CENTRAL TEXAS REGIONAL
MOBILITY AUTHORITY

March 27, 2019
AGENDA ITEM #9

Approve financial institutions and qualified brokers authorized to provide investment services and engage in investment transactions with the Mobility Authority and reaffirm the CTRMA investment policy

Strategic Plan Relevance:	Regional Mobility
Department:	Finance
Contact:	Bill Chapman, Chief Financial Officer
Associated Costs:	N/A
Funding Source:	N/A
Action Requested:	Consider and act on draft resolution

Summary:

Texas Government Code §2256.005(e) requires the Board to, at least annually, review and either revise or reaffirm the Mobility Authority investment policy and strategy. The investment policy and strategy is located in Article 5 of Chapter 2 of the Mobility Authority Policy Code. This code establishes that "it is the policy of the authority to invest public funds in a manner which will provide the maximum security with the highest investment return while meeting the daily cash flow demands of the authority conforming to all state and local statutes governing investment of public funds". A copy of the current investment policy and strategy is included in the backup materials. No amendments are recommended with this review. Therefore, staff recommends affirming the current CTRMA Investment policy.

Texas Government Code §2256.025 and Mobility Authority Policy Code §201.011 require the Board to annually review and approve the financial institutions and qualified brokers authorized to provide investment services and engage in investment transactions with the Mobility Authority. The recommended list of authorized financial institutions and investment brokers is included in the backup materials.

Backup provided: Draft Resolution
List of authorized financial institutions and investment brokers
CTRMA Investment Policy

GENERAL MEETING OF THE BOARD OF DIRECTORS
OF THE
CENTRAL TEXAS REGIONAL MOBILITY AUTHORITY

RESOLUTION NO. 19-0XX

APPROVING FINANCIAL INSTITUTIONS AND QUALIFIED BROKERS AUTHORIZED TO PROVIDE INVESTMENT SERVICES AND ENGAGE IN INVESTMENT TRANSACTIONS WITH THE MOBILITY AUTHORITY.

WHEREAS, pursuant to Texas Government Code §2256.005(e), the Board is required to review the Mobility Authority's investment policy and investment strategy annually and record any changes made to either the investment policy or investment strategy; and

WHEREAS, Article 5 of Chapter 2 of the Mobility Authority Policy Code establishes the Mobility Authority's investment policy and strategy in compliance with the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code; and

WHEREAS, the Board has reviewed the Mobility Authority's current investment policy and strategy set forth in Article 5 of Chapter 2 of the Mobility Authority Policy Code and finds that there have been no changes to either the policy or strategy; and

WHEREAS, pursuant to Texas Government Code §2256.025, the Board is required to review and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Mobility Authority; and

WHEREAS, Section 201.011(a) of the Mobility Authority Policy Code provides that "financial institutions and qualified brokers authorized to provide investment services and engage in investment transactions with the authority" shall be approved by a separate resolution adopted by the Board of Directors; and

WHEREAS, the Executive Director and Chief Financial Officer recommend that the Board approve the financial institutions and qualified brokers listed on Exhibit A to this resolution.

NOW, THEREFORE, BE IT RESOLVED that Board accepts and approves the current investment policy and strategy set forth in Article 5 of Chapter 2 of the Mobility Authority Policy Code; and

BE IT FURTHER RESOLVED, that the firms listed on Exhibit A to this resolution are hereby authorized to provide investment services and engage in investment transactions with the Mobility Authority.

Adopted by the Board of Directors of the Central Texas Regional Mobility Authority on the 27th day of March 2019.

Submitted and reviewed by:

_____
Geoff Petrov, General Counsel

Approved:

_____
Ray A. Wilkerson
Chairman, Board of Directors

Exhibit A

Authorized Investment Broker Dealers and Financial Institutions

Alamo Capital (Wes Hall)
201 N. Civic Dr, Suite 145
Walnut Creek, CA 94596

Cantor Fitzgerald (Gilbert Ramon)
1700 Post Oak Blvd, 2 BLVD Place, Suite 250
Austin, TX 78701

FTN Financial Capital Markets (John Saragusa)
206 Wild Basin Road, Suite 109
Austin, Texas 78746

