PTSC

Public Transportation Services Corporation

One Gateway Plaza, Los Angeles, CA 90012

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ITEM #5

PTSC BOARD
November 26, 2013

SUBJECT: DEBT MANAGEMENT

ACTION: RATIFY DEBT AND INTEREST RATE SWAP POLICIES

RECOMMENDATION

A. RATIFY the Debt Policy (Attachment B), and Interest Rate Swap Policy (Attachment C) for the period January 1, 2013 through December 31, 2014.
B. Receive and File the Annual Report on Interest Rate Swaps (Attachment D)

ISSUE

The Debt Policy and Interest Rate Swap Policy each require that they be reviewed and updated annually. The Debt Policy has been to reflect policy recommendations with respect to the selection process for underwriters and financial advisors.

DISCUSSION

The purpose of the Debt Policy is to establish guidelines for the issuance and management of agency debt. The proposed changes to the Debt Policy include editorial changes to delete obsolete language and to expand the definitions of funding sources and liquidity facilities. Also, Post-Issuance Compliance Procedures have been added. Additionally, the updated Debt Policy includes language stating that we will apply local preference criteria in accordance with LACMTA's procurement policy which is being amended to follow the City of Los Angeles' policy for Local Preference.

There are no proposed changes to the Interest Rate Swap Policy. The interest Rate Swap Policy requires an annual review of outstanding interest rate swaps. The attached report shows that our transactions are in compliance with the policy. The attached report also shows the effects of the liquidity crisis on our bond interest rates and the subsequent

improvement in basis variance following the refunding of our auction rate and variable rate debt.

POLICY IMPLICATIONS

The Debt Policy and Interest Rate Swap Policy govern the management of our overall debt program. The policies set guidelines to be used when considering the use of debt or swaps, as well as the ongoing management of existing obligations. Guidance is provided specifying appropriate uses, selection of acceptable debt lease products, swap providers, negotiation of favorable terms and conditions, and stipulating annual surveillance of the swaps and providers. The processes for the selection of professional services and swap-related products are also specified.

FINANCIAL IMPACT

This action has no impact on the PTSC Operating budget. Investment management fees and related expenses are funded from interest income.

ATTACHMENTS

A. Summary of Changes to Debt Policy
B. Debt Policy
C. Interest Rate Swap Policy
D. Annual Report on Interest Rate Swaps.

Prepared By: DREW PHILLIPS
Administration and Financial Services Manager
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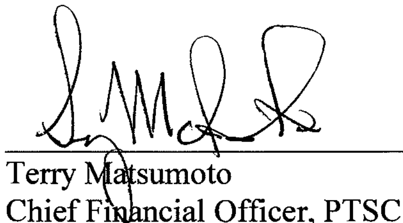

Terry Matsumoto
Chief Financial Officer, PTSC

Attachment A

Summary of Changes to Debt Policy

Section Change	Current Text	Proposed Text	Rationale
Section I	…and encouraging the use of local, emerging and disadvantaged business enterprises and California-based advisors and underwriters when appropriate and feasible. 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	… and encouraging the use of local~~, emerging~~ and disadvantaged business enterprises ~~and California-based~~("DBE") advisors and underwriters when appropriate and ~~feasible~~in accordance with the MTA procurement policy. Ensure that local~~, emerging and disadvantaged business enterprise~~ and DBE investment banking and financial firms will be considered for, and utilized in, lead and senior manager roles ~~when appropriate~~in accordance with the MTA procurement policy.	To conform to MTA's procurement policy and remove emerging as a type of enterprise.
Section III. A, 3	2. 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.	2. Authorization for Issuance of Commercial Paper. Issuance of commercial paper ~~is~~and similar short-term variable rate program borrowings are authorized on an ongoing basis through the Board's periodic authorizations of the commercial paper type programs. The Authorized Signatories may then take all actions necessary to cause the issuance of ~~commercial paper~~such short-term notes 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.	Changes reflect current short term products available in the market.
Section III. B, 2 a)	Commercial Paper. The commercial paper programs are cash management tools that are primarily used to provide interim funding for	Commercial Paper. The commercial paper and similar short-term variable rate programs are cash management tools that are primarily used to provide interim funding for capital expenditures that will	Changes reflect current short-term

	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.	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, and a revolving credit facility to fund Board approved programs and expenditures. Commercial paperThese programs may be issued issue notes 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.	products available in the market.
Section III. B, 2 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.	Variable Rate Debt: It is often appropriate to issue short-term or long-term variable rate debt, including entering into revolving credit facilities, to diversify the debt portfolio, reduce interest costs, provide interim funding for capital projects that may ultimately be funded from another source and improve the match of variable rate assets to liabilities.	Changes reflect current short-term products available in the market.
Section IV	Transit Capital 2% – Metro Rail Capital *System improvements, rail yards and rail cars.* Currently no debt service. Issuance likely in the future.	Transit Capital 2% – Metro Rail Capital *System improvements, rail yards and rail cars. System improvements, rail yards and rail cars.* Currently no debt service. Issuance likelyInitial issuance occurred in the futureCY2010.	Updated to include Transit Capital 2% projects funded from Measure R 2010 Bonds.
Section	The commercial paper programs are	The commercial paper and similar short-term variable	Changes

V, A	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.	rate programs are used primarily to provide interim new money funding. Proceeds from the sale of commercial paper or other short-term obligations 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~~short term 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.~~	reflect current short-term products available in the market.
Section VII, J, 1	…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.	…Bond insurance from the highest-rated insurers ~~provides~~may provide 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.	Changes because of decreased use of bond insurance.
Section VII., J, 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	c) ~~Letters of Credit. When used for credit enhancement, letters of credit, "LOC,"~~2. Liquidity Facilities. The issuance of most variable rate debt, including variable rate demand bonds and commercial paper, requires the use of a credit and/or liquidity facility including, but not limited to, letters of credit, lines of credit, standby bond purchase agreements and liquidity agreements. When used for credit enhancement, liquidity facilities 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~~	Changes reflect current short-term products available in the market.

	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.	~~payments. A stand-by LOC can be used to ensure the availability of funds to pay principal and interest of an obligation.~~Alternatively, variable rate debt can be funded by a direct purchase agreement or revolving credit facility where the bank lends the funds directly to the MTA. ~~Liquidity Facility. The issuance of most variable rate debt, including variable rate demand bonds and commercial paper, requires the use of a liquidity facility.~~ Provider selection. Depending on market conditions, the financial advisor will conduct a competitive process to recommend a ~~letter of credit~~liquidity facility provider. ~~Only those banks with~~Banks will have short-term ratings of at least P-1/A-1, by Moody's Investors Service and Standard & Poor's, respectively, ~~may~~in order to be solicited. Selection criteria will include the following: ~~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;~~ i) ~~(2) the~~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~~and any requested modifications will be highlighted ii) A review of a representative list of clients for whom the bank has provided liquidity facilities; and ~~(4) evaluation~~ iii) Evaluation of fees; specifically, cost of ~~LOC~~credit and/or liquidity facility, draws, bank counsel and other administrative charges and estimate of trading differential cost.	

