COUNTY OF ALAMEDA

DEBT MANAGEMENT POLICY

August 2, 2016

Amended

TABLE OF CONTENTS

I. SCOPE AND PURPOSE

Objectives and Responsibilities

The purpose of the County of Alameda's Debt Management Policy (the "Debt Policy") is to establish parameters and guidelines for the issuance of debt, and to provide guidance to decision-makers regarding the appropriate use of debt and other repayment obligations of the County.

The Debt Policy is designed to meet certain key policy objectives, including:

- Provide guidelines for determining the appropriate use of debt financing to fund County projects;
- Maintain a moderate debt burden;
- Maintain strong Credit Ratings to ensure efficient access to the capital markets;
- Minimize the cost of capital;
- Maintain and manage a prudent level of financial risk;
- Ensure the full and timely repayment of debt; and
- Ensure timely and accurate disclosure to the market.

The debt management function is primarily the responsibility of the County Administrator, subject to the review of the County Administrator's Ad Hoc Finance Committee (the "Finance Committee"). The Finance Committee is composed of the Auditor-Controller, Treasurer-Tax Collector, County Counsel (or his or her designee), and two representatives from the County Administrator's office. Two members of the Board of Supervisors may also participate in the Finance Committee.

This Debt Policy is intended to guide County decision-makers in the issuance and administration of bonds and other forms of indebtedness, as well as any ancillary products, instruments, and agreements related to the issuance of debt.

Terms not otherwise defined herein are defined in the attached Exhibit A: Glossary of Terms.

Scope

The Debt Policy establishes parameters around which debt and other financial obligations of the County may be issued, including obligations of the County of Alameda and the Alameda County Joint Powers Authority, as well as obligations of the County issued through conduit issuers such as the Association of Bay Area Governments and the California Infrastructure and Economic Development Bank.

These policies should also be taken into account when considering the issuance of general obligation bonds, special assessment bonds or other land-secured financings, or any other self-

liquidating debt, as well as when considering the issuance of debt or other financing instruments for any other joint powers authority of which the County is a member, including but not limited to the Oakland-Alameda County Coliseum Authority.

The County may adopt supplemental policies related to financing instruments not currently used by the County, as needed.

Debt Policy Review and Approval Process

This Debt Policy is subject to periodic review and update, either as material changes in market conditions, best practices, or legal and/or regulatory requirements warrant such update, or in any event no less frequently than once every five years. The County Administrator will be responsible for preparing such updates, subject to the review of the Finance Committee and the approval of the Board of Supervisors.

II. CONDITIONS FOR DEBT ISSUANCE

Types and Purposes of Debt

Long-term Debt. Long-term debt may be incurred to finance the acquisition or improvement of land, facilities, or equipment, or for such other purposes that further the County's governmental purpose, as well as to pay the costs of issuing the debt, including Capitalized Interest, and any other reserves such as Debt Service Reserve Funds, if required. Such long-term debt typically takes the form of lease revenue bonds or certificates of participation ("COPs").

Reimbursement Debt. The County may also issue tax-exempt bonds which reimburse the County for prior expenditures originally paid from sources other than bond proceeds.

Pension Obligation Bonds. The County may also issue long-term debt in the form of Pension Obligation Bonds ("POBs") to fund the unfunded accrued actuarial liability ("UAAL") related to the County's participation in pension funds (currently including the Alameda County Employees' Retirement Association, or "ACERA"). POBs typically are issued as a taxable instrument whose amortization is tied to the amortization period of the outstanding UAAL. The purpose of the POB, its structure, and the use of the proceeds must go through a Validation Action process prior to the sale of the POBs. POBs are not subject to voter approval.

In California, municipal and county POBs have traditionally been issued under the local agency refunding law and considered valid without a vote under a judicially-created exception to the State Constitution: Article XVI, Section 18. Section 18 is a debt limitation exception referred to as "obligations imposed by law." As such, POBs are a general obligation of the County. The County may issue POBs if it is determined to be cost effective and in the best interest of the County.

Short-term Debt. The County may use short-term borrowings to provide interim financing such as through the issuance of Commercial Paper notes, bond anticipation notes, TRANs, lines of credit, or notes issued in anticipation of the receipt of certain grants. Short-term debt (other than TRANs) may be issued for any purpose for which long-term debt may be issued.

Refunding Transactions. The County will regularly review its outstanding debt portfolio to identify opportunities to achieve net economic benefits from a refunding. In general, the County shall achieve net present value ("NPV") savings of at least three percent (3%) of the refunded principal amount, by maturity refunded, subject to a number of considerations which include but are not limited to the following:

- *Advance Refundings* – Recognizing that under federal tax law, tax-exempt bonds may be advance refunded only once, and that under certain market conditions the refunding escrow may not be able to earn the allowable yield (i.e., there is Negative Arbitrage in the refunding escrow) and thus reduces savings that might otherwise be realized, a more restrictive savings target for Advance Refundings is warranted. For example, the County may consider an Advance Refunding if either: (a) the refunded maturity provides 3% NPV savings and Negative Arbitrage is less than 50% of the NPV savings, or (b) the refunded maturity provides at least 5% NPV savings, irrespective of the amount of Negative Arbitrage.