Ladenburg Thalmann & Co. (Steve Neri)
2020 Main Street, Suite 650
Irvine, California 92614

Multi-Bank Securities, Inc. (Mack MacReynolds)
1000 Town Center #2300
Southfield, MI 48075

Oppenheimer & Co. Inc. (Paul Sullivan/Chris Sullivan)
85 Broad Street, 22nd Floor
New York, NY 10004

Rice Financial Products company (Jared Fragin)
55 Broad Street, 27th Floor
New York, NY 10004

Vining Sparks IBG, L.P. (Josh Gorham)
775 Ridge Lake Boulevard
Memphis, TN 38120

Chapter 2: FINANCES

Article 5. INVESTMENT POLICY AND STRATEGY

201.001 Overview

This article is adopted and intended to comply with the Texas Public Funds Investment Act, Chapter 2256, Government Code, as that act may be amended from time to time (the "PFIA"). It is the policy of the authority to invest public funds in a manner which will provide the maximum security with the highest investment return while meeting the daily cash flow demands of the authority conforming to all state and local statutes governing the investment of public funds. The authority's Investment Policy and Strategy is approved by the board and is adopted to provide investment policy and strategy guidelines for use by authority staff and its advisors.

201.002 Scope

This article applies to all investment activities of authority funds except those subject to other investment covenants, or excluded by contract. All funds covered by this article shall be invested in accordance with the PFIA. These funds are accounted for in the authority's annual financial report and include:

(1) Revenue Fund

(2) Rebate Fund

(3) Operating Funds

(4) Debt Service Funds

(5) Debt Service Reserve Funds

(6) Renewal and Replacement Fund

(7) General Fund

(8) Capital Projects Funds

201.003 Objectives

The primary objectives, in priority order, of investment activities shall be:

(1) Safety: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective shall be to mitigate credit risk and interest rate risk.

(2) Credit Risk: Credit risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

(3) Limiting investments to the safest types of securities; as listed in Section 201.014.

(4) Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the authority will do business; and,

(5) Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

(6) Interest Rate Risk: Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

(7) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing projects, thereby avoiding the need to sell securities on the open market prior to maturity; and,

(8) By investing operating funds primarily in shorter-term securities, money market mutual funds or similar investment pools and limiting the average maturity of the portfolio in accordance with Section 201.009.

(9) Liquidity: The investment portfolio shall remain sufficiently liquid to meet all project and operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.

(10) Yield: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall be held to maturity with the following exceptions:

(11) A declining credit security could be sold early to minimize loss of principal;

(12) A security swap would improve the quality, yield, or target duration in the portfolio; or,

(13) Liquidity needs of the portfolio require that the security be sold.

(14) Public Trust: Participants in the authority's investment process shall act responsibly as public trust custodians. Investment Officers shall avoid transactions which might impair public confidence in the authority's ability to manage effectively.

201.004 Standards Of Care

(a) Prudence: The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. An Investment Officer acting in accordance with the Investment Policy and Strategy and written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

(b) Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

201.005 Ethics and Conflicts

(a) Investment Officers shall refrain from personal business activity that could conflict with or be perceived to conflict with the proper execution and management of the investment program, or that could impair their ability to make an impartial decision. An Investment Officer shall refrain from undertaking personal investment transactions with an individual person with whom business is conducted on behalf of the authority.

(b) For purposes of this section, an investment officer has a personal business relationship with a business organization if:

(1) the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization;

(2) funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or

(3) the investment officer has acquired from the business organization during the previous year investments with a book value of $2,500 or more for the personal account of the investment officer.

(c) An Investment Officer shall file with the Texas Ethics Commission and with the board a statement disclosing the existence of the relationship if the Investment Officer:

(1) has a personal business relationship with a business organization offering to engage in an investment transaction with the authority; or

(2) is related within the second degree by affinity or consanguinity, as determined under Chapter 573, Government Code, to an individual seeking to sell an investment to the authority.

201.006 Designation of Investment Officer

The chief financial officer and controller are designated and shall act as the Investment Officers of the authority and shall have responsibility for managing the authority's investment program. Additional authority personnel may also be designated as an Investment Officer with approval of the board. Written operational and investment procedures consistent with this chapter shall be established. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this chapter and the established procedures.