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Section X, A, 2		Underwriter Selection - For a negotiated bond sale, the financial advisor will conduct a competitive process to select underwriters. Selection scoring will follow the local preference criteria in accordance with the MTA procurement policy.	Added language to conform to MTA's procurement policy.
Section X, A, 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.	*Private Placement* is a sale that is structured specifically for one purchaser such as a bank. ~~While this~~A direct purchase agreement or revolving credit facility are forms of private placement. If a private placement is the preferred method ~~has not previously been used, the policy reserves to the ability~~of sale, depending on market conditions, the financial advisor will conduct a competitive process to ~~place its securities privately if the need arises~~recommend the purchaser of the obligations. Banks purchasing obligations through a direct purchase agreement or revolving credit facility will have short-term ratings of at least P-1/A-1, by Moody's Investors Service and Standard & Poor's, respectively, in order to be solicited. Selection criteria will include the following: a) A term sheet will be provided along with the request for qualifications and any requested modifications will be highlighted by the bank. The bank's acceptance of terms and conditions acceptable to us will be a factor in selection; b) A review of a representative list of clients for whom the bank has provided similar agreements; and c)Evaluation of fees; specifically, cost of the agreement including index, and spread and other administrative charges. The evaluation of fees, terms and conditions will be compared to other alternative financing methods.	Changes reflect current short-term products available in the market.

Section XII, 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.	Rating Agencies. The Chief Executive Officer ~~and~~, the Chief Financial Services Officer, and the 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 the 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.	Changes reflect current titles.
Section XII, B	Investor Relations. Maintain Investor Relations section on our website, updated on a regular basis with relevant financial and debt information. Provide information and respond to inquiries from investors in order to maintain positive ongoing investor relations.	Investor Relations. ~~Maintain~~An Investor Relations section on our website~~,~~ shall be maintained and updated on a regular basis with relevant financial and debt information. ~~Provide~~Timely and accurate information ~~and respond~~shall be provided in response to inquiries from investors in order to maintain positive ongoing investor relations.	Clarification of Investor Relations website.
Section XIV	Consultants....Selection may be based on a best value approach for professional services or the lowest responsive cost effective bid based upon pre-determined criteria.	Consultants....Selection may be based on a best value approach for professional services or the lowest responsive cost effective bid based upon pre-determined criteria, in accordance with the MTA procurement policy.	Added language to conform to MTA's procurement policy.
Section XIV, A	Financial Advisor. Three financial advisors will be selected to assist in the debt issuance and debt administration processes.	~~A.~~ Financial Advisor. ~~Three~~At least three financial advisors will be selected to assist in the debt issuance and debt administration processes.	Changes reflect use of a pool of financial advisors.

Section XV		**Post-Issuance Compliance Procedures** We will establish and document procedures to ensure that LACMTA is in compliance with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied with respect to tax-exempt bonds and other obligations after the bonds are issued so that interest on the bonds is and will remain tax-exempt. The Post-Issuance Compliance Procedures will be reviewed at least every three years.	Language added for adoption of Post-Issuance Compliance Procedures.

ATTACHMENT B

DEBT POLICY

March 2013

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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 and disadvantaged business enterprises ("DBE") advisors and underwriters when appropriate and in accordance with the MTA procurement policy. 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 and DBE investment banking and financial firms will be considered for, and utilized in, lead and senior manager roles in accordance with the MTA procurement policy.

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 and similar short-term variable rate program borrowings are authorized on an ongoing basis through the Board's periodic authorizations of the commercial paper type programs. The Authorized Signatories may then take all actions necessary to cause the issuance of such short-term notes 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.

In order to achieve strong credit ratings and the lowest cost of funding, the debt secured by Proposition A, Proposition C or Measure R sales tax shall allow for each of the respective bond trust agreements to pledge the entire amount of the sales taxes received, except for the Local Return portion of that sales tax. Debt service attributable to the financing of a project will be charged to one or more ordinance categories in accordance with the applicable ordinance.

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.

c) Alternative Financing Programs. Federally subsidized loans, such as from the TIFIA program, other subsidized loan programs, as well as federally subsidized taxable and tax-exempt bond programs such as the taxable Build America Bonds, other similar federally subsidized taxable programs, as well as subsidized tax-exempt bond programs

may be utilized to provide funding when such loans or bonds provide an attractive funding cost or provide other features deemed desirable for the circumstance, such as deep subordination of the repayment obligation, back-loading of debt service, an unusually long repayment term, or other desirable features.

2. Use of Short-Term and Variable Rate Debt

a) Commercial Paper. The commercial paper and similar short-term variable rate 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, and a revolving credit facility to fund Board approved programs and expenditures. These programs may issue notes 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, including entering into revolving credit facilities, to diversify the debt portfolio, reduce interest costs, provide interim funding for capital projects that may ultimately be funded from another source 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%	*Rail Operations & Capital.* Is currently committed to debt service in an amount close to the Policy Maximum.	87% of Prop A 35% Rail revenues.
Discretionary 40%	*Any transit purpose.* Current state law directs these funds to bus subsidies and incentives.	No further issuance.
Local Return 25%	*Any transit purpose.* Distributed to localities based on population.	N/A

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

Measure R Sales Tax Revenue Debt Affordability Targets		
Category	***Allowable Uses & Status***	***Debt Policy Maximum***
Transit Capital 35% – New Rail and/or Bus Rapid Transit	*New Rail and/or Bus Rapid Transit.* Initial issuance occurred in CY2010.	87% of MR Transit Capital – New Rail and/or Bus Rapid Transit revenues.
Transit Capital 3% – Metrolink Capital Improvement Projects Within LA County	*Operations, Maintenance and Expansion for system improvements, rail yards and rail cars.* Currently no debt service. Issuance likely in the future.	87% of MR Transit Capital – Metrolink Capital Improvements in LA County.
Transit Capital 2% – Metro Rail Capital	*System improvements, rail yards and rail cars.* Initial issuance occurred in CY2010.	87% of MR Transit Capital – Metro Rail Capital
Highway Capital 20% –	*Carpool lanes, highways, goods movement, grade separations and soundwalls.* Currently no debt service. Issuance likely in the future.	60% of MR Highway Capital
Operations 5% – Rail Operations	*Rail operations for new transit project operations and maintenance.* Currently no debt service. No debt issuance permitted.	No debt issuance.
Operations 20% – Bus Operations	*Bus operations for countywide bus service and maintenance.* Currently no debt service. No debt issuance permitted.	No debt issuance.
Local Return 15% –	*Major street resurfacing, rehabilitation and reconstruction; pothole repair; left turn signals; bikeways, pedestrian improvements; streetscapes; signal synchronization; and transit.* Distributed to localities based on population.	N/A

Other Revenue Debt Affordability Targets		
Category	***Allowable Uses & Status***	***Debt Policy Maximum***
Fare Box Revenue	*Any transit purpose.*	No further issuance.
Federal Grant Revenues	*In accordance with grant.*	No further issuance.
State Grant Revenues	*In accordance with grant.*	No debt issuance.
TDA	*Various transit purposes.*	No further issuance.
Benefit Assessment Levies	*Historically to support rail construction.*	100% of levies.
Lease Revenues	*Any transit purpose.*	Limited issuance for special projects.
Other System Revenues	*Any transit purpose.*	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 and similar short-term variable rate programs are used primarily to provide interim new money funding. Proceeds from the sale of commercial paper or other short-term obligations 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 short term notes are retired upon receipt of the grant funds or bond proceeds.