- *Favorable Debt Restructuring* – The County may also consider a refunding to achieve a favorable restructuring of debt, including but not limited to the retirement of an indenture for more desirable covenants, to change tax status, and/or to change the type of debt instrument.

- *Use of Derivative Products* – Should the County propose to make use of an Interest Rate Swap or other Derivative product in conjunction with the refunding of outstanding debt for savings, a higher NPV savings threshold is warranted to offset the higher risks associated with such products versus standard fixed rate debt instruments. While such transactions should be evaluated on a case-by-case basis to determine if the potential benefits of the Derivative transaction are sufficient to offset the potential costs, in general, the County should expect the use of any Derivative products to produce at least twice the NPV savings of a comparable Fixed Rate refunding which otherwise meets the County's refunding criteria. Thus, a Derivative product would have to yield at least 6% NPV savings versus the fixed rate bond refunding threshold of 3% NPV savings.

No Credit Guarantees. Under no circumstances will the County use its funds to guarantee the debt of a third party.

Approval of Debt Issuances

Recommendations for all debt issuances must be developed by the County Administrator, with review by the Finance Committee (with the exception of conduit financings such as those issued through the California Statewide Communities Development Authority or the Association of Bay Area Governments), and will be subject to the approval of the Board of Supervisors. The Board of Supervisors may approve transactions that deviate from the Debt Policy, if such transactions are deemed to be in the best interest of the County and upon the recommendation of the County Administrator and the review of the Finance Committee.

Certain types of transactions, such as POBs, may require a Validation Action by the Superior Court of California, County of Alameda. The County will not permit a preliminary official

statement or other offering document for a transaction for which a validation action has been sought to be posted and circulated prior to the expiration of the 30-day appeal period relating to any required validation action.

III. DEBT LIMITATIONS AND AFFORDABILITY

Limitation on General Fund-Supported Debt

The County's debt financing program shall be managed such that the annual aggregate Net Direct Debt Service obligations of the County will not exceed twenty percent (20%) of total discretionary General Fund revenues.

Debt Affordability and Capital Planning

In developing its annual comprehensive capital improvements program, the County will analyze the long-term borrowing needs of the County and the impact of any planned debt issuances on the long-term affordability of all outstanding debt as well as the impact on the County's capacity to incur future debt to fund new projects. For obligations payable from the General Fund, affordability in this context refers to the annual ratio of annual aggregate Net Direct Debt Service to discretionary General Fund revenues described above.

In general, the County will use long-term debt financing only for those projects that cannot be readily financed from current or dedicated revenue sources. The County will explore the use of special assessments, revenue bonds, general obligation bonds and/or any other available self-liquidating debt instruments in lieu of General Fund-backed obligations, whenever possible and appropriate.

IV. DEBT ISSUANCE PROCEDURES

Method of Sale

The County will determine the appropriate method of sale for its proposed obligations based on the unique circumstances of each transaction. In general, bonds and other obligations will be sold through one of three methods: competitive sale, negotiated sale, or private placement.

- *Competitive Sale* – A Competitive Sale is favored under certain circumstances: (1) market conditions are stable, both generally and with respect to the type of credit being offered; (2) the credit quality of the transaction is high and the credit is well-established; (3) the par amount of the transaction is of moderate size; and (4) the bonds have a conventional Fixed Rate structure. Under this approach, the County would solicit bids from Underwriters and select the Underwriter solely on the basis of the lowest True Interest Cost. The Underwriter would have no involvement in the structuring, documentation, or other matters during the transaction. Use of Competitive Sale will occur upon the recommendation of the Finance Committee and Board approval. Participation of MBE/WBE and SLEB firms in the competitive underwriting syndicate will be strongly encouraged unless prohibited by state or federal law.

- *Negotiated Sale* – In a Negotiated Sale, the County would select one or more Underwriters, using the process outlined in "Procurement of Professional Services" below, several months in advance of the planned sale of bonds. In a Negotiated Sale, the terms of the bonds are negotiated at the time of sale, including coupons, yields, and Takedowns, based on general market conditions, investor demand, and the book of orders for the bonds on the date of sale. Negotiated Sales are generally preferred when the size or structure of the bonds is not conducive to Competitive Sale (e.g., a very large or very small transaction, use of products such as Variable Rate securities, non-standard redemption or other structural features, etc.); market conditions are volatile and/or investor demand is low; the Credit Ratings are low, in flux, or the credit itself not yet established in the market; or a Negotiated Sale better furthers other objectives of the County. The Underwriter in a Negotiated Sale has input throughout the development of the bond transaction.

