

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

RESOLUTION NO. 04-69

WHEREAS, the Central Texas Regional Mobility Authority ("CTRMA") was created pursuant to the request of Travis and Williamson Counties and in accordance with provisions of the Transportation Code and the petition and approval process established in 46 Tex. Admin. Code § 26.01, *et. seq.* (the "RMA Rules"); and

WHEREAS, prudent fiscal management and oversight of financial transactions is the responsibility of the Board of Directors and its designees; and

WHEREAS, interest rate swap("swap") transactions could potential be an integral part of the CTRMA's asset/liability and debt management strategy; and

WHEREAS, "swap" transactions are one type of financial transaction which offer potential financial benefits in the course of managing CTRMA funds in connection with debt issuances; and

WHEREAS, swap transactions can also present financial risk if not evaluated, managed and controlled carefully and consummated only in compliance with specified guidelines; and

WHEREAS, the CTRMA Board of Directors desires to adopt a policy for swap transactions so as to minimize the potential risk associated therewith; and


WHEREAS, the CTRMA's Financial Advisor has developed and recommends the adoption of the Swap Policy, attached hereto as Exhibit "A", to achieve the Board's objectives of risk minimization in swap transactions;

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors approves the Swap Policy, attached hereto as Exhibit "A"; and

BE IT FURTHER RESOLVED, that this policies may be amended from time-to-time in accordance with the procedures set forth in the CTRMA Bylaws.

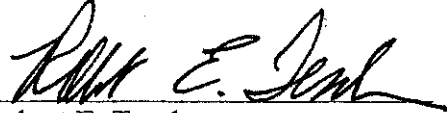
Adopted by the Board of Directors of the Central Texas Regional Mobility Authority on the 8th day of December, 2004.

Submitted and reviewed by:



C. Brian Cassidy
General Counsel for the Central
Texas Regional Mobility Authority

Approved:



Robert E. Tesch
Chairman, Board of Directors
Resolution Number 04-69
Date Passed 12/08/04



Central Texas Regional Mobility Authority MASTER SWAP POLICY

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1. Authority

By recommendation of the Executive Committee of the Board of Directors (the "Executive Committee"), approval to execute an interest rate swap on behalf on the Central Texas Regional Mobility Authority (the "Authority") will be authorized by a resolution passed by the Board of the Authority on a case-by-case basis.

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.

Such actions of the Authority will be taken pursuant applicable Texas 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 Master Swap Policy.

2. 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.

3. 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:

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3.1. 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.

3.2. 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.

3.3. 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.

3.4. 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.

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3.5. 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.

3.6. 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 7 – Form of Swap Agreements and Other Documentation. The costs, benefits, and other considerations regarding the enhancement will be explained to Authority Board as a part of the approval process. In the case of swaptions in which the Authority would receive up-front cash, the Authority will not enter into any such swap agreements.

3.7. 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.

3.8. Accounting Compliance

The impact of compliance with GASB Technical Bulletin No. 2003-1 shall be disclosed in the Authority's annual financial reports.

3.9. 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.

3.10. 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.

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4. Basis of Award

4.1. 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 Authority Board the method of sale and which firms will participate in the competitive transaction based on criteria described in Section 6 - Counterparty Approval Guidelines. However, for a competitive bid, in situations in which the Authority would like to 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:

- 4.1.1. 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.
- 4.1.2. 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.
- 4.1.3. The Authority may award the transaction to a firm or firms that submit the best bid as defined in the solicitation for bid.

4.2. 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.

5. 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:

5.1. 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 6.1 – Eligibility and Section 6.2 – Swap Counterparty Exposure Limits and Transfer. In addition, the Authority may require the

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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 6.3 – Collateral Requirements.

5.2. Termination Risk

- 5.2.1. **Optional Termination:** At a minimum, the Authority shall have the right to optionally terminate a swap agreement at anytime 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.

- 5.2.2. **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.

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The market value of each swap agreement (including termination costs) will be calculated by the swap advisor and provided periodically as information to Authority Board in accordance with the provisions outlined in Section 8 - Reporting Requirements of this policy to monitor the transaction's value and in order to implement an appropriate exit strategy in a timely manner, if required.

5.3. 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.

5.4. 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.

5.5. 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 7 – Form of Swap Agreements and Other Documentation.

5.6. 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

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

6. Counterparty Approval Guidelines

6.1. Eligibility

The Authority shall enter into interest rate swap transactions only with Counterparties. To qualify as a Counterparty under this policy, at the time of entry into a swap transaction, the selected swap provider(s) (i) 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 (ii) shall be rated at least BBB-/Baa3/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 shall post suitable and adequate collateral (separate from any collateral requirements of Section 6.3) at a third party for the benefit of the Authority or; or (iii) shall obtain credit enhancement from a provider with respect to its obligations under the transaction that satisfies the requirements of clause (i) of this paragraph, given the undertaking involved with the particular transaction. 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.

6.2. 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:

- 6.2.1. 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
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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.

6.2.2. 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.

6.2.3. 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.

6.2.4. If the exposure limit is breached by a Counterparty, then the Authority shall:

6.2.4.1. Conduct a review of the exposure limit calculation of the counterparty;
and

6.2.4.2. Determine if collateral may be posted to satisfy the exposure limits;
and

6.2.4.3. Enter into an offsetting swap transaction, if necessary.

6.2.5. 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.

6.3. 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:

6.3.1. Collateral requirements imposed on the Authority should not be accepted to the extent they would impair the Authority’s existing operational flow of funds.

6.3.2. 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.

6.3.3. 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.

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- 6.3.4. 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.
- 6.3.5. Failure to meet collateral requirements will be a default pursuant to the terms of the swap agreement.
- 6.3.6. 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.
- 6.3.7. 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 included in the supporting documents.

7. 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.

7.1. 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.

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7.2. 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.

8. Reporting Requirements

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

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