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.

To the extent a DSRF is not required under the authorizing documents for a bond issue, the financial advisor will be consulted to advise whether a DSRF should be included. The analysis will consider the anticipated net cost of carry for the DSRF, loss of additional bonding capacity, impacts on ratings and bond pricing.

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.

If debt is issued under an alternative structure, such as a direct federal loan, the amortization schedule may be modified in order to meet specific requirements of the financing program or utilize advantageous alternative repayment schedules.

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 or make-whole call feature that precludes a par-call for more than 10 years. However, if determined to be financially advantageous, bonds may be issued that are non-callable or have make-whole calls for periods longer or shorter than 10 years. Prior to the use of any such 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 may provide 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. Liquidity Facilities. The issuance of most variable rate debt, including variable rate demand bonds and commercial paper, requires the use of a credit and/or liquidity facility including, but not limited to, letters of credit, lines of credit, standby bond purchase agreements and liquidity agreements. When used for credit enhancement, liquidity facilities represent a bank's promise to pay principal and interest when due for a defined period of time, subject to certain conditions. Alternatively, variable rate debt can be funded by a direct purchase agreement or revolving credit facility where the bank lends the funds directly to the MTA.

   Provider selection. Depending on market conditions, the financial advisor will conduct a competitive process to recommend a liquidity facility provider. Banks will have short-term ratings of at least P-1/A-1, by Moody's Investors Service and Standard & Poor's, respectively, in order to be solicited. Selection criteria will include the following:

   i) The bank's acceptance of terms and conditions acceptable to us. A term sheet will be provided along with the request for qualifications and any requested modifications will be highlighted by the bank;

   ii) A review of a representative list of clients for whom the bank has provided liquidity facilities; and

   iii) Evaluation of fees; specifically, cost of credit and/or liquidity facility, 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.

Underwriter Selection - For a negotiated bond sale, the financial advisor will conduct a competitive process to select underwriters. Selection scoring will follow the local preference criteria in accordance with the MTA procurement policy.

3. *Private Placement* is a sale that is structured specifically for one purchaser such as a bank. A direct purchase agreement or revolving credit facility are forms of private placement. If a private placement is the preferred method of sale, depending on market conditions, the financial advisor will conduct a competitive process to recommend the purchaser of the obligations.

Banks purchasing obligations through a direct purchase agreement or revolving credit facility will have short-term ratings of at least P-1/A-1, by Moody's Investors Service and Standard & Poor's, respectively, in order to be solicited. Selection criteria will include the following:

a) A term sheet will be provided along with the request for qualifications and any requested modifications will be highlighted by the bank. The bank's acceptance of terms and conditions acceptable to us will be a factor in selection;

b) A review of a representative list of clients for whom the bank has provided similar agreements; and

c) Evaluation of fees; specifically, cost of the agreement including index, and spread and other administrative charges. The evaluation of fees, terms and conditions will be compared to other alternative financing methods.

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, the Chief Financial Services Officer, and the 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, the Chief Financial Services Officer, and the 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. An Investor Relations section on our website shall be maintained and updated on a regular basis with relevant financial and debt information. Timely and accurate information shall be provided in response 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 advisors 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, in accordance with the MTA procurement policy.

A. Financial Advisor. At least three financial advisors will be selected to assist in the debt issuance and debt administration processes. Additionally, the financial advisors 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 advisors should, at a minimum, 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. Independence of the advisor from the firms and industries that will be affected by the advice the advisor provides to MTA. The firm should be free from actual conflict of interest and free from any potential or perceived conflict of interest. For example, an advisor for a bond transaction should not be a bond underwriter or bond broker/dealer.
6. Fees and expenses.
7. Registered with the Municipal Securities Rulemaking Board and in good standing.

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.

XV. Post-Issuance Compliance Procedures

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

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ATTACHMENT C

INTEREST RATE SWAP POLICY

March 2013

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INTEREST RATE SWAP POLICY

I. Introduction

The purpose of the Interest Rate Swap Policy is to establish guidelines for the use and management of interest rate swaps. The Interest Rate Swap Policy is prepared in accordance with the recommended practices of the Government Finance Officers Association regarding the contents of a derivatives policy.

We are authorized under California Government Code Section 5922 to enter into interest rate swaps to reduce the amount and duration of rate, spread, or similar risk when used in combination with the issuance of bonds.

II. Scope and Authority

This Interest Rate Swap Policy shall govern the use and management of all interest rate swaps. While adherence to this Policy is required in applicable circumstances, we recognize that changes in the capital markets, agency programs, and other unforeseen circumstances may from time to time produce situations that are not covered by the Interest Rate Swap 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 individually authorized to take all reasonable actions necessary to administer the swaps on an ongoing basis, including such actions (herein defined as "Administrative Actions") as amending terms and pricing, as well as terminating and replacing swaps when in the reasonable judgment of an Authorized Signatory such action will be beneficial and consistent with the original objectives for entering into the initial swap transaction.

In conjunction with the Debt Policy, the Interest Rate Swap Policy shall be reviewed and updated at least annually and presented to the Board for approval. The Chief Executive Officer and the Chief Financial Services Officer and Treasurer are the designated administrators of the Interest Rate Swap Policy. The Treasurer shall have the day-to-day responsibility and authority for structuring, implementing, and managing interest rate swaps.

The Board shall approve any transaction involving an interest rate swap, other than transactions involving Administrative Actions. We shall be authorized to enter into interest rate swap transactions only with qualified swap counterparties. Each Authorized Signatory is individually authorized to select the counterparties, so long as the criteria set forth in the Interest Rate Swap Policy are met.

III. Conditions for the Use of Interest Rate Swaps

A. General Usage

Interest rate swaps may be used to lock-in a fixed rate or, alternatively, to create additional variable rate exposure. Interest Rate Swaps may be used to produce interest rate savings, limit or hedge variable rate payments, alter the pattern of debt service payments, or for asset/liability matching purposes.

In connection with the use of any swaps, the Board shall make a finding that the authorized swaps will be used to alter interest rate risk and/or alter the cost of borrowing in a beneficial manner, and when used in combination with new or outstanding bonds, will enhance the relationship between risk and return, or achieve other policy objectives.

B. Maximum Notional Amount

The maximum notional amount for all interest rate swaps shall be limited based on criteria set forth in this Interest Rate Swap Policy regarding the proper management of risks, calculation of termination exposure, and development of a contingency plan in the event of mandatory termination.