201.007 Investment Advisor

The board may select an Investment Advisor to advise the authority on investment of funds and other responsibilities as outlined in this article including but not limited to broker compliance, security selection, competitive bidding, reporting and security documentation. The Investment Advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940 as well as with the Texas State Securities Board.

201.008 Required Training

The chief financial officer and controller and any other person designated by resolution of the board as an Investment Officer shall attend at least one training session relating to the responsibilities of maintaining the investment portfolio within 12 months after taking office or assuming duties; and shall attend a training session not less than once every two years and receive not less than ten hours of training. Such training, from an independent source, shall include education in investment controls, security risks, strategy risks, market risks, and compliance with the PFIA. Training required by this section shall be from an independent source certified to provide training required by the PFIA and approved or endorsed by the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments.

201.009 Investment Strategies

(a) The authority's investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

(b) Market Yield Benchmark: The authority's investment strategy is conservative. Given this strategy, the basis used by the chief financial officer to determine whether minimum market yields

are being achieved shall be the six month T-bill rate. Investment Officers and Investment Advisors shall strive to safely exceed minimum market yield within policy and market constraints.

(c) Maximum Maturities: To the extent possible, the authority will attempt to match its individual investments with anticipated cash flow requirements of each fund. However, in no instance shall the maximum stated maturity of an individual investment exceed five years, unless approved by the board.

201.010 Diversification

The authority will seek to diversify investments, by security types and maturity dates in order to avoid incurring unreasonable risks.

201.011 Authorized Financial Institutions and Qualified Brokers

(a) The board shall approve by separate resolution the financial institutions and qualified brokers authorized to provide investment services and engage in investment transactions with the authority. These may include "primary" brokers or regional brokers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

(b) Each security broker who desires to become qualified and authorized under this section to engage in investment transactions with the authority must supply the chief financial officer with the following:

(1) Audited financial statements;

(2) Proof of National Association of Securities Dealers (NASD) certification;

(3) Proof of state registration;

(4) The completed security broker/dealer questionnaire in the form approved by the board in a separate resolution; and,

(5) A written certification relating to this Investment Policy and Strategy signed by a qualified representative of the firm in the form approved by the board in a separate resolution. The authority will not enter into an investment transaction with a security broker/dealer prior to receiving this written certification and acknowledgement.

(c) A current audited financial statement is required to be on file for each financial institution and broker in which the authority invests. An annual review of the financial condition and registrations of qualified brokers will be conducted by the executive director.

(d) In accordance with state law, the authority requires all funds held by financial institutions above the Federal Deposit Insurance Corporation (FDIC) insurance limit to be collateralized with securities whose market value is pledged at 102% of principal and accrued interest by that institution

with the authority's custodial bank. Private insurance coverage is not an acceptable collateralization form. Securities which are acceptable for collateralization purposes are as follows:

(1) FDIC insurance coverage.

(2) A bond bill, certificate of indebtedness, or Treasury note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States (i.e. Treasury Agency issues).

(3) Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.

(4) A bond of the State of Texas or a country, city or other political subdivision of the State of Texas having been rated as investment grade by a nationally recognized rating agency with a remaining maturity of ten years or less.

201.012 Custody - Delivery vs. Payment

All security transactions entered into by the authority shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by the authority's custodial bank and evidenced by safekeeping receipts.

201.013 Safekeeping of Securities

(a) Securities purchased for the authority's portfolios will be delivered in book entry form and will be held in third party safekeeping by a Federal Reserve member financial institution designated as the authority's safekeeping and custodian bank.

(b) The authority will execute Safekeeping Agreements prior to utilizing the custodian's safekeeping services. The safekeeping agreement must provide that the safekeeping agent will immediately record and promptly issue and deliver a safekeeping receipt showing the receipt and the identification of the security, as well as the authority's interest. All securities owned by the authority will be held in a Customer Account naming the authority as the customer.

(c) The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards no. 70 or SAS 70).

201.014 Authorized And Suitable Investments

(a) The investment of authority funds will be made using only those investment types approved by the board and which are in accordance with the PFIA. The approved investment types will be limited to the following:

(1) U.S. Treasury and Federal Agency Issues.