- *Private Placement* – A Private Placement is a transaction whereby the terms of the transaction are negotiated with a third party, often a commercial bank. These include Revolving Credit Lines and direct purchase transactions, which may be fixed rate or variable rate, long-term or short-term. Private Placements typically will be procured through a competitive process, unless the transaction is unusual and negotiation with a single interested party is deemed to be more beneficial to the County, and will be used only when the Private Placement is expected to produce cost savings or administrative convenience versus a public offering by Competitive Sale or Negotiated Sale. Given the private nature of these types of financing arrangements and the general need for transparency in disclosure with the bond holder and Credit Rating agency communities, the County will follow disclosure practices for any Private Placement transactions as described in Section VI – "DISCLOSURE AND MARKET RELATIONSHIPS – Primary Market Disclosure" herein.

Procurement of Professional Services

The County will procure professional services related to the issuance of debt based on the following selection procedures.

- *Financial and/or Swap Advisors* – The County will engage one or more Financial Advisors to provide on-call financial advisory services or transaction or project-specific advisory services as needed. The County will establish a pool of Financial Advisors through the issuance of a master RFQ conducted every four years. The RFQ will include a list of anticipated capital or other financial advisory needs and an inventory of current outstanding debt, and will require respondents to provide evidence of appropriate registrations as Independent Registered Municipal Advisors with the SEC, the MSRB, and any other regulatory body requiring registration for the firm to provide the relevant financial advisory services. Participation of M/WBE and SLEB firms in the RFQ process will be strongly encouraged unless prohibited by state or federal law.

  Responses to the RFQ will be screened and ranked by the Finance Committee, and recommendations for inclusion in the pool forwarded to the Board for approval. The composition of the pool will reflect the diversity of the County and will have member

firms with experience with a variety of debt structures relevant to the County. Upon approval by the Board, the pool will remain valid for four years, subject to annual consideration by the Board of additions and/or deletions. The County will use this pool to select a Financial Advisor(s) for County-initiated financings. If the financing is related to a new capital facility or rehabilitation project, representatives of the sponsoring department will participate with the Finance Committee in the project specific review and recommendation process. Selection of Financial Advisors will be subject to the approval of the Board of Supervisors.

In addition to the Financial Advisor pool from which transaction-specific Financial Advisors may be selected, the County may also engage a single Financial Advisor to provide ongoing financial advisory services. Such firm will provide financial advice and support, as needed, to assist the County Administrator in making decisions concerning projects that require financing as well as other tasks related to the County's financial and debt management. The County will select the ongoing Financial Advisor through an RFQ process conducted every five years. Responses to the RFQ will be screened and ranked by the Finance Committee, and a recommendation forwarded to the Board for approval.

- *Bond and Tax Counsel* – The County shall engage bond and/or tax counsel ("Bond Counsel") for each transaction. The County will establish a Bond Counsel pool through the issuance of a master Counsel RFQ conducted every four years. Participation of M/WBE and SLEB firms in the RFQ process will be strongly encouraged unless prohibited by state or federal law. Firms will be permitted to apply to serve as any or all of the following: bond, tax, and/or disclosure counsel. The County will use this pool to select Bond Counsel for County-initiated financings. The County Administrator and County Counsel will participate with the Finance Committee in the review and recommendation process. Selection of Bond Counsel will be subject to the approval of the Board of Supervisors.

- *Disclosure Counsel* – The County shall engage Disclosure Counsel for each transaction. The County will establish a Disclosure Counsel pool through the issuance of the master Counsel RFQ referenced in "Bond and Tax Counsel" above. The County will use this pool to select Disclosure Counsel for County-initiated financings. The County Administrator, County Counsel, and Finance Committee will participate in the review and recommendation process. Selection of Disclosure Counsel will be subject to the approval of the Board of Supervisors.

  Notwithstanding the foregoing, the County may also determine that it is in the County's interest to retain a single, ongoing Disclosure Counsel to assist in all County General Fund-related disclosure matters, including both transaction-specific as well as continuing disclosure. The County will select the ongoing Disclosure Counsel through an RFQ process conducted every four years. The County Administrator, County Counsel, and Finance Committee will participate in the review and recommendation process for

selection of ongoing Disclosure Counsel. Selection of ongoing Disclosure Counsel will be subject to the approval of the Board of Supervisors.

- *Underwriters*—Selection of Underwriters for negotiated sales requires a two-step process. First, the County will establish an underwriting pool through the issuance of a master RFQ conducted every four years. The RFQ will include a list of anticipated capital needs and an inventory of current outstanding debt. Responses to the RFQ will be screened and ranked by the Finance Committee, and recommendations forwarded to the Board for approval. The composition of the Underwriter pool will reflect the diversity of the County and will have member firms with varying levels of capitalization. Upon approval by the Board, the pool remains valid for four years, subject to annual consideration by the Board of additions and/or deletions.

  When the County has identified a project or refunding opportunity that warrants the issuance of bonds, and it has determined it will make use of a negotiated sale for the transaction, it will undertake the second step in the selection process to identify the Underwriter(s) for such transaction. This second step may include the issuance by the County Administrator of an RFP to the Underwriter pool members. If the financing is related to a new capital facility or rehabilitation project, representatives of the sponsoring department will participate, along with the Finance Committee, in the project specific review and recommendation process. The County Administrator will develop a "short list" from the pool members and, with the participation of Finance Committee members, may conduct interviews of the short listed pool members. Following the review process, the County Administrator will recommend an underwriting team to the Board of Supervisors for approval.