C. Liquidity Considerations

The impact on the cost and availability of liquidity support for both new and existing variable rate programs shall be considered when evaluating the issuance of new variable rate bonds requiring liquidity support. It is recognized that there is a limited supply of letter of credit or liquidity facility support for variable rate bonds, and the usage of liquidity support in connection with an interest rate swap may result in higher overall costs.

D. Call Option Value Considerations

When considering the relative advantage of a synthetic fixed rate interest rate swap transaction to fixed rate bonds, the value of the call option that would typically be purchased for fixed rate bonds shall be compared to the present value of the savings from using a non-cancellable swap. This shall be done to ensure the benefit from use of the swap will provide sufficient compensation to offset the expected value of any foregone future refunding savings. Purchase of a swap cancellation option can mitigate the risk of foregone refunding saving, reduce the value of a swap termination payment and lower collateral posting amounts, and shall be evaluated for cost effectiveness.

IV. Interest Rate Swap Features

A. Interest Rate Swap Agreement

Terms and conditions as set forth in the International Swap and Derivatives Association, Inc. "ISDA" Master Agreement shall be used as the basis for developing the swap documentation. The swap agreements shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as an Authorized Signatory deems necessary or desirable.

Subject to the provisions contained herein, the terms of any swap agreement shall generally conform to the following guidelines.

i. Downgrade provisions triggering termination shall in no event be worse than those affecting the counterparty.
ii. Governing law for swaps will be either New York or California.
iii. The specified indebtedness related to credit events in any swap agreement should be narrowly defined and refer only to indebtedness of ours that could have a materially adverse effect on our ability to perform its obligations under the swap. The definition of Debt should typically only include obligations within the same lien as the swap obligation.
iv. Preferred collateral thresholds stipulating when collateral will be required to be posted by the swap provider and by us are described in this Policy as well as collateral requirements setting out the amount and types of collateral. Each will be established by an Authorized Signatory based on the respective credit ratings of the swap provider and us and our respective credit support providers, if any.
v. Collateral should be held by an independent third party custodian.
vi. Eligible collateral should generally be limited to cash, letters of credit from U.S. based banks rated at least "A," U.S. Treasury securities and obligations of Federal Agencies where the principal and interest are guaranteed by the full faith and credit of the United States government. At the discretion of any Authorized Signatory, other high-quality obligations of Federal agencies, not secured by the full faith and credit of the U.S. government, may be used as collateral.
vii. We shall have the right to terminate a swap agreement at "market," at any time over the term of the agreement.
viii. Termination value should be set by a "market quotation" methodology, unless we deem an alternate methodology appropriate.

B. Interest Rate Swap Counterparties

1. Credit Criteria

Qualified swap counterparties or their credit support providers will

generally be those having a credit rating of: (i) at least "Aa3" or "AA-" by at least one of the three nationally recognized rating agencies identified in this policy and not rated lower than "A2" or "A" by any of the nationally recognized rating agencies, or (ii) have a special purpose subsidiary with a triple-A credit rating by at least one nationally recognized credit rating agency. The nationally recognized rating agencies are Moody's Investors Services, Inc., Standard & Poor's and Fitch Ratings.

For lower rated counterparties whose highest rating from any of the three nationally recognized firms is below "AA-" or "Aa3", additional credit enhancement will be requested in the form of:

i. Contingent credit support or enhancement;
ii. Collateral consistent with the policies contained herein;
iii. Ratings downgrade triggers;
iv. Guaranty of parent, if any.

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

2. Counterparty Termination Exposure

In order to diversify counterparty credit risk and limit credit exposure to any one counterparty, we will compute the "Maximum Net Termination Exposure" prior to executing a swap.

"Maximum Net Termination Exposure" is the aggregate termination payment for all existing and projected swap transactions that would be paid by or received from a specific counterparty, parent or guarantor. For purposes of this calculation, the aggregate termination payment is equal to: (i) the termination payment based on the market value of all existing swaps as of the first business day of the month prior to the execution of any proposed transaction, plus (ii) the expected worst-case termination payment of the proposed transaction. The expected worst-case termination payment shall be calculated assuming interest rates, as measured by the Bond Buyer Revenue Bond Index, increased (or decreased) by two standard deviations from the sample mean over the last 10 years.

The following chart provides the Maximum Net Termination Exposure to a swap counterparty based on the lowest credit rating assigned by any of the three nationally recognized rating agencies.

Credit Rating	Maximum Collateralized Exposure	Maximum Uncollateralized Exposure	Maximum Total Termination Exposure
AAA	Not applicable	$40 million	$40 million
AA	$30 million	$10 million	$40 million
Below AA	$30 million	None	$30 million

C. Term and Notional Amount

In connection with the issuance or carrying of bonds, the term of the swap agreement shall not extend beyond, but may be shorter than, the final maturity date of the related bonds. The total "net notional amount" of all swaps related to a bond issue should not exceed the amount of outstanding bonds, but may be less. The net notional amount shall not include any basis swaps or other swaps that have the economic purpose of reversing or modifying the economic impact of an existing swap, including, but not limited to, basis swaps that have the economic function of changing the floating rate under an existing swap from a LIBOR-based index to a SIFMA-based index. The net notional amount shall not include any such basis or other swaps regardless of whether they are entered into with the same or a different counterparty as the existing swap.

D. Collateral Requirements

Terms imposing collateral requirements will be based on each party's credit ratings and their respective credit support providers, if any, and will require collateralization or other forms of credit enhancements to secure any swap termination payment amount that exceeds the applicable collateral threshold. The minimum collateral requirements, including collateral thresholds, types of collateral and collateral valuation will be determined by an Authorized Signatory and may require either the swap provider or us to post collateral. Permitted collateral will consist of highly rated securities, surety bonds, letters of credit or other credit enhancement. The specific list of permitted collateral will be negotiated on a case by case basis with each swap provider. Collateral shall typically be held by a third party custodian or as otherwise mutually agreed upon.

Collateral will be required to be posted in accordance with the collateral threshold table in the credit support annex when the potential termination payment owed by the party exceeds the applicable threshold. Threshold guidelines applicable to the swap provider for various ratings levels are identified in the table below. Specific thresholds for each transaction shall be determined on a case-by-case basis. The Collateral Threshold Table for a swap provider should generally reflect the thresholds, categories and credit ratings levels shown below.

Collateral Threshold Table (guideline only)	
Credit Rating	**Threshold**
AAA	$40 million
AA+ to AA-	$10 million
A+ to A-	$5 million
Below A-	None

The collateral thresholds applicable to us on a specific swap transaction shall be determined by an Authorized Signatory on a case-by-case basis and shall generally be no worse than the collateral threshold values provided for the swap provider on the same transaction.

The market values for the swap and the collateral shall be determined at least monthly and more frequently if we determine it is in its best interest given the specific nature of the swap(s) and/or collateral security.

E. Security and Source of Repayment

Generally, the same security and source of repayment (pledged revenues) will secure the interest rate swaps as is used to secure the bonds that are hedged or carried by the swap, if any. The costs and benefits of subordinating the payments under the swap and/or termination payment shall be considered.

