Debt Obligations of an issue with a final maturity of five (5) years or more.

K) Short-Term Debt Obligations

The District may issue Debt Obligations with shorter-term maturities, including commercial paper and grant and revenue anticipation notes, among others, to provide interim financing for capital projects in anticipation of the issuance of longer-term Debt Obligations and/or the receipt of grant moneys or for cash flow management. Short-term Debt Obligations shall consist of Debt Obligations of an issue with a final maturity of less than five (5) years.

L) Fixed-Rate Debt Obligations

Fixed-Rate Debt Obligations, on either an actual basis or a synthetic basis using interest rate swaps, shall be the primary type of Debt Obligations issued by the District. This is in recognition of the assured future costs and the insulation from interest rate risk provided by fixed-rate financings.

M) Variable Rate Debt Obligations

Variable Rate Debt Obligations may be the secondary type of Debt Obligations issued by the District. The District shall limit its aggregate un-hedged variable rate exposure on long-term Debt Obligations to no more than twenty percent (20%) of the aggregate outstanding principal amount of its long-term Debt Obligations, determined as of the date of issuance or execution of Debt Obligations or related interest rate swap agreements.

N) U.S. Department of Transportation Loans

The U.S. Department of Transportation through the Build America Bureau offers credit programs that the District may use to finance eligible project costs. If considered to be beneficial to the District in achieving objectives, including but not limited to reducing cost of capital, providing additional flexibility in repayment terms or other factors, by using a U.S. DOT credit program (such as the TIFIA and RRIF programs) compared to traditional tax-exempt bonds/COPs, then the District may use these financing structures supported by the Federal Government.

O) Green Debt Obligations

Green bonds typically finance projects that have positive environmental and/or climate benefits. The District adopted a Green Debt Obligations Framework in 2017, which was subsequently revised in August 2021. The Green Bond Framework sets out how BART proposes to use the proceeds of BART's Green Debt Obligations for the financing or refinancing of eligible Green Projects in the BART System in a manner consistent with the District's Sustainability practices and the CBI Low Carbon Land Transport Standard. Consistent with the District's Sustainability Policy, District capital projects typically may be categorized as green bond eligible. The District shall seek to obtain green bond identification on its debt issuances that finance green bond eligible capital projects. Pursuing green bond identification is in the District's best interests to broaden the potential investor base for the District's debt issuances and possibly lower the borrowing costs for the District.

VII. Terms and Provisions of Debt Obligations

A) Debt Service Structure

The District shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, provide flexibility and, as practical, to recapture or maximize its debt capacity for future use. Annual debt service payments will generally be structured on a level basis per component financed; however, principal amortization may occur more quickly or slowly where permissible, to meet debt repayment, tax rate and flexibility goals.

B) Amortization of Principal

Long-term Debt Obligations of the District shall be issued with maturities that amortize the principal of such Debt Obligations over a period commensurate with the expected life, use or benefit (measured in years) provided by the projects, programs and/or facilities financed from the proceeds of such Debt Obligations. The weighted average maturity of such Debt Obligations should not exceed one hundred and twenty percent (120%) of the reasonably estimated weighted average life, use or benefit (measured in years) of the projects, programs and/or facilities financed from the proceeds of such Debt Obligations.

Amortization of principal may be achieved either through serial maturities, through term bonds subject to prior mandatory sinking fund payments and/or redemptions, or other means (e.g., repayment of loan in accordance with the terms of such loan).

C) Capitalization of Interest

The District may pay or reimburse interest on Debt Obligations from proceeds of Debt Obligations for legal, budgeting or structuring purposes. With respect to projects, programs and facilities that are expected to generate net revenues to the District over and above their associated costs of operation and maintenance, the period over which interest is capitalized shall generally not extend for more than twelve (12) months after the expected placed-in-service date of the respective projects, programs and facilities to be financed from proceeds of Debt Obligations. This provision does not apply to projects financed that are not expected to directly generate revenue to repay such Debt Obligations. Additionally, the District may consider longer periods of capitalized interest for projects that utilize U.S. Department of Transportation loans if in the District's interests.