(2) Certificates of Deposit as authorized under Section 2256.010 of the PFIA.

(3) Repurchase Agreements, including flexible Repurchase Agreements, collateralized by U.S. Treasury or Federal Agency Securities whose market value is 102% of the authority's investment and are pledged and held with the authority's custodial bank or a third-party safekeeping agent approved by the authority. Repurchase agreements must also be secured in accordance with State law. Each counter party to a repurchase transaction is required to sign a copy of an Investment Repurchase Agreement under the guidelines of Section 2256.011 of the PFIA, using the Bond Market Association Public Securities Association Master Repurchase Agreement as a general guide and with such changes thereto as are deemed in the best interest of the authority. Such an Agreement must be executed prior to entering into any transaction with a repo counter-party.

(4) Guaranteed Investment Contracts (GIC's) collateralized by U.S. Treasury or Federal Agency Securities whose market value is 102% of the authority's investment and are pledged and held with the authority's custodial bank or a third-party safekeeping agent approved by the authority. Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested for a term which exceeds five years from the date of bond issuance.

(5) Obligations of states, agencies, counties, cities, and other political subdivisions of any State having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "AA" or its equivalent, with fixed interest rates and fixed maturities.

(6) SEC registered no-load money market mutual funds with a dollar weighted average portfolio maturity of 90 days or less; that fully invest dollar for dollar all authority funds without sales commissions or loads; and whose investment objectives include the maintenance of a stable net asset value of $1 per share

(7) Local government investment pools, which are "AAA" rated by a nationally recognized bond rating company (e.g., Moody's, S&P, Fitch), and which participation in any particular investment pool(s) has been authorized by resolution of the board, not to exceed 80% of the total investment portfolio less bond funds. Bond funds may be invested at 100%.

(b) The authority is prohibited from purchasing any security that is not authorized by Texas law, or any direct investment in asset-backed or mortgage-backed securities. The authority expressly prohibits the purchase of inverse floaters, interest-only (IO) and principal-only (PO) collateralized mortgage obligations (CMO's).

(c) An Investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. The Investment Officers shall monitor the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. The authority shall take all prudent measures

that are consistent with its Investment Policy and Strategy to liquidate an investment that does not have the minimum rating.

201.015 Reporting and Review

(a) Quarterly Report Requirements: The Investment Officers shall jointly prepare, no less than on a quarterly basis, an investment report, including a summary that provides a clear picture of the status of the current investment portfolio and transactions made after the ending period of the most recent investment report. The report shall be provided to the board and the executive director. The report shall comply with requirements of the PFIA and shall include the following:

(1) The investment position of the authority on the date of the report.

(2) The signature of each Investment Officer.

(3) Summary for each fund stating:

(A) Beginning market value;

(B) Ending market value.

(4) Beginning and ending book value and market value for each investment along with fully accrued interest for the reporting period.

(5) Maturity date of each investment.

(6) Description of the account or fund for which the investments were made.

(7) Statement that the investment portfolio is in compliance with the authority's Investment Policy and Strategy.

(b) Security Pricing: Current market value of securities may be obtained by independent market pricing sources including, but not limited to, the Wall Street Journal, broker dealers and banks other than those who originally sold the security to the authority as well as the authority's safekeeping agent.

(c) Annual Audit: If the authority places funds in any investment other than registered investment pools or accounts offered by its depository bank, the above reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Executive Committee. In addition, the authority's external auditors shall conduct a compliance audit of management controls on investments and adherence to the Investment Policy and Strategy.

201.016 Current Investments Exempted from Policy

Any investment currently held that does not meet the guidelines of this article or subsequent amended versions shall be exempted from the requirements of this article. At maturity or liquidation, such

monies shall be reinvested only as provided by this article.

201.017 Annual Review

The authority shall review and approve the Investment Policy and Strategy annually. This review shall be conducted by the board with recommendations from the executive director. Any approved amendments shall be promptly incorporated into written policy.