F. Cancellation Provisions

The benefit of incorporating the right to cancel the interest rate swap at no cost after a specified period of time, generally 5 to 10 years shall be evaluated. If the cancellation option is cost efficient relative to the cost of obtaining a bond call option for a similar starting period, it will be purchased. A cancellation provision mitigates some risks of the swap, by allowing a no-cost termination anytime after the exercise date.

G. Prohibited Interest Rate Swap Features

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

V. Evaluation and Management of Interest Rate Swap Risks

Prior to the execution of any swap transaction, but other than for transactions involving Administrative Actions, an evaluation of the proposed transaction and report of the findings shall be approved by the Board. Such a review shall

include the identification of the proposed benefit and potential risks. As part of this evaluation, the Maximum Net Termination Exposure to the proposed swap counterparty shall be calculated.

A. Evaluation Methodology

The following areas of potential risk for new and existing interest rate swaps shall be evaluated:

Type of Risk	Description	Evaluation Methodology
Basis risk	The mismatch between actual variable rate debt service and variable rate indices used to determine swap payments.	Review the current and historical differences between the swap variable rates and the bond variable rates to determine if there continues to be a high degree of correlation. Also assess the factors that could affect the correlation of the rates in the future.
Tax risk	The risk created by potential tax events that could affect the relationship of the swap index with the interest rate on our variable rate bonds.	Review of the tax events in proposed swap agreements and evaluation of the impact of potential changes in tax law and the relationship of the swap index with the interest rates on our variable rate bonds.
Counterparty risk	The failure of the counterparty to make required payments or otherwise comply with the terms of the swap agreement.	Monitor counterparty credit ratings each quarter, limit exposure levels to specific counterparties, establish collateralization thresholds and demand collateral in accordance with the terms of the credit support annex when thresholds are exceeded.
Termination risk	The risk that there will be a mandatory termination of the swap. A termination will almost always result in our either owing or being	Compute our termination exposure for all existing and proposed swaps at market value and also under an expected worst-case scenario.

Type of Risk	Description	Evaluation Methodology
	due to receive a termination payment.	Periodically update our contingency plan for swap terminations, specifying how we may fund or finance a termination payment and/or replace the hedge.
Rollover risk	The mismatch of the maturity of the swap and the maturity of the underlying bonds.	Determine, in accordance with the Debt Policy, the capacity to issue variable rate bonds that may be outstanding after the maturity of the swap.
Liquidity risk	The risk that liquidity is unavailable when needed for future renewals or that the price for the liquidity is unattractive at that time.	Use a bond structure that does not require liquidity support, otherwise evaluate the expected availability of liquidity support for hedged (swapped) and unhedged variable rate debt.
Credit risk	The occurrence of an event modifying the credit quality or credit rating of the swap provider or its credit support provider.	Monitor the ratings of swap providers, insurers, guarantors, and any other credit support providers.

1. Refunding Interest Rate Swaps

   For interest rate swaps that are used in combination with refunding bonds, we will use the refunding criteria identified in our Debt Policy.

2. Basis Swaps

   We may enter into "basis swaps" whereby we modify the economic impact of an existing swap. Such modifications would most typically be undertaken to improve the correlation of the payments to be received on the swap transaction with the payments to be made on the related bond transaction and may result in the modification of risk characteristics, and other changes that may include, but are not limited to, the modification of the rate paid on the swap from one variable rate index to a different variable rate index, from a taxable index to a tax-exempt index and vice versa, and from a variable rate to a fixed rate and vice versa. The notional

amount of the basis swap must relate to one or more specific outstanding bond issues. Basis swaps may be entered into with the same or a different counterparty as the existing swap which is being modified.

3. Options on Interest Rate Swaps

   We may sell an option to a counterparty that gives the counterparty the right to put us into an interest rate swap at a specified time in the future. This transaction, commonly known as a "swaption," would provide us with an upfront, non-refundable payment in exchange for selling the option.

   In the event a swaption is exercised by the provider, we would be obligated to enter into an interest rate swap and to issue variable rate bonds. Therefore, as part of the evaluation of a swaption, we will undertake all appropriate analysis as required by the Debt Policy and Interest Rate Swap Policy relating to the specific type of interest rate swap and bond issue that would be exercised under the option. In particular, for swaptions used as part of a bond refunding, we will evaluate, among other things, the estimated present value savings, tax risk, and cost of a cancellation option. Swaptions will generally only be considered for refunding transactions, and not for new money transactions due to the frequent shifts in funding and timing for capital projects.

B. Managing Interest Rate Swap Risks

1. Annual Report to the Board

   An annual evaluation of the risks associated with outstanding interest rate swaps will be presented in a written report to the Board. The evaluation shall be updated at least annually and submitted to the Board for approval. This evaluation will include the following information:

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

v. Information concerning any material event involving outstanding swap agreements, including a default by a swap counterparty, counterparty downgrade, or termination.

vi. An updated contingency plan to replace, or fund a termination payment in the event an outstanding swap is terminated.

vii. The status of any liquidity support used in connection with interest rate swaps, including the remaining term and current fee.

2. Contingency Plan for Mandatory Termination

Termination exposure of each swap and for the total swap termination payment exposure shall be calculated at least annually and a contingency plan prepared to either replace the swaps or fund the termination payments, if any, in the event one or more outstanding swaps are terminated. We shall additionally assess our ability to obtain replacement swaps and identify revenue sources to fund potential termination payments.

C. Terminating Interest Rate Swaps

1. Optional Termination

In consultation with our counsel, financial advisor and/or swap advisor, we may terminate a swap if it is determined that it is financially advantageous, or will further other policy objectives, such as management of exposure to swaps or variable rate debt.

2. Mandatory Termination

In the event a swap is terminated as a result of a termination event, such as a default or a decrease in credit rating of either the counterparty or us, we will evaluate whether it is financially advantageous to obtain a replacement swap, or, alternatively make or receive a termination payment and then remain unhedged.

In the event it is necessary to make a swap termination payment, we shall attempt to follow the process identified in its contingency plan for mandatory termination.

VI. Selecting and Procuring Interest Rate Swaps

A. Financing Team

The services of a nationally recognized municipal bond counsel firm, and qualified financial advisor and/or swap advisor will be utilized for all interest rate swap transactions.

B. Underwriter Selection

In the event bonds are issued in connection with interest rate swaps, the bonds will be priced in accordance with the guidelines set forth in the approved Debt Policy.

C. Counterparty Selection

A competitive bidding process will be utilized to select a swap counterparty and price a swap when we believe that this process will provide the best value for us. A negotiated process may be used to select a swap counterparty and price a swap when it is believed that market or competitive conditions justify such a process. The conditions under which a negotiated selection is best used are provided below.

i. Marketing of the swap will require complex explanations about the security for repayment or credit quality.
ii. Demand is weak among swap counterparties.
iii. Market timing is important, such as for refundings.
iv. Coordination of multiple components of the financing is required.
v. Participation from DBE / SBE firms is desired.
vi. The swap has non-standard features, such as being a forward starting swap.
vii. Bond or swap insurance is not available or not advisable under current market conditions.
viii. The par or notional amount for the transaction is significantly larger than a typical transaction for that market.