- *Trustees* – The County will retain the services of a third-party Trustee for all publicly offered bonds involving the use of a trust indenture or agreement. The Trustee shall perform all functions and duties required under the terms and conditions set forth in the trust indenture or trust agreement, including maintaining records of fund balances and investments. The County may select a Trustee through an RFQ process or through such other process as it deems advisable, taking into account special considerations such as the existence of parity obligations under the trust indenture (which may tend to favor the use of the same Trustee). In addition, the services of a Trustee bank acting in the capacity of issuing and paying agent with respect to a Commercial Paper program or Variable Rate Debt, or as escrow agent with respect to the issuance of refunding bonds, may also be procured through a similar process.

Credit Ratings, Credit Enhancement, and Bank Facilities

The County Administrator will evaluate and make recommendations regarding the number of Credit Ratings to seek, as well as any types of credit enhancements that may be cost-effective for the transaction in question. In general, the County should issue debt that is rated in the highest practical Credit Rating category for the credit structure in question. The County may also issue debt that is not rated under certain circumstances, including but not limited to a bank direct purchase or other Private Placement wherein the lender does not require a Credit Rating be sought. For rated transactions, at least two Credit Ratings should be procured from any of the

nationally recognized Credit Rating services, unless the transaction is of a small size and a single rating would not impair the marketability of the bonds.

The County will also evaluate the cost and benefit of Bond Insurance on a case by case basis, and shall have the authority to purchase Bond Insurance if it is deemed cost-effective or otherwise advantageous. In addition to an analysis of costs and benefits, the County will also consider any material conditions of the Bond Insurance policy that may have a future negative impact on the County's financing flexibility.

The County may also enter into Letters of Credit, Lines of Credit, Revolving Credit Lines and loan agreements with one or more commercial banks to provide credit support and/or liquidity, or as the direct funding source for the obligation.

V. DEBT STRUCTURING PARAMETERS

Maturity

The final maturity of any debt obligation issued to fund capital improvements shall not exceed 120% of the expected average useful life of the assets being financed, consistent with federal tax law for the issuance of tax-exempt debt. If the debt obligation is secured by a dedicated revenue source, the final maturity shall not exceed the expiration date, if any, of the dedicated revenue source.

POBs may not be issued with a final maturity longer than the amortization period of the UAAL.

Amortization

The County will evaluate amortization options in the context of its financing needs, with a preference towards substantially level Debt Service, either on an individual bond series basis or in the context of a larger plan of finance for a project that is expected to be financed over multiple series of bonds.

Debt Service Reserves

When beneficial to the County and in accordance with the requirements of the Credit Rating agencies, municipal bond investors, and/or credit enhancement providers, a Debt Service Reserve Fund may be funded from the proceeds of bonds. In no case shall any debt service reserve fund exceed 10% of the original principal amount of the bonds, consistent with federal tax regulations.

The County shall have the authority to purchase reserve equivalents (e.g. reserve fund sureties or lines of credit) from the proceeds of bonds, in lieu of a cash funded Debt Service Reserve Fund, when such purchase is deemed prudent and cost effective. Such purchases will be compared on a NPV basis to an invested cash-funded Debt Service Reserve Fund.

Variable Rate Debt

The County may issue bonds or other obligations whose interest rate fluctuates on a periodic basis (e.g., daily, weekly, monthly, etc.), either based on periodic remarketing or based on a market index such as SIFMA, LIBOR, or any successor indices acceptable to the market (collectively, "Variable Rate Debt.") Variable Rate Debt may be appropriate to diversify the County's debt portfolio, to reduce interest costs, to provide interim funding for capital projects, and/or to provide for asset-liability matching whereby the Variable Rate Debt provides a hedge against assets also earning at a variable rate. The amount of unhedged Variable Rate Debt (i.e., the amount that has not been effectively converted to a fixed rate obligation through the use of an interest rate swap to fixed rates) will not generally exceed 20% of all debt secured by the same funding source. Under no circumstances will Variable Rate Debt be issued solely for the purpose of earning interest through arbitrage.

Capitalized Interest

The County may use Capitalized Interest to fund interest due during the construction of a capital improvement project.

VI. DISCLOSURE AND MARKET RELATIONSHIPS

The County Administrator, in consultation with County Counsel and ongoing Disclosure Counsel, if any, will be responsible for managing the County's Disclosures to market participants.

Primary Market Disclosure

For all public sales of debt, the County will retain the services of Disclosure Counsel to prepare the Official Statement to be used in connection with the offering and sale of debt. The County Administrator will coordinate with, and include in the working group for debt transactions, analysts, County Counsel, the Auditor-Controller and Disclosure Counsel in connection with the development and review of the Official Statement and ensure that any other relevant County staff is involved as needed.

In addition to public sales of debt involving the posting of an Official Statement to the market, the County may also post other relevant documents (such as bank Private Placement loan agreements, bank reimbursement agreements, Swap agreements, etc.) to the MSRB's Electronic Municipal Market Access ("EMMA") website.