Article 6. SWAP POLICY

201.018 Purpose

Interest rate swap transactions can be an integral part of the authority's asset/liability and debt management strategy. By utilizing interest rate swaps, the authority can expeditiously take advantage of market opportunities to reduce costs. Interest rate swaps will allow the authority to actively manage asset and liability interest rate risk, balance financial risk, and achieve debt management goals and objectives through synthetic fixed rate and variable rate financing structures. The authority shall not enter into interest rate swaps for speculative purposes.

201.019 Authorization

(a) By recommendation of the Executive Committee of the board (the "Executive Committee"), approval to execute an interest rate swap on behalf of the authority will be authorized by a resolution passed by the board on a case-by-case basis.

(b) Each swap resolution will authorize the swap agreement and its provisions to include, notional amount, security, payment, and certain other terms in regards to the swap agreement between the authority and qualified swap counterparties ("Counterparties"), and other necessary documents. Each swap resolution shall specify the appropriate authority officials authorized to make modifications to the swaps contemplated, within certain parameters. In the event of a conflict between a swap resolution and the Master Swap Policy, the terms and conditions of the swap resolution shall control.

(c) Such actions of the authority will be taken pursuant to applicable provisions of the Government Code, whereby the authority must make a finding and determine that it is prudent and advisable for the authority to enter into interest rate swap agreements or other such arrangements from time to time based on certain terms and conditions set forth in the swap resolution and this article.

201.020 General Guidelines for Interest Rate Swap Agreements

The following non-exclusive list provides certain guidelines the Executive Committee will follow in the evaluation and recommendation of interest rate swap transactions:

(1) Legality: The Executive Committee must first determine, or have determined by appropriate legal counsel, that the proposed contract fits within the legal constraints imposed by state laws, authority resolutions, and existing indentures and other contracts.

(2) Goals: In the authorizing resolution, the authority must clearly state the goals to be achieved through the swap contract and must adopt execution parameters consistent with the goals.

(3) Rating Agencies: The swap agreement being entered into will not have an adverse impact on any existing authority credit rating. In addition to the legal constraints as noted above, the swap agreement will conform to outstanding commitments with bond insurers, credit enhancers, and surety providers. Where possible, the authority shall obtain confirmation on the underlying ratings of the revenue source obligated under the swap agreement. All swap agreements must be discussed with the rating agencies prior to execution, and cannot be executed if doing so would impact negatively on the authority' s credit ratings.

(4) Term: The authority shall determine the appropriate term for an interest rate swap agreement on a case-by-case basis. However, in no circumstance may the term of a swap agreement entered into for liability management purposes between the authority and a qualified swap Counterparty extend beyond the final maturity date of the underlying debt of the authority, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds.

(5) Impact on Variable Rate Capacity: The impact of the swap agreement on the authority's variable rate capacity must be quantified prior to execution so as not to hinder the authority's ability to continue the issuance of traditional variable rate products such as commercial paper which is used to fund capital projects.

(6) Enhancements: The authority may utilize other swap enhancement products such as forward swaps, swap options, basis swaps, caps, floors, collars, cancellation options, etc. Utilization and consideration of each of these products will be part of the approval process per swap agreement as detailed in Section 201.024. The costs, benefits, and other considerations regarding the enhancement will be explained to board as a part of the approval process. In the case of swap options in which the authority would receive up-front cash, the authority will not enter into any such swap agreements.

(7) Bond Covenants: The implementation of derivative products or interest rate swaps will not conflict with existing bond covenants and debt policies. The derivative product will also not

contain terms that would cause restrictions on additional bond test and protective covenants of outstanding bonds or create cross defaults.

(8) Accounting Compliance: The impact of compliance with GASB Technical Bulletin No. 2003-1 shall be disclosed in the authority's annual financial reports.

(9) Staffing: The authority shall maintain appropriate staff with responsibility and knowledge suitable for monitoring swap transactions. Before entering into a swap, the accounting impact of the swap on the authority must be determined.

(10) Exit Strategy: The mechanics for determining termination values at various times and upon various occurrences must be explicit in the swap agreement, and the authority should obtain estimates from its financial advisor and swap advisor of the potential termination costs which might occur under various interest rate scenarios, and plan for how such costs would be funded.