VII. Disclosure and Financial Reporting

Steps will be taken to ensure that there is full and complete disclosure of all interest rate swaps to the Board, to rating agencies, and in disclosure documents. Disclosure in marketing documents shall provide a clear summary of the special risks involved with swaps and any potential exposure to interest rate volatility or unusually large and rapid changes in market value. With respect to its financial statements, we will adhere to the guidelines for the financial reporting of interest rate swaps, as set forth by the Government Accounting Standards Board.

# # # #

Glossary of Terms

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

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

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

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

Downgrade A negative change in credit ratings.

Forward Starting Swap Interest rate swaps that start at some time in the future. Used to lock-in current interest rates.

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

Interest Rate Swap The exchange of a fixed interest rate and a floating interest rate between counterparties.

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

LIBOR The London Interbank Offer Rate. Used as an index to compute the variable rate on an interest rate swap.

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

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

Attachment D

ANNUAL REPORT

INTEREST RATE SWAPS

DECEMBER 2012

BACKGROUND

The Interest Rate Swap Policy requires a written Annual Report to the Board, which evaluates the risks associated with outstanding interest rates swaps.

This report is the 2012 Annual Report to the Board and addresses each of the evaluation criteria described in the Interest Rate Swap Policy.

OUTSTANDING INTEREST RATE SWAPS

i. A description of all outstanding interest rate swaps, including related bond series, types of swaps, rates paid and received, existing notional amounts, the average life and remaining term of each swap agreement, and the current termination value of all outstanding swaps.

As of December 31, 2012, we had four interest rate swaps remaining outstanding, which reflects the July 2012 termination of a swap with Goldman Sachs Mitsui Marine associated with the Prop C 2009-C bonds. Each of our swaps has been issued to hedge the interest cost on the underlying variable rate debt to approximate a fixed rate. We pay each counterparty an amount based on a fixed rate and receive an amount based on a variable rate index. The variable rate index is intended to closely approximate the variable interest rate we pay on the hedged bonds. All four of our remaining swaps use a variable rate index based on a percentage of the London Interbank Offer Rate, commonly referred to as "LIBOR." Each swap is further described later in this report.

Information on the associated bond series, type, rate paid, notional amount, average life, remaining term, and termination value for each of our outstanding interest rate swaps is provided in the table below.

SUMMARY OF OUTSTANDING INTEREST RATE SWAPS
AS OF JUNE 30, 2012
(DOLLARS IN MILLIONS)

BOND SERIES	TYPE	RATE PAID	COUNTERPARTY	NOTIONAL AMOUNT	AVG. LIFE	REMAINING TERM	TERM. VALUE
Prop C Series 2009-A	68% of LIBOR	3.454%	Wells Fargo Bank	$166.075	6.8 Years	11 years	$(8.833)
Prop C Series 2009-C*	68% of LIBOR	3.392%	Goldman Sachs Mitsui Marine	$89.625	10.6 Years	13 years	(4.682)
Gateway Series 2004	64% LIBOR+0.21%	3.501%	Bank of Montreal	$86.175	12.4 Years	15 years	(5.993)
Prop A Series 2008 A1&2	63% LIBOR+0.14%	3.373%	Bank of Montreal	$129.225	9.8 Years	19 years	(12.393)
Prop A Series 2008 A3&4	63% LIBOR+0.14%	3.358%	Deutsche Bank AG	$129.375	9.8 Years	19 years	(12.138)
TOTAL				**$600.475**			**$(44.040)**

*2009-C Bonds were refunded and the swap was terminated in July 2012.

ACTUAL VS. PROJECTED DEBT SERVICE

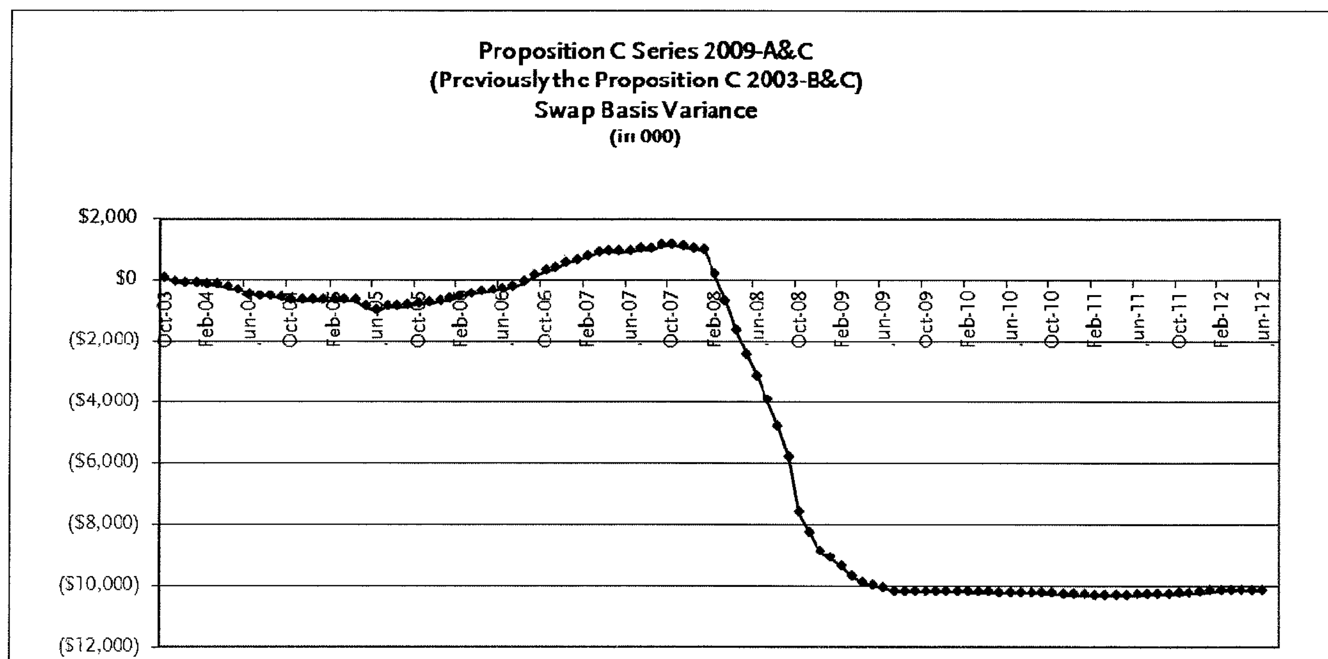
ii. Separately for each swap, the actual debt service requirements versus the projected debt service on the swap transaction; and for any swaps used as part of a refunding, the actual cumulative savings versus the projected savings at the time the swap was executed.