Continuing Disclosure

In addition to the responsibilities required by the trust indentures or agreements, pursuant to which debt is issued, the County commits to disclose certain updated financial and operational information after the sale of its debt where necessary to comply with SEC Rule 15c2-12 and in the manner described in the applicable Continuing Disclosure Certificate. Generally, the County is required to distribute an annual Disclosure report (the "Annual Report") which Annual Report must include or incorporate by reference the County's then current Comprehensive Annual

Financial Report ("CAFR") and specified updates to various tables in the County's Official Statement as of the June 30 fiscal year-end.

In addition, the County agrees to give notice of certain events listed in the Continuing Disclosure Certificate.

The County may make certain voluntary event Disclosures such as budget reports, projections, and long-term financial plans, by posting such documents to EMMA.

The County may also engage the services of a continuing disclosure dissemination agent (such as Digital Assurance Certification, LLC – also known as "DAC" – or a similar entity) to aid in the posting and dissemination of information related to the County's continuing disclosure and Disclosure of Listed Events.

Credit Rating Agencies

The County Administrator shall be responsible for maintaining the County's relationships with the Credit Rating agencies.

Investor Relations

The County Administrator shall be responsible for implementing and managing the County's investor relations program.

VII. SWAPS AND OTHER DERIVATIVES

The below policies supersede the Swap Policy previously adopted on November 16, 2004. The following sets forth the conditions under which Swaps and other Derivative products may be used by the County, certain parameters regarding their use and management, and the types of analyses that should be conducted to evaluate both the benefits and risks of such transactions.

As detailed in Section II – "CONDITIONS FOR DEBT ISSUANCE – Types and Purposes of Debt," the use of Derivatives to effect a refunding of County debt will require achieving NPV savings at least twice that of a Fixed Rate refunding that otherwise meets the County's refunding criteria.

Limited Scope and Objective for Using Swaps

The County may enter into a Swap in connection with its debt obligations, provided the County makes a finding that (i) the Swap would substantially reduce cost or risk to the County and (2) the cost and risks of the Swap itself are substantially less than the cost and/or risks reduced by the Swap. The County may also enter into a Swap to retain an Option that would otherwise not be available, provided that the cost for such a Swap would be substantially less than the expected benefit from exercising the related Option, after adjusting for the likelihood that the County would exercise the Option.

The County shall not enter into a Swap for investment or speculative purposes.

Approval Process and Execution

All Swap proposals should be forwarded to the County Administrator. The County Administrator shall review all proposals and, if the Swap proposal is deemed to merit further consideration, shall retain an independent Swap advisor for the express purpose of assisting in the evaluation of the Swap.

County staff and/or the Swap advisor should present the potential benefits, risks and objectives of the proposed Swap to the Finance Committee. In addition, the quantitative results of the Swap analysis, including those for all reasonable, available options, should be presented to the Finance Committee.

Limitations on Credit and Termination Exposure

To limit the County's exposure to Swap counterparty credit risk, the County shall enter into Swaps with only qualified Swap counterparties and shall limit the amount of Swaps which the County may enter into with any one counterparty or guarantor.

VIII. POST-ISSUANCE ACTIVITIES

The County Administrator shall be responsible for all post-issuance activities, including but not limited to maintenance of records, arbitrage rebate compliance, tracking the use of proceeds and the use of bond-financed assets to ensure compliance with federal tax law, and periodic filings with the United States Treasury to ensure receipt of any federal tax credits or subsidies due the County.

EXHIBIT A: GLOSSARY OF TERMS

Advance Refunding: A refunding that occurs more than 90 days in advance of the first optional redemption date. All covenants and restrictions of the refunded bond indenture are extinguished through an Advance Refunding. Under current IRS regulations, tax-exempt bonds issued after December 31, 1985 are permitted only one Advance Refunding.

BABs: Build America Bonds, as provided for by the American Recovery and Reinvestment Act of 2009, which permitted municipal issuers to issue taxable bonds through December 31, 2010 for new money, governmental purposes, and receive an ongoing federal subsidy of 35% of the interest payable on the BABs.

Basis Point: Yields on bonds are usually quoted in increments of Basis Points or "bps." One Basis Point is equal to one-one hundredth (1/100) of one (1) percent. For example, the difference between 5.00% and 5.50% is 50 Basis Points or bps.

Bond Counsel: A law firm retained by the bond issuer to give a legal opinion that the bond issuer is authorized to issue the proposed securities, the bond issuer has met all legal requirements necessary for issuance, and interest on the proposed securities will be exempt from federal income taxation, and where applicable from state and local taxation. Usually, Bond Counsel will prepare authorizing resolutions and ordinances, trust indentures and other bond documents with the exception of the Official Statement.

Bond Insurance: An insurance policy which guarantees the timely payment of principal and interest, of either an entire bond issue, or on one or more specified maturities. In exchange for payment of the Bond Insurance premium, a higher Credit Rating is assigned to the insured bonds, and a lower cost of funds is attained. With a Competitive Sale, generally the bidding dealer bears the cost of insurance to the benefit of the firm's bid. The bond issuer pays the cost of Bond Insurance from bond proceeds with a Negotiated Sale.