D) Call Provisions

1) Optional Call Provisions. The District shall seek to include the shortest practicable optional call rights, with and/or without a call premium, on Debt Obligations with a final maturity of more than ten (10) years, consistent with optimal pricing of such Debt Obligations. Call premiums, if any, should not be in excess of then prevailing market standards and to the extent consistent with the most advantageous borrowing cost for the District. Non-callable maturities may be considered and used to accommodate market requirements or other advantageous benefits to the District. Capital appreciation bonds and taxable bonds are examples of potential non-callable candidates.

2) Extraordinary Call Provisions. The District, at its option, may include extraordinary call provisions, including for example with respect to unspent proceeds, damage to or destruction of the project or facilities financed, credit-related events of the District or the user of the project or facilities financed, or other matters, as the District may determine is necessary or desirable.

E) Payment of Interest

1) Current Interest Debt Obligations. Debt Obligations of the District shall be issued with interest payable on a current basis at least once each fiscal year commencing not more than eighteen (18) months following the date of issuance.

F) Deferred Interest Debt Obligations

Debt Obligations of the District may be issued with the payment of actual or effective interest deferred in whole or in part to the maturity or redemption date of each Bond, or the conversion of such Bond to a current interest-paying Bond (known, respectively, as capital appreciation bonds, zero coupon bonds and convertible capital appreciation bonds). This may be done to achieve optimal sizing, debt service structuring, pricing or other purposes. For U.S. Department of Transportation loans, deferral of interest is in accordance with its general credit assistance program guidelines and as appropriate for the specific situation.

G) Determination of Variable Interest Rates on Debt Obligations

The interest rate from time to time on Debt Obligations the interest of which is not fixed to maturity may be determined in such manner that the District determines, including without limitation on a daily, weekly, monthly, term, CP mode or other periodic basis; by reference to an index, prevailing market rates or other measures; and by or through an auction, a broker-dealer, a remarketing agent or other party or method.

H) Tender Options on Debt Obligations

The District may issue Debt Obligations subject to the right or obligation of the holder to tender the Debt Obligations back to the District for purchase, including, for example, to enable the holder to liquidate their position, or upon the occurrence of specified credit events, interest rate mode changes or other circumstances. The obligation of the District to make payments to the holder upon any such tender may be secured by (i) a credit or liquidity facility from a financial institution in an amount at least equal to the principal amount of the Debt Obligations subject to tender, (ii) a liquidity or similar account into which the District shall deposit and maintain an amount at least equal to the principal amount of the Debt Obligations subject to tender, or (iii) other means of self-liquidity that the District deems prudent.

I) Multi-Modal Debt Obligations

The District may issue Debt Obligations that may be converted between two or more interest rate modes without the necessity of a refunding. Such interest rate modes may include, without limitation: daily interest rates, weekly interest rates, other periodically variable interest rates, commercial paper rates, auction rates, fixed rates for a term and fixed rates to maturity (in each case with or without tender options).

J) Debt Service Reserve Funds

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

Amounts in the debt service reserve funds shall be invested, in Investment Securities as defined under the District's Indenture and consistent with the District's Investment Policy. The priorities evidenced above are consistent with California Government Code Sections 53600.3 and 53600.5.Such investments may include forward purchase and sale Agreements with respect to permitted investments.

VIII. Maintenance of Liquidity; Reserves

The District shall maintain unencumbered reserve amounts sufficient in the determination of the District to cover unexpected revenue losses, operating and maintenance costs, extraordinary payments and other contingencies, and to provide liquidity in connection with the District's outstanding Debt Obligations. In June 2015, the Board of Directors adopted a policy goal to achieve and maintain an operating reserve of at least fifteen percent (15%) annual operating expenses. The Controller-Treasurer shall review annually the progress toward this goal.

IX. Investment of Bond Proceeds and Related Moneys

Bond proceeds and amounts in the District's debt service, project fund and debt service reserve funds with respect to outstanding Debt Obligations shall be invested in accordance with the terms of the District's Investment Policy and with applicable resolutions, indentures and other agreements of the District. Bond Proceeds will be invested by the Trustee or Paying Agent, or authorized entity; at the direction of the District in Investment Securities as such term is defined in the applicable agreement and approved by the Controller-Treasurer. Funds held in trust by the District under such terms shall also be invested by the Controller-Treasurer in Investment Securities or in accordance with the Investment Policy as applicable.