Beginning in February 2008, the interest rates we paid on our variable rate bonds were adversely affected by the sub-prime related problems our bond insurers experienced. The increased weekly interest rates on our Auction Rate Securities "ARS" and Variable Rate Demand Bonds "VRDBs" resulted in an increased cost that was not offset by our swaps. The previously favorable basis variances shown later on the graphs for each swap reflect the increased cost and reduced savings relative to the original refunding transactions. The negative cumulative basis variances represent decreased savings relative to the initial expectations for each of the initial refunding transactions in 2003, 2004 and 2005. All of our VRDBs have been restructured, resulting in much more favorable basis variance for each swap. The Gateway 2004 ARS were partially refunded with fixed rate bonds in July, 2010, and the associated swap was partially terminated by the same amount. Currently, our swaps are producing generally positive basis variance, which we anticipate should continue.

Proposition C Series 2009-A and Series 2009-C
We receive a payment from the counterparties (Wells Fargo Bank and Goldman Sachs Mitsui Marine Derivatives Products) equal to 68% of the one-month LIBOR rate.

As of June 29, 2012 the cumulative balance for the basis variance was an unfavorable $10.2 million, including the 2003-B and C bonds that were refunded by the 2009-A and C bonds. While the 2003-B and C refunding bonds were originally projected to have savings of $57 million on a cash basis and $39 million on a present value basis, the savings decreased by the $10.2 million in negative basis variance. Of the original 2003-B and C refunding bonds, only $165.6 million of 2009-A refunding bonds remain outstanding in variable rate mode.

In July 2012, the 2009-C variable rate bonds were refunded with fixed rate bonds and the associated swap was terminated. The Prop C 2009-C bonds refunded $89.6 million of the outstanding auction rate bonds with variable rate bonds. The remaining $112 million of outstanding Prop C 2003-C bonds were refunded with fixed rate bonds and that portion of the swap was terminated at that time. The chart below shows the history for the variance between swap receipts and bond interest paid.

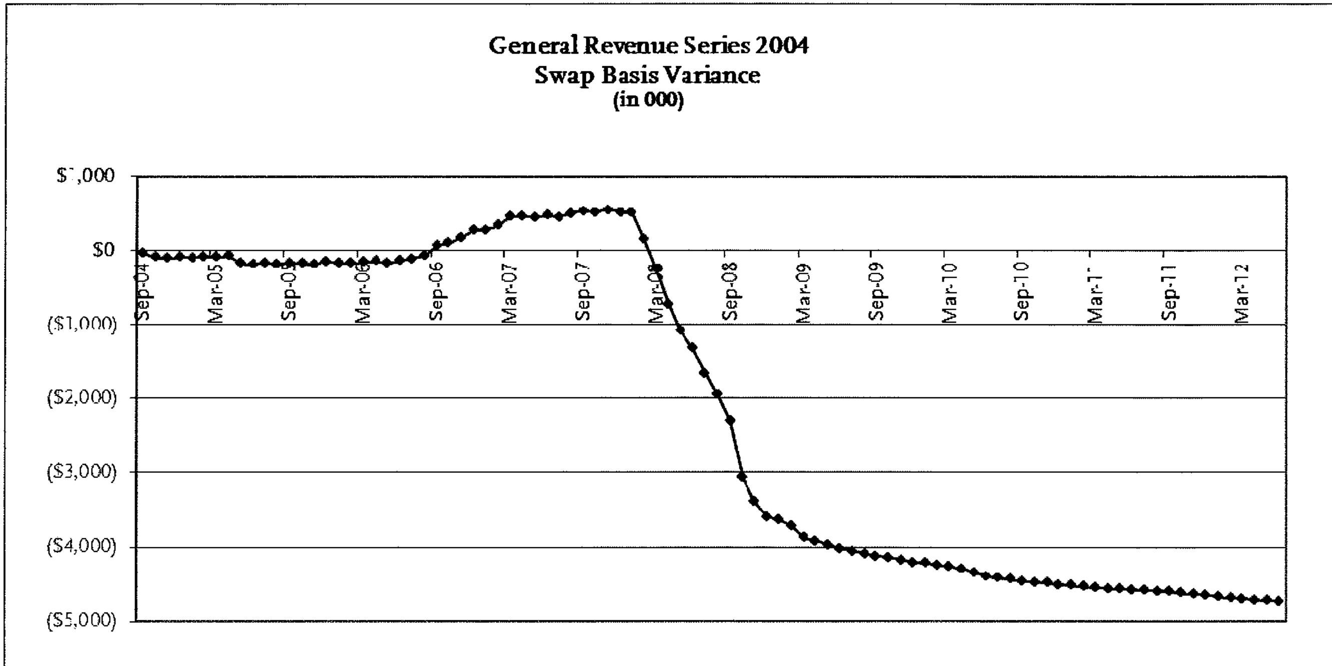


Gateway Series 2004

We receive a payment from the counterparty Bank of Montreal ("BMO") based on 64% of the one-month LIBOR plus 0.21 basis points.

The chart below shows the history for the variance between swap receipts and bond interest paid. The dramatic unfavorable shift in the swap basis variance is a result of the higher interest rates for the bond due to the significant credit ratings downgrades suffered by Ambac and a general shift of investors away from auction rate securities. Since the third quarter of 2008, the ARS have not been remarketed successfully, resulting in a rate set at 2.25x one-month LIBOR, compared to the swap variable rate set at 64% of one-month LIBOR plus 21 basis points. Following the refunding of $83.525 million of the 2004 Gateway Bonds in fiscal 2011, only $86.175 million of the ARS are outstanding as of June 30, 2012. Because of extremely low one-month LIBOR rates currently, the failed auction rate of 2.25x one-month LIBOR is very close to the swap variable rate.

As of June 30, 2012, the cumulative balance for the basis variance was an unfavorable $4.7 million, resulting in a decrease in projected savings of the Gateway Bond refunding. The savings from the Gateway refunding were originally projected to be more than $50 million on a cash basis and $29 million on a present value basis. Due to the fixed rate refunding of approximately half of the Gateway Bonds, and the unfavorable basis variance between the swap receipts and the interest paid on the bonds, actual cash savings to date are lower than originally projected, although still positive at $3.4 million, inclusive of the unfavorable variance.