California Debt and Investment Advisory Commission (CDIAC): A State commission established to provide oversight with respect to public debt and investment activities. It serves as the State's clearinghouse for information on public debt issuance and local investment practices. CDIAC also provides policy guidance on debt and investment matters.

Capitalized Interest: Capitalized Interest is a portion of the proceeds of an issue which is set aside to pay interest on the bonds for a specified period of time. Interest is commonly capitalized during the construction period of a revenue-producing project or a project financed with the proceeds of lease revenue bonds whereby the facility securing the lease payments must be available for use and occupancy before lease payments may commence.

Commercial Paper: Short term (1 to 270 days) promissory notes usually issued to provide for interim financing of projects through the construction period and backed by a Letter or Line of Credit from a commercial bank. Following the completion of the projects, principal and interest due on Commercial Paper is often redeemed through the issuance of long term refunding bonds.

Competitive Sale: The sale of a new issue of bonds by an issuer through a bidding process where Underwriters are awarded the bonds on the basis of offering the lowest cost of funds for the issuer, usually measured on a True Interest Cost basis. The bid parameters for the public sale are established in the notice of sale or notice inviting bids.

Continuing Disclosure Certificate: A commitment entered into by the County for the benefit of the Underwriters and holders of certain bonds pursuant to SEC Rule 15(c)2-12 to provide continuing disclosure of specific County information.

Credit Ratings: Evaluations of the credit quality of bonds made by independent ratings services such as Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings. Credit Ratings are intended to measure the probability of timely repayment of principal and interest on municipal securities. Credit Ratings are assigned before issuance of the bonds, and are periodically reviewed by the rating services, or may be amended to reflect changes in the issuer's credit position. Bonds with investment grade ratings are assigned Credit Ratings between Baa3/BBB- and Aaa/AAA.

Current Refunding: A Current Refunding refers to the refunding of bonds within 90 days of the bond's first optional redemption date. Federal tax law does not limit the number of Current Refundings of any bond.

Debt Service: The sum of principal and interest due on outstanding debt, including any required contributions to a sinking fund for term bonds. Debt Service may be computed on a bond year, fiscal year, or calendar year basis.

Debt Service Reserve Fund: The fund in which moneys are placed which may be used to pay Debt Service if the debt repayment source (e.g., lease payments) is insufficient to satisfy the Debt Service requirements.

Defeasance: Defeasance refers to the structuring of a portfolio of non-callable government securities or deposit of cash into a fund irrevocably committed to the payment of a series of bonds, the principal of and interest on which will be sufficient to pay Debt Service on the outstanding bonds, on the designated redemption date. The rights and interest of the holders of the outstanding bonds and of their lien on revenues is terminated in accordance with the bond documents upon the occurrence of a Defeasance. Defeasance usually occurs through the issuance of refunding bonds.

Derivative: Short for "Derivative investment," a contract whose value is based on the performance of an underlying financial asset, index or other investment. Generally, Derivatives are risk mitigation tools. Examples include structures with Option-like or Swap-like features.

Disclosure: From the perspective of the bond issuer, Disclosure means the dissemination of accurate and complete information material to an existing or proposed bond issuance, which an investor would be likely to consider important in making an investment decision. The material facts pertinent to a new offering of bonds are disclosed on the Official Statement.

Disclosure Counsel: A law firm retained by the bond issuer to prepare the Official Statement and provide an SEC Rule 10b-5 opinion.

Financial Advisor: A consultant which advises the bond issuer on matters such as bond structure, timing, marketing, pricing, documentation and Credit Ratings. The consultant may also provide non-bond related advice relating to capital planning and investment management. Financial Advisors must be registered as an independent registered municipal advisor ("IRMA") with the SEC.

Financial Industry Regulatory Authority (FINRA): A self-regulating and self-financed organization which acts as a buffer between the SEC and Broker-Dealers. The FINRA operates in municipal securities according to a special set of municipal bond rules written by the MSRB.

Fixed Rate Debt: A borrowing wherein interest is established at a fixed rate of interest for the life of the obligation.

Gross Spread: In a Negotiated Sale, the difference between the price the Underwriter pays the bond issuer and the original reoffering price to the public. It includes the management fee (if any), expenses, and sales commissions (Takedown).

Interest Rate Swap: An agreement between two parties to exchange future flows of interest payments. One party agrees to pay the other at a fixed rate, while the other party pays the first party, at a floating rate that can be determined by a market clearing rate, or tied to a percentage of or spread to an index specified in the agreement. Such indices may include, but are not limited to the SIFMA swap index or LIBOR.

ISDA: The International Swaps and Derivatives Association, a global trade association representing participants in the Derivatives industry.