X. Third Party Credit Enhancement

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

A) Bond Insurance

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

B) Credit Facilities

The issuance of certain types of Debt Obligations requires a letter of credit or line of credit (a "Credit Facility") from a commercial bank or other qualified financial institution to provide liquidity and/or credit support. The types of Debt Obligations where a Credit Facility may be necessary include commercial paper, variable rate bonds with a tender option and Debt Obligations that could not receive an investment grade credit rating in the absence of such a facility.

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

1) Long-term ratings from at least two nationally recognized credit rating agencies ("Rating Agencies") preferably to be equal to or better than those of the District;

2) Short-term ratings from at least two Rating Agencies of at least P-l/A-l+ or equivalent;

3) Experience providing such facilities to state and local government issuers;

4) Fees, including without limitation initial and ongoing costs of the Credit Facility; draw, transfer and related fees; counsel fees; termination fees and any trading differential; and

5) Willingness to agree to the terms and conditions proposed or required by the District.

XI. Use of Derivatives

Derivative products will be considered where 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 project cost. An analysis of early termination costs and other conditional terms will also be performed given certain financing and marketing assumptions. 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.

XII. Methods of Sale and Pricing of Debt Obligations

There are three principal methods for the initial sale of Debt Obligations: (i) competitive; (ii) negotiated and (iii) private placement. The District shall utilize that method of sale that (a) is reasonably expected to produce the most advantageous interest cost with respect to the Debt Obligations and/or (b) provides the District with the flexibility necessary or desirable in connection with the structuring, timing or terms of such sale and of related Debt Obligations or Bond program.

A) Competitive Sales

The competitive sale of the District's Debt Obligations may be appropriate under the following circumstances:

1) The Debt Obligations are traditional long-term fixed-rate new money General Obligation or Sales Tax backed obligations of the District;

2) The Debt Obligations are senior lien obligations of the District;

3) The Debt Obligations do not include any unusual call provisions or other terms;

4) The Debt Obligations are or will be rated no lower than an 'AA' category or equivalent by at least two Rating Agencies, or the Debt Obligations will or can be insured by a Bond Insurer which is rated 'AAA' or equivalent by at least two Rating Agencies;

5) The size and structure of the bond series can be readily accommodated in the market;

6) Prices in the municipal bond market are relatively stable; and

7) Market timing is not critical to the pricing of the Debt Obligations.

Competitive sales may be conducted in such manner as the District shall approve, including through internet-based or other electronic bidding systems.

B) Negotiated Sales

The negotiated sale of the District's Debt Obligations may be appropriate under any of the following circumstances:

1) The Debt Obligations are not traditional long-term fixed-rate new money General Obligation's or Sales Tax backed;

2) The Debt Obligations are not senior lien obligations of the District;

3) The Debt Obligations include unusual call provisions or other terms;

4) The Debt Obligations are or will be rated below an 'AA' category or equivalent by at least one Rating Agency;

5) Prices in the municipal bond market are relatively volatile;

6) Market timing is important to the pricing of the Debt Obligations;

7) Volume in the municipal bond market is unusually heavy;

8) The structure of the financing is complex or unusual, and is expected to require additional pre-marketing and marketing efforts and activities;

9) Demand for the Debt Obligations is expected to be weak, as a result of credit issues, market perceptions, unusual structures or other factors;

10) The sale of the Debt Obligations must be coordinated with other related transactions, such as a tender offer for outstanding Debt Obligations, the closing of an acquisition of property or facilities to be acquired from the proceeds of the Debt Obligations, or the pricing of related transactions and/or derivative products;

11) The impetus for the transaction has been the result of significant innovation and efforts provided by one or more underwriter(s);

12) To achieve Policy and participation goals for small business enterprises and disadvantaged business enterprises for a transaction or program.

The underwriter, or underwriters, for a negotiated sale of Debt Obligations (the "Underwriters") may be selected from a pre-qualified pool of underwriters with experience and expertise in connection with the particular type of Debt Obligations or through a Request for Qualifications/Request for Proposal ("RFQ/RFP") process.