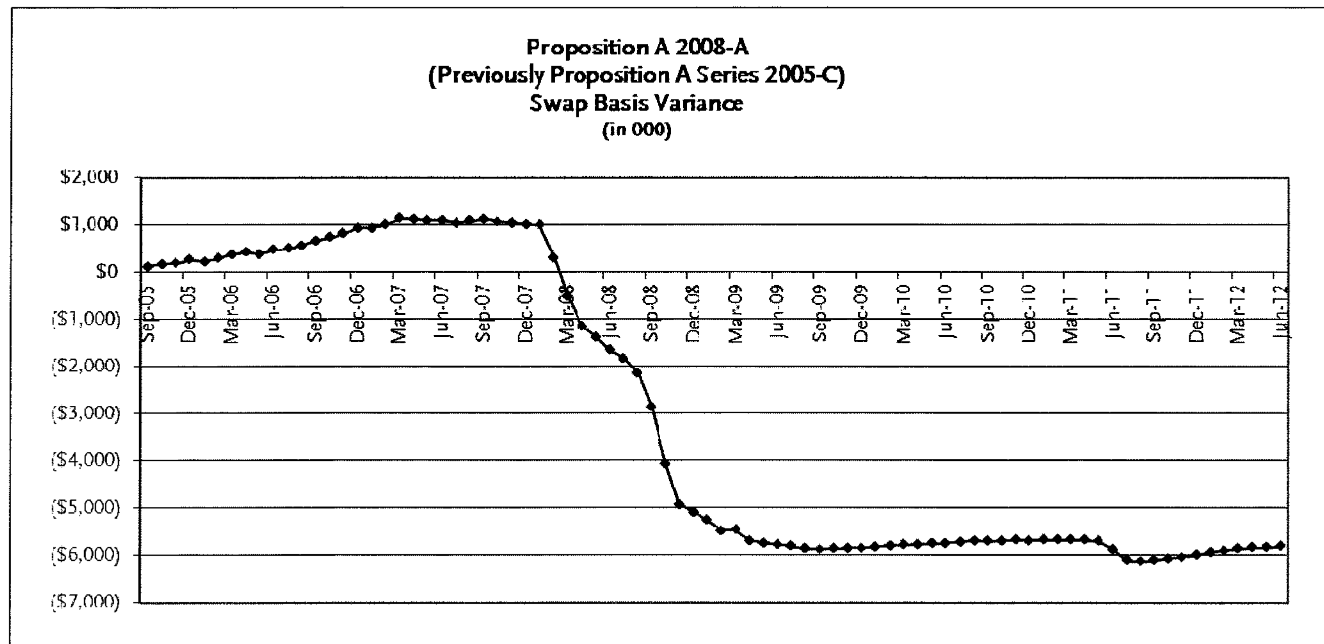


<u>Proposition A 2008-A (previously 2005-C)</u>

We receive a payment from the counterparties (BMO and Deutsche Bank AG - New York Branch) equal to 63% of the one-month LIBOR plus 14 basis points.

As of June 30, 2012 the balance for the basis variance was an unfavorable $5.8 million, resulting in a decrease in projected savings of the 2005-C refunding transaction by that amount. The savings from the 2005-C refunding were originally projected to be more than $46 million on a cash basis and $29 million on a present value basis. Due to the unfavorable basis variance between the swap receipts and the interest paid on the bonds, actual cash savings to date are lower than originally projected although still more than $7.1 million, inclusive of the unfavorable variance. The Prop A 2005-C bonds have been refunded with the Prop A 2008-A bonds and the swaps with BMO and Deutsche Bank AG are now associated with the Prop A 2008-A bonds.

The chart below shows the history for the variance between swap receipts and bond interest paid. The dramatic unfavorable shift in the swap basis variance was a result of the higher interest rates on the bonds beginning in 2008 when the auction rate market was severely disrupted.



COUNTERPARTY CREDIT RATINGS

iii. The credit rating of each swap counterparty, parent, guarantor, and credit enhancer insuring swap payments, if any.

The credit ratings for all our swap counterparties as of June 30, 2012, are shown in the table below. Deutsche Bank, Goldman Sachs Mitsui Marine and Wells Fargo Bank were all downgraded by Moody's since last year's Interest Rate Swap Annual Report and Wells Fargo Bank was downgraded by Standard & Poor's since June 30, 2011.

LONG TERM RATINGS
OUTSTANDING INTEREST RATE SWAPS
AS OF June 30, 2012

Counterparty	Associated Bond Issue(s)	Long Term Ratings	
		Moody's	S&P
Wells Fargo Bank	Proposition C Series 2009-A	Aa3	AA-
Goldman Sachs Mitsui Marine Derivative Prod.	Proposition C Series 2009-C	Aa2	AAA
Bank of Montreal	Gateway Series 2004	Aa2[1]	A+
	Proposition A Series 2008-A1&A2		
Deutsche Bank AG - New York Branch	Proposition A Series 2008-A3&A4	A2	A+

[1] Bank of Montreal was downgraded by Moody's on January 28, 2013, from Aa2 to Aa3.

COLLATERAL POSTING

iv. Actual collateral posting by swap counterparty, if any, per swap agreement and in total by swap counterparty.

As of December 31, 2012, we were required to post $1 million collateral with Bank of Montreal for the Prop A 2008-A1 and A-2 Bonds and $500,000 collateral with Wells Fargo for the Prop C 2009-A Bonds. No swap counterparties were required to post collateral related to any of the bonds.

MATERIAL EVENTS

v. Information concerning any material event involving outstanding swap agreements, including a default by a swap counterparty, counterparty downgrade, or termination.

1) Deutsche Bank's ratings were downgraded by Moody's from Aa3 to A2.
2) Wells Fargo Bank was downgraded by Moody's from Aa2 to Aa3 and by Standard & Poor's from AA to AA-.
3) Bank of Montreal was downgraded by Moody's from Aa2 to Aa3 on January 28, 2013.
4) Goldman Sachs Mitsui Marine was downgraded by Moody's from Aa1 to Aa2.
5) The swap with Goldman Sachs Mitsui Marine was terminated in July 2012, in conjunction with the fixed rate refunding of the Prop C 2009-C variable rate bonds.

CONTINGENCY PLAN

vi. An updated contingency plan to replace, or fund a termination payment in the event an outstanding swap is terminated.

We will review each of the outstanding swaps annually and determine the market value (the estimated termination payment) of each. In the event we must consider a swap termination as a result of a downgrade or other credit event of the swap counterparty, an attempt will be made to replace the counterparty in accordance with the terms of the existing swap.

In the event that the existing swap counterparty cannot be replaced, or as a result of a downgrade or other credit event affecting us, a refinancing of the terminated interest rate swap with unhedged variable rate bonds or fixed rate bonds will be attempted. We currently maintain sufficient debt capacity and tax-exempt bond market access to refinance the outstanding swaps and pay for the estimated termination value.

STATUS OF LIQUIDITY SUPPORT

vii. The status of any liquidity support used in connection with interest rate swaps, including the remaining term and current fee.

In July 2012, we refunded the Prop C 2009-C Bonds with fixed rate bonds, terminating the swap with Goldman Sachs Mitsui at the same time. The fixed rate refunding eliminated the need for $90 million of liquidity. As of November 26, 2012, we require $423 million of liquidity facilities for the two outstanding variable rate bond issues. The expiring liquidity facilities for the Prop A 2008-A variable rate bonds were replaced in August, 2011, with a new standby bond purchase agreement with Bank of America and two variable rate direct purchase agreements, with RBC and Sumitomo Mitsui, each for a three year term. The liquidity facility for the Prop C 2009-A variable rate bonds expired in March, 2012 and was replaced with a standby bond purchase agreement with Mizuho and a variable rate direct purchase agreement with US Bank, both with three year terms. While credit markets have been much more volatile since 2008, the fees and duration of liquidity have improved over the last year, offset by high demand for expiring facilities throughout the market. We will continue to review options for liquidity replacement including direct purchases by banks and index notes as well as refunding of the bonds with fixed rate debt when economically advantageous.