201.021 Basis of Award

(a) Competitive Bid: Competitively bid transactions will be deemed "quasi-competitive" and will include not fewer than three firms. The Executive Committee will recommend to the board the method of sale and which firms will participate in the competitive transaction based on criteria described in Section 201.023. However, for a competitive bid, in situations in which the authority would like to a reward a particular firm or firms, or wishes to achieve diversification of its Counterparty exposure, the Executive Committee may select one of the following bases for award:

(1) Allow the firm or firms not submitting the best bid to amend its bid to match the best bid, and by doing so, be awarded up to a specific percentage of the transaction.

(2) To encourage competition, the second and third place bidders may be allowed to contract for a specific amount of the notional amount as long as their bid is no greater than a pre-specified spread from the best bidder in a proportional manner as specified in bidding parameters.

(3) The authority may award the transaction to a firm or firms that submit the best bid as defined in the solicitation for bid.

(b) Negotiated Transactions: In the case of a pure negotiated transaction, the authority shall rely on its swap advisor to negotiate the price and render a "fair value opinion." The Counterparty shall disclose payments to third parties regarding the execution of the derivative contract.

201.022 Management of Swap Transaction Risk

Certain risks will be created as the authority enters into various interest rates swap agreements with numerous swap counterparties. In order to manage the associated risks, guidelines and parameters for each risk category are as follows:

(1) Counterparty Risk: The risk of swap Counterparty default can be reduced by limiting swap agreements between the authority and any single swap Counterparty that qualifies as an eligible swap Counterparty to the authority as described in Section 201.023(a) and Section 201.023(c). In addition, the authority may require the posting of collateral by the swap Counterparty, with a mark-to-market as requested by the authority, in accordance with the guidelines described in Section 201.023(d).

(2) Termination Risk:

(A) Optional Termination: At a minimum, the authority shall have the right to optionally terminate a swap agreement at any time over the term of the agreement (elective termination right) at the then-prevailing market value of the swap (so long as a swap Counterparty receiving payment upon termination is not in default). In general, exercising the right to optionally terminate an agreement should produce a benefit to the authority, either through receipt of a payment from a termination, or if a termination payment is made by the authority, in conjunction with a conversion to a more beneficial (desirable) debt obligation of the authority as determined by the authority. Termination value shall be readily determinable by one or more independent swap counterparties, who may assume the swap obligations of the authority. A Counterparty to the authority shall not have the elective right to terminate the swap agreement except when a termination option has been priced into the terms of the swap at inception. The authority should explore the viability of a unilateral termination provision without being exposed to a termination payment.

(B) Mandatory Termination: A termination payment by the authority may be required in the event of termination of a swap agreement due to a Counterparty default or following a decrease in credit rating of the authority. In some circumstances, the defaulting party will be required to make a termination payment to the non-defaulting party. However, under certain circumstances, upon an event of termination, the non-defaulting party may be required to make a payment to the defaulting party. It is the intent of the authority not to make a termination payment to a Counterparty failing to meet its contractual obligations. At a minimum, prior to making any such termination payment, the authority shall require a suitable time period during which the authority may evaluate whether it is financially advantageous for the authority to obtain a replacement Counterparty to avoid making a termination payment. For example, in order to mitigate the financial impact of making such a payment, at the time such payment is due, the authority will seek to replace the terms of the terminated transaction with a new Counterparty and, as a result, receive value from the replacement Counterparty. The new or replacement Counterparty would make an upfront payment to the authority in an amount that would offset (either in whole or in part) the payment obligation of the authority to the original Counterparty. The market value of each swap agreement (including termination costs) will be calculated by the swap advisor and provided periodically as information to board in accordance with the

provisions of Section 201.027 to monitor the transaction's value and in order to implement an appropriate exit strategy in a timely manner, if required.

(3) Amortization Risk (Term): The slope of the swap curve, the marginal change in swap rates from year to year along the swap curve, termination value, and the impact that the term of the swap has on the overall exposure of the authority shall be considered in determining the appropriate term of any swap agreement. Any swap should reflect the amortization of the debt swapped against or will be in place for no longer than the period of time that matching assets are available to hedge the transaction.