The District, with the assistance of its Financial Advisor(s), shall evaluate the proposed pricing and other terms offered by the Underwriters in relationship to prevailing market prices on the date of sale and prevailing practices in the municipal bond market, in each case with respect to comparable issuers. If there are multiple Underwriters, the District, with the assistance of its Financial Advisors, shall establish appropriate levels of liability and participation as among the Underwriters, and the priority of orders. The senior managing underwriter shall provide the District with a summary of all orders, allocations and underwriting activities with respect to the sales, a copy of the pricing wire, and the total designations and compensation to each underwriter promptly following the closing with respect to the Debt Obligations. The senior managing underwriter and/or the District's Financial Advisors shall also provide the District with a pricing analysis promptly following the closing, including without limitation the results of comparable sales in the market at or near the time of the District's sale.

C) Private Placements

The private placement of the District's Debt Obligations (as opposed to the public offering of Debt Obligations through a competitive or negotiated sale) will be appropriate only in circumstances where (i) a public offering would require the registration of the Debt Obligations under applicable Federal securities laws, or (ii) the Debt Obligations are or will be either unrated or rated in a category below investment grade. In the event such circumstances arise, the Debt Obligations of the District may be sold pursuant to a private placement only under such terms and conditions and in such manner as the District shall determine, in consultation with its Financial Advisors.

D) Pricing of Debt Obligations

The District's Debt Obligations may be sold at such prices, including at par, a premium or a discount, as the District may determine is likely to produce the most advantageous interest cost under then prevailing market conditions.

XIII. Bond Redemption Programs

The District may establish from time-to-time a plan or program for the payment and/or redemption of outstanding Debt Obligations and/or interest thereon from revenues, grants and/or other available funds pursuant to a recommendation from the Controller-Treasurer. Such plan or program may be for the purposes of reducing outstanding Debt Obligations, managing the amount of debt service payable in any year, or other suitable purposes, as determined by the District.

XIV. Professional Services

The District may retain professional services providers as necessary or desirable in connection with (i) the structuring, issuance and sale of its Debt Obligations; (ii) monitoring of and advice regarding its outstanding Debt Obligations; and (iii) the negotiation, execution and monitoring of related agreements, including without limitation Bond Insurance, Credit Facilities, Derivatives and investment agreements; and (iv) other similar or related matters. Professional service providers may include financial advisors, bond counsel, disclosure counsel, District consultants, bond trustees and Federal arbitrage rebate services providers, and may include, as appropriate, underwriters, feasibility consultants, remarketing agents, auction agents, broker-dealers, escrow agents, verification agents and other similar parties.

The District shall require that its Financial Advisors, bond and disclosure counsel and other District consultants be free of any conflicts of interest, or that any necessary or appropriate waivers or consents are obtained.

A) Financial Advisors

The District may utilize one or more Financial Advisors to provide ongoing advisory services with respect to the District's outstanding and proposed Debt Obligations and related agreements, including without limitation Credit Facilities, Derivatives, investment agreements and other similar matters.

1) Use of Financial Advisors: Any firm serving as financial advisor must be duly registered as a municipal advisor on financings at all times with both the Securities and Exchange Commission ("SEC") and the Municipal Securities Rulemaking Board ("MSRB") and must also hold any certifications and/or licenses required by the SEC and/or MSRB.

2) Independent Registered Municipal Advisor ("IRMA"): The Controller-Treasurer will select a specific firm to serve as the District's IRMA, as defined by the SEC. In order to facilitate open communication with underwriters, the District will prepare and post on its website a letter stating that the District has an IRMA.

Before acting on any proposal received from underwriters, the District may provide the proposal to the IRMA and consider all feedback received from the IRMA.

B) Bond Counsel, Disclosure Counsel and Other Legal Counsel

1) Bond Counsel. The District may utilize one or more bond counsel firms to provide ongoing legal advisory services with respect to the District's outstanding and proposed Debt Obligations and related agreements, including without limitation Credit Facilities, Derivatives, investment agreements and other similar matters. All Debt Obligations issued by the District shall require a written opinion from the District's bond counsel, as appropriate, regarding (i) the validity and binding effect of the Debt Obligations, and (ii) the exemption of interest from Federal and State income taxes.