Letter of Credit: A commitment usually made by a commercial bank to honor demands for timely payment of Debt Service upon compliance with pre-established conditions and/or the occurrence of certain events specified in the agreement between the bank and the issuer of the debt. Letters of credit are often issued as additional sources of security for issues of notes, Commercial Paper or bonds, with the bank issuing the Letter of Credit committing to pay Debt Service on the bonds. Debt issued with a Letter of Credit is assigned the Credit Ratings (short term and/or long term) of the Letter of Credit provider. Letters of credit may also provide liquidity support for such debt issues.

LIBOR: The London InterBank Offered Rate, a taxable rate of interest at which a select group of large banks that participate in the London interbank money market can borrow unsecured funds from other banks. The LIBOR rate is typically quoted for 1, 3, 6, and 12 month maturities.

Line of Credit: A commitment usually made by a commercial bank to provide liquidity support for issues of notes, Commercial Paper or bonds if the issuer is unable to pay Debt Service. The timely payment of Debt Service is not guaranteed, and the agreement between the

bank and the issuer of the debt may be terminated in the event of a payment default by the bond issuer, or under other certain specified events. Debt issued with a Line of Credit is assigned the short term Credit Rating of the Line of Credit provider.

Municipal Securities Rulemaking Board (MSRB): An independent self-regulatory organization established by the Securities Acts Amendments of 1975, which is charged with primary rulemaking authority over Broker-Dealers and brokers in municipal securities. Its members represent three categories – securities firms, bank dealers and the public – each category having equal representation on the MSRB.

M/WBE: A business which is at least 51% owned by women and/or minorities.

Negotiated Sale: The sale of a new issue of bonds whereby the issuer selects the Underwriters in advance and negotiates the terms of the bonds, including coupons, interest rates, redemption provisions, and the Gross Spread, at the time of sale.

Negative Arbitrage: Issuers often deposit the proceeds from the sale of bonds into funds until they are expended, including but not limited to construction funds to fund project costs and escrow funds to fund Defeasances. These proceeds are often invested at a rate that is lower than the cost of borrowing, resulting in a net cost to the issuer during the expenditure period. This scenario is known as negative arbitrage.

Net Direct Debt Service: Refers to Debt Service secured by payments to be made from the General Fund and not otherwise 100% offset by dedicated revenues or by capitalized interest.

Notional Amount: The stipulated principal amount for a Swap transaction. There is no transfer of ownership in the principal for a Swap, but there is an exchange in the cash flows for the designated coupons.

Official Statement: A document published by the bond issuer, and often prepared by Disclosure Counsel, which discloses material information on a new bond issue, including the purpose of the issue, source of repayment, bond covenants, as well as financial, economic, demographic and legal characteristics of the bond issuer. The Official Statement is used by investors to determine the credit quality of the bond issue. An Official Statement is deemed preliminary prior to the determination of the interest rates on the bond issue, but is final in all other respects at the time it is circulated in its preliminary form prior to the sale of the bonds.

Option: A Derivative contract which provides the purchaser the right, but not the obligation, to buy or sell a specific amount of a given stock, commodity, currency, index, or debt, at a specified price (the strike price) during a specified period of time. There are two primary types of Options: a put and a call Option. A put is the right to sell while a call is a right to buy.

Optional Redemption Provisions: Terms set out in the bond documents which give the bond issuer the right to redeem or "call" all or a portion of an outstanding issue of bonds, prior to their stated dates of maturity at a specified price.

Private Placement: A sale in which the bonds are sold directly to institutional or private investors, rather than through a public offering. Issuers often require investors purchasing privately placed bonds to agree to restrictions as to resale through the use of a signed agreement. This is the same as a direct placement or a direct purchase. Private Placements may also involve the direct sale of a bond or other obligation to a commercial bank.

Revenue Bond: A bond which is payable from a specific source of revenue (such as lease payments), and to which the full faith and credit of a bond issuer with taxing power is not pledged. Revenue Bonds are payable from identified sources of revenue and do not permit the Bondholders to compel taxation or legislative appropriation of funds not pledged for payment of Debt Service.

Revolving Credit Line: A commercial bank facility which provides the issuer with the ability to periodically draw down and repay funds at a predetermined rate of interest or interest rate-setting methodology. A Revolving Credit Line typically provides for a maximum cumulative amount of draws which may be outstanding at any time, for a fixed period of time. A commitment fee is charged by the bank to the issuer based on the undrawn amount of the Revolving Credit Line.

Rollover Risk: Risk to the bond issuer created by the maturity term of the underlying bond issue exceeding that of either a Derivative financing or a liquidity facility.

RZEDBs: Recovery Zone Economic Development Bonds, a special form of BABs, the proceeds of which must be used for projects in Qualified Recovery Zones. The federal interest rate subsidy on RZEDBs is 45% versus the 35% subsidy for BABs.

Securities and Exchange Commission (SEC): The Federal agency responsible for supervising and regulating the securities industry. In general, municipal securities are exempt from the SEC's registration and reporting requirements. Brokers and dealers in municipal securities, as well as independent registered municipal advisors, however, are subject to SEC regulation and oversight. The SEC also has responsibility for the approval of MSRB rules, and has jurisdiction, pursuant to SEC Rule 10b-5, over fraud in the sale of municipal securities.