(4) Liquidity Risk: The authority should consider if the swap market is sufficiently liquid (i.e., if enough potential qualified counterparties participate actively in the market to assure fair pricing) for the type of swap being considered and the potential ramifications of an illiquid market for such types of swaps. There may not be another appropriate party available to act as an offsetting Counterparty. The authority may enter into liquidity agreements with qualified liquidity providers and/or credit enhancers to protect against this risk.

(5) Basis (Index) Risk (including Tax Risk): Any index chosen as part of an interest rate swap agreement shall be a recognized market index, including but not limited to The Bond Market Association Municipal Swap Index (TBMA) or London Interbank Offering Rate (LIBOR). The authority shall not enter into swap agreements that do not have a direct (one to one) correlation with the movement of an index without analyzing the risk associated with the enhancement. Any Counterparty for a swap which relies on an index will agree to not lobby, or otherwise influence, any changes to the index that will adversely affect the authority. The tax risk and impact to the authority of each swap transaction shall be detailed through the Counterparty disclosure requirements outlined in Section 201.024.

(6) Bankruptcy Risk: Bond or swap counsel will disclose to the authority the bankruptcy risks and issues associated with the Counterparty and type of swap chosen. Additionally, bond or swap

counsel will disclose to the authority the bankruptcy issues associated with the method of collateral required to be posted.

201.023 Counterparty Approval Guidelines

(a) Eligibility: The authority shall enter into interest rate swap transactions only with Counterparties. To qualify as a Counterparty under this article, at the time of entry into a swap transaction, the selected swap provider(s):

(1) shall be rated at least AA-/Aa3/AA- by at least two of the three nationally recognized credit rating agencies (Standard & Poor's, Moody's, and Fitch Ratings, respectively) and shall have a minimum capitalization of $50 million, or

(2) shall be rated at least BBB-/lBaa3/BBB- by two of the three nationally recognized credit rating agencies and shall provide a credit support annex ("CSA"") to the schedule to the ISDA master agreement that shall require such party to deliver collateral for the benefit of the authority:

(A) that is of a kind and in such amounts as are specified therein and which relate to various rating threshold levels of the Counterparty or its guarantor, from AA-/Aa3/AA- through BBB/Baa3/BBB-, and

(B) that, in the judgment of the authority in consultation with its Financial Advisor, is reasonable and customary for similar transactions, taking into account all aspects of such transaction including without limitation the economic terms of such transaction and the creditworthiness of the Counterparty or, if applicable, its guarantor; or

(C) shall post suitable and adequate collatera1 (separate from any collateral requirements of Section 6.3) at a third party for the benefit of the authority; or

(3) shall obtain credit enhancement from a provider with respect to its obligations under the transaction that satisfies the requirements of subdivision (1) of this subsection, given the undertaking involved with the particular transaction.

(b) The authority shall not enter into an interest rate swap transaction with a firm that does not qualify as a Counterparty. The Counterparty must make available audited financial statements and rating reports of the Counterparty (and any guarantor), and must identify the amount and type of derivative exposure, and the net aggregate exposure to all parties (the authority and others), along with relevant credit reports at the time of entering into a swap and annually thereafter unless the entity or credit enhancer is under credit or regulatory review and in that case immediately upon notice by the appropriate agencies to the entity.

(c) Swap Counterparty Exposure Limits and Transfer: In order to limit and diversify the authority's Counterparty risk, and to monitor credit exposure to each Counterparty, the authority

may not enter into an interest rate swap agreement with a qualified swap Counterparty if the following exposure limits are reached per Counterparty:

(1) The maximum notional amount for interest rate swaps between a particular Counterparty (and its unconditional guarantor, if applicable) and the authority shall not exceed the maximum of $100 million. The $100 million limitation shall be the net exposure total of all notional amounts between each Counterparty and the authority. As such, notional amounts for fixed to floating swaps may be used to "offset" the notional amounts for floating to fixed swaps, or vice versa.

(2) Limitations on transfers of swaps with a particular Counterparty should be carefully analyzed and would require the authority's prior written consent. If the Counterparty unilaterally restricts transfer, then the authority should have the ability to terminate the swap without penalty if the swap is transferred or the Counterparty is merged with another entity that changes the credit profile of the swap Counterparty, unless the authority gives its prior written consent.