2) Disclosure Counsel. The District may utilize a disclosure counsel firm to provide ongoing legal advisory services with respect to initial and continuing disclosure in connection with the District's outstanding and proposed Debt Obligations. Such firm may be one of the District's bond counsel firms. The issuance of Debt Obligations by the District shall require a written opinion from the District's disclosure counsel, as appropriate, regarding (i) the exemption of the Debt Obligations from registration requirements under Federal securities laws, and (ii) their absence of knowledge, after due review, regarding any material misstatement in or omission from the official statement or other public offering document with respect to the Debt Obligations.

3) Other Legal Counsel. The District may encourage or require, as appropriate, the retention and use of legal counsel by other parties involved in the issuance of Debt Obligations and the execution of related agreements who are approved by the District.

C) District Consultant

The District may utilize one or more outside District consultants to provide ongoing advisory services with respect to the District's outstanding and proposed Debt Obligations, District tax rates, fares, strategic business and financial decisions and such other matters as the District requires.

D) Bond Trustees and Fiscal Agents

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

E) Underwriters

The District may engage a team of underwriters, including a senior managing underwriter, in connection with the negotiated sale of its Debt Obligations. The District also may engage one or more underwriters, as necessary or appropriate, to serve as remarketing agents, broker-dealers or in other similar capacities with respect to variable rate, auction, tender option, commercial paper and other similar types of Debt Obligations issued by the District.

F) Feasibility Consultants

The District may retain feasibility consultants in connection with proposed project, programs, facilities or activities to be financed in whole or in part from proceeds of Debt Obligations. The criteria for the selection of such feasibility consultants, in addition to those set forth above, shall include their expertise and experience with projects, programs, facilities or activities similar to those proposed to be undertaken by the District.

G) Arbitrage Rebate Services Providers

Because of the complexity of the Federal arbitrage rebate statutes and regulations, and the severity of potential penalties for non-compliance, the District may retain an arbitrage rebate services provider in connection with its outstanding and proposed Debt Obligations, and may also solicit related legal and tax advice from its bond counsel or separate tax counsel. The responsibilities of the arbitrage rebate services provider shall typically include: (i) the periodic calculation of any accrued arbitrage rebate liability and of any rebate payments due under and in accordance with the Code and the related rebate regulations; (ii) advice regarding strategies for minimizing arbitrage rebate liability; (iii) the preparation and filing of periodic forms and information required to be submitted to the Internal Revenue Service; (iv) the preparation and filing of requests for reimbursement of any prior overpayments; and (v) other related matters as requested by the District.

The District shall maintain necessary and appropriate records regarding (i) the expenditure of proceeds of Debt Obligations, including the individual projects and facilities financed and the amounts expended thereon, and (ii) investment earnings on such Bond proceeds. The District shall maintain such records for such period of time as shall be required by the Code.

H) Other Professional Services

The District may retain such other professional services providers, including without limitation verification agents, escrow agents, auction agents, as may be necessary or appropriate in connection with its Debt Obligations.

XV. Capital Planning, Budgeting and Administration

A) Capital Planning

The District's Short Range Transit Plan ("SRTP") and Capital Improvement Plan ("CIP") is a regulatory mandate and provides a framework to make funding decisions in a long term context based upon financial forecasts.

The General Manager shall prepare a CIP every other year for consideration, revision as appropriate, and adoption in conjunction with the District's annual budget. The CIP should cover at least a five (5) year period. The CIP shall include, among other things, the following:

1) A description of each planned major capital project and its estimated cost;

2) A description of the source(s) and availability of funds to pay the costs of each major capital project; and

3) The projected start and completion dates for each major capital project.

B) Capital Budgeting

The Board of Directors shall not authorize the issuance of Debt Obligations unless the project has also been authorized and approved by the District. Inclusion of a proposed capital project in the CIP shall not constitute authorization and approval of the project for purposes of the preceding sentence.