SEC Rule 10b-5: A regulation of the SEC adopted pursuant to the Securities and Exchange Act of 1934 which makes it unlawful for any person to employ any device, scheme, or artifice to defraud, to make any untrue statement of a material fact, or to omit a material fact necessary to make statements made, in the light of the circumstances under which they were made, not misleading; or to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

SEC Rule 15(c)2-12: A regulation of the SEC which requires Underwriters participating in primary offerings of municipal securities of $1,000,000 or more (i) to obtain, review, and distribute to investors copies of the issuer's Disclosure documents; (ii) to obtain and review a copy of an Official Statement deemed final by an issuer of the securities, except for the omission of specified information; (iii) to make available upon request, in non-competitively bid offerings,

the most recent preliminary Official Statement, if any; (iv) to contract with an issuer of the securities, or its agent, to receive, within specified time periods, sufficient copies of the issuer's final Official Statement, both to comply with this rule, and any rules of the MSRB; and (v) to provide, for a specified period of time, copies of final Official Statements to any potential customer upon request. The rule contains exemptions for Underwriters participating in certain offerings of municipal securities issued in large denominations that are sold to no more than 35 sophisticated investors, have short term maturities, or have short term tender or put features. SEC Rule 15(c)2-12 also requires that Underwriters participating in a bond offering obtain from the issuer a written Continuing Disclosure Agreement to provide continuing disclosure with respect to those bonds.

SIFMA: Securities Industry and Financial Markets Association, an industry trade group representing securities firms, banks, and asset management firms. SIFMA publishes a weekly tax-exempt variable rate index (the SIFMA Muni Swap Index). The term SIFMA typically refers to the index itself, rather than the association.

SLEB: The Small, Local and Emerging Business program of the County, or any comparable successor program.

Swap: A customized financial transaction between two or more counterparties who agree to make periodic payments to one another. Swaps cover interest rate, equity, commodity and currency products. They can be simple floating for fixed exchanges, or complex hybrid products with multiple Option features.

Takedown: The sales commission paid to Underwriters in connection with the sale of bonds by an issuer, typically expressed in dollars per thousand dollar bond increments, e.g. $5.00 per $1,000 or $5.00 per "bond," where a bond is a $1,000 increment.

Tax Certificate: A closing document for a bond transaction prepared by Bond Counsel or tax counsel setting forth the various requirements under federal tax law related to the bonds, including matters related to expenditure and use of funds, arbitrage rebate, among other provisions.

Tax Risk: Risk to the issuer of variable rate bonds created by either a change in the taxable equivalent yield of comparable investments or loss of tax-exempt status. For an issuer of variable rate bonds, a reduction in federal income tax rates would increase interest costs. Re-classification of outstanding variable rate bonds as taxable would also increase interest costs.

Termination Risk: The risk that the Swap could be terminated by the counterparty, with a Settlement payment demanded from the issuer, due to any of several events, which may include issuer or counterparty ratings downgrade, covenant violation by either party, bankruptcy of either party, Swap payment default by either party, and default events as defined in the issuer's trust indenture. The events of default and termination, which could lead to involuntary termination of the contract, would include failure to pay, bankruptcy, or a merger without assumption of obligations and legality.

TRANs: Tax and revenue anticipation notes, a short-term borrowing mechanism that permits a municipal issuer to fund cash flow deficits within a fiscal year. TRANs are typically issued at the beginning of a fiscal year and repaid at the end of the same fiscal year.

True Interest Cost: The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates, to the purchase price received on the closing date of the bond issue.

Trustee: A third party banking institution which administers the funds specified in the trust indenture or agreement and implements the remedies provided in case of default. The Trustee acts on behalf of the bondholders based on the specific requirements in each trust indenture. Trustee may also refer to a trustee bank acting in the capacity of escrow agent with respect to refunding bonds or issuing and/or paying agent with respect to Commercial Paper or Variable Rate Debt.

Underwriter: A dealer which purchases a new issue of bonds for resale, either by negotiation with the issuer, or by award on the basis of a competitive bid.

Underwriter's Counsel: A law firm retained by the Underwriter to represent their interests in connection with the negotiated purchase of a new issue of bonds. The firm's duties may include review of all bond documents, preparation of an agreement among underwriters ("AAU"), and negotiation of the bond purchase contract between the Underwriter and the bond issuer.

Validation Action: A validation action is a procedure under California law (Civil Code 860 *et seq.*) which permits an issuer to have the legality of a proposed bond financing approved by the Court. This approval includes matters related to constitutionality of the proposed financing, and the validation process also accelerates any statutes of limitation. The process involves publication and public posting of the lawsuit, and, assuming no interested person challenges the financing, a default judgment is given by the Court. Following the default judgment and the expiration of a 30-day appeal period, the financing cannot later be challenged in court.

Variable Rate Debt: A borrowing wherein interest changes at intervals according to an index or formula, or is periodically (e.g., daily, weekly or monthly) reset at the market clearing rate. This is also known as floating rate debt.