(3) If the maximum notional limit for a particular Counterparty is exceeded solely by reason of merger or acquisition involving two or more counterparties, the authority shall expeditiously analyze the exposure, but shall not be required to "unwind" existing swap transactions unless the authority determines such action is in its best interest, given all the facts and circumstances.

(4) If the exposure limit is breached by a Counterparty, then the authority shall:

(A) conduct a review .of the exposure limit calculation of the counterparty; and

(B) determine if collateral may be posted to satisfy the exposure limits; and

(C) enter into an offsetting swap transaction, if necessary.

(5) The authority will not enter into contracts with derivative product companies ("DPCs") that are classified as "terminating" or "Sub-T" DPC's by the rating agencies.

(d) Collateral Requirements: Collateral posting requirements between the authority and each swap Counterparty should not be unilateral in favor of the Counterparty. As part of the swap agreement,

the authority or the swap Counterparty may require that collateralization to secure any or all swap payment obligations be posted. Collateral requirements shall be subject to the following guidelines:

(1) Collateral requirements imposed on the authority should not be accepted to the extent they would impair the authority's existing operational flow of funds.

(2) Each Counterparty shall be required to provide a form of a Credit Support Annex should the credit rating of the Counterparty fall below the "A-/A3/A-" category by at least two of the nationally recognized agencies:

(3) A list of acceptable .securities that may be posted as collateral and the valuation of such collateral will.be determined and mutually agreed upon during negotiation of the swap agreement with each swap Counterparty.

(4) The market value of the collateral shall be determined on either a daily, weekly, or monthly basis by an independent third party, as provided in the swap documentation.

(5) Failure to meet collateral requirements will be a default pursuant to the terms of the swap agreement.

(6) The authority and each swap Counterparty may provide in the supporting documents to the swap agreement for reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter.

(7) The swap agreement may provide for the right of assignment by one of the parties in the event of certain credit rating events affecting the other party. The authority (or the Counterparty) shall first request that the Counterparty (or the authority) post credit support, or provide a credit support facility. If the Counterparty (or the authority) does not provide the required credit support, then the authority (or the Counterparty) shall have the right to assign the agreement to a third party acceptable to both parties and based on terms mutually acceptable to both parties. The credit rating thresholds to trigger an assignment shall be inc1uded in the supporting documents.

201.024 Form of Swap Agreements and Other Documentation

Each interest rate swap agreement shall contain terms and conditions as set forth in the International Swap & Derivatives Association, Inc. ("ISDA") Master Agreement and such other terms and conditions included in any schedules, confirmations, and credit support annexes as approved in accordance with the authority's swap resolution pertaining to that transaction. The swap Counterparty shall provide a disclosure memorandum that will include an analysis by the Counterparty of the risks and benefits of the transactions, with amounts quantified. This analysis should include, among other things, a matrix of maximum termination values over the life of the swap. The disclosure memorandum shall become a part of the official transcript for the transaction. The swap Counterparty shall also affirm receipt and understanding of the authority's statement of swap policies, and will

further affirm that the contemplated transactions fit within the swap policies as described.

201.025 Modification of Swaps

Each swap resolution should provide specific approval guidelines for the swap transactions to which it pertains. These guidelines should provide for modifications to the approved swap transactions, provided such modifications, unless considered and recommended by the Executive Committee, do not .extend the average life of the term of the swap, increase the overall risk to the authority resulting from the swap, or increase the notional amount of the swap. The swap resolution should further designate which authority officers shall be authorized to cause such modifications.

201.026 Aggregation of Swaps

Unless the swap resolution states otherwise, the approval requirements set forth in each swap resolution are applicable for the total notional amount of transactions executed over a consecutive three-month period for a given security or credit. Therefore, the notional amount of swap transactions including the average life of the swap agreements over a consecutive three-month period are considered in total (net of the notional amount of a swap reversal) to determine what approval is required pursuant to a particular swap resolution.

201.027 Reporting Requirements

The Executive Committee shall be required to report the status of all interest rate swap agreements to the board at least on an annual basis and shall present all footnote disclosure items required by GASB Technical Bulletin No. 2003-1.