C) Outstanding Debt Obligations Database

The Controller-Treasurer shall maintain detailed information regarding the District's outstanding Debt Obligations, including without limitation the following information with respect to each issue:

1) Name;

2) Initial principal amount and outstanding principal amount for each maturity;

3) Dated date;

4) Purpose or purposes;

5) Type of issue, including new money or refunding, fixed rate or variable rate and other features;

6) Method of sale;

7) True interest cost, arbitrage yield and weighted average maturity;

8) Underwriters and underwriters' discount;

9) Interest rates by maturity;

10) Call provisions, including any mandatory sinking fund provisions; and

11) Bond insurance or Credit Facilities, if any.

XVI. Credit Rating Objectives

The District shall seek to preserve and enhance the credit ratings with respect to its outstanding Debt Obligations to the extent consistent, with the District's current and anticipated business operations and financial condition, strategic plans and goals and other objectives, and in accordance with any developed credit strategies.

XVII. Debt Affordability

Consistent with its credit rating objectives, the District shall periodically review its debt affordability levels and capacity for the undertaking of new financing obligations to fund its capital improvement plans. Debt affordability measures shall be based upon the credit objectives of the District, criteria identified by rating agencies for high-grade credits, comparison of industry peers and other internal factors of the District.

XVIII. Relationships with Market Participants

The District shall seek to preserve and enhance its relationships with the various participants in the municipal bond market, including without limitation, the Rating Agencies, Bond Insurers, credit/liquidity providers and current and prospective investors, including through periodic communication with such participants.

A) Rating Agencies

The General Manager and Controller-Treasurer shall maintain regular contact with the Rating Agencies which rate the District's outstanding and proposed Debt Obligations, including in particular with the analysts assigned to the District. Such communications may include, without limitation:

1) Timely delivery of the District's audited financial statements and Annual Report each year;

2) Formal written and verbal presentations on a periodic basis. regarding the business operations and financial condition of the District and other related issues;

3) Formal written and/or verbal presentations in connection with each proposed issuance of Debt Obligations; and

4) Timely disclosure of material events regarding the business operations or financial condition of the District.

B) Bond Insurers

The Controller-Treasurer shall maintain regular contact with the Bond Insurers, if any, which insure the District's outstanding Debt Obligations, including in particular with the analysts assigned to the District. As mentioned above the role of bond insurers in regards to the District is unlikely as a result of the District's stronger ratings and the recent downgrades of most bond insurers. Still maintaining communications is warranted since circumstances may change and the District may at times seek to bring to market obligations that are not secured by its higher credit pledges. Such communications may include, without limitation:

1) Timely delivery of the District's audited financial statements and Annual Report each year;

2) Formal written and verbal presentations on a periodic basis regarding the business operations and financial condition of the District and other related issues;

3) Formal written and/or verbal presentations in connection with each proposed issuance of Debt Obligations; and

4) Timely disclosure of material events regarding the business operations or financial condition of the District.

C) Current and Prospective Investors

The General Manager and Controller-Treasurer shall maintain the District's relationships and reputation with current and prospective investors in the Debt Obligations, including in particular with its principal institutional investors. Such communications may include, without limitation:

1) Timely preparation of the District's audited financial statements and Annual Report and delivery to the District's bond trustees and other parties;

2) Formal written and/or verbal presentations in connection with proposed Bond issues, as deemed necessary or appropriate in consultation with the District's Financial Advisors; and

3) Timely compliance with the District's continuing disclosure requirements, consistent with Securities and Exchange District Rule 15c2-12, in connection with each issue of Debt Obligations to which such Rule is applicable.

D) Communications Strategies

The District basic strategy for communications with Rating Agencies, Bond Insurers, credit/liquidity providers, investors and other market participants shall be developed and maintained by the Controller-Treasurer.

The District shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12, the federal government, the State of California, rating agencies and other persons or entities entitled to disclosure to ensure compliance with applicable laws and regulations and agreements to provide ongoing disclosure.

The District shall make available its Annual Financial Information and Operating Data and other required information, on the Electronic Municipal Market Access ("EMMA") website so that interested persons have a convenient way to locate major financial reports and documents pertaining to the District's finances and debt.

XIX. Periodic Review

The Controller-Treasurer shall review this Debt Policy on a periodic basis, and recommend any changes to the Board for consideration.