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EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
OCTOBER 16, 2003

METRO

Metropolitan
Transportation
Authority

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Los Angeles, CA
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SUBJECT: DEBT POLICY

ACTION: ADOPT ANNUAL UPDATE TO MTA DEBT POLICY

RECOMMENDATION

Adopt the updated MTA Debt Policy, Attachment 1.

ISSUE

The MTA Debt Policy states that it shall be reviewed and updated annually. The policy was last updated in October 2002.

POLICY IMPLICATIONS

The MTA Debt Policy governs the issuance and management of all debt, including the investment of bond and lease proceeds not otherwise covered by the MTA Investment Policy. The processes for selection of debt and lease related investments, financial products and professional services are specified. The Debt Policy also governs all tax-exempt and taxable leases funded by the capital markets, by major financial institutions, or through private placement, other than those covered in the MTA's Defeased Lease Policy. The goals of the Debt Policy are to achieve the lowest possible cost of capital subject to prudent risk parameters while preserving future financial flexibility. The Debt Policy specifies that it will be reviewed and updated annually.

In the context of the State budget crisis, an increase is recommended for the Prop C 25% Highway debt affordability limit, the annual amount allowed for debt service, from 40% to 60%. This change would result in a one-time $300+ million increase to programming/borrowing capacity.

Currently, the actual debt service ratio for Prop C 25% is approximately 20%. The 40% limit begins to constrain future programming about two to three years out, around FY2006/07. Based on the recently adopted Short Range Transportation Plan (SRTP), Prop C 25% "cash only" programs, primarily Freeway Service Patrol and Rideshare, would be not be affected even if the maximum 60% was actually used for bonds.

The balance of the update makes general improvements that clarify language regarding concepts and implementation of various sections of the policy, including clarifications in relation to the Interest Rate Swap Policy adopted by the Board in June 2003.

ALTERNATIVE CONSIDERED

The Board may choose to defer consideration of the proposed increase in the Prop C 25% debt affordability target. Approval of the recommended increase in this target will allow staff to develop alternatives for mitigating the delays and deferrals of highway and related projects that have been adversely affected by the State's budget crisis.

FINANCIAL IMPACT

Approval of the Debt Policy has no impact on the adopted FY04 budget. The impact of the proposed increase in the Prop C 25% debt affordability target is that staff can develop alternatives for mitigating delays in previously approved projects that had originally been scheduled to receive State funding in beginning FY06. Any actual debt issuance requires separate Board approval.

BACKGROUND

The Debt Policy was first adopted in 1998 and has been updated annually since then. The formally adopted policy demonstrates the Board's commitment to exercise prudent fiscal controls to the financial community.

Attachment

1. Updated Debt Policy (marked to show changes)

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Executive Officer, Finance and Treasurer

Roger Snoble
Chief Executive Officer

MTA
DEBT POLICY

I. Introduction

The purpose of the Debt Policy of the Los Angeles County Metropolitan Transportation Authority (MTA) is to establish guidelines for the issuance and management of the MTA's debt. This Debt Policy confirms the commitment of the Board, management, staff, advisors and other decision makers to adhere to sound financial management practices, including full and timely repayment of all borrowings, and achieving the lowest possible cost of capital within prudent risk parameters.

II. Scope and Authority

This Debt Policy shall govern, except as otherwise covered by the MTA Investment Policy, Defeased Lease Policy or Interest Rate Swap Policy, the issuance and management of all debt and lease financings funded from the capital markets, including the selection and management of related financial services and products, and investment of bond and lease proceeds. ~~(not otherwise covered by the MTA Interest Rate Swap Policy), and investment of bond proceeds (not otherwise covered by the MTA Investment Policy).~~

While adherence to this Policy is required in applicable circumstances, the MTA recognizes that changes in the capital markets, agency programs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate provided specific authorization from the Board is obtained.

The MTA's Debt Policy shall be reviewed and updated at least annually and presented to the Board for approval. The Chief Executive Officer, Chief Financial Officer and Executive Officer – Finance and Treasurer are the designated administrators of the MTA's Debt Policy. The Treasurer shall have the day-to-day responsibility and authority for structuring, implementing, and managing the MTA's debt and finance program, including the issuance of commercial paper in accordance with the Board authorized programs. The Debt Policy requires that the MTA Board specifically authorize each debt and lease financing.~~.~~

III. Capital Budgeting and Debt Issuance Process

A. Capital Budgeting

~~1.~~ The Capital Plan. A Capital Plan (the "CP") shall be developed for consideration and adoption by the Board. The CP should have a planning horizon of ~~be for~~ at least a 5-year period and shall be updated at least annually.

In addition to capital

1. project costs, the CP will include the following elements:

   a) Description and availability of all sources of funds
   b) Timing of capital projects
   c) Effect of capital projects on MTA debt burden
   d) Debt service requirements

   It is the MTA's current practice to include the CP in the Annual ~~b~~Budget for consideration and adoption.

2. Authorization for Issuance. The Board's adoption of the Annual Budget does not, in and of itself, constitute authorization for debt issuance for any capital projects. Each financing shall be presented to the Board in the context of the Annual Budget.

B. Debt Financing

1. Appropriate Use of Long-Term Debt

   a) Purpose for Long-Term Debt: Long-term debt should be used to finance essential capital facilities, projects and certain equipment where it is cost effective and fiscally prudent. The scope, requirements, and demands of the Annual Budget or CP, and the ability or need to expedite or maintain the programmed schedule of approved capital projects will also be factors in the decision to issue long-term debt. Inherent in its long-term debt policies, the MTA recognizes that future taxpayers will benefit from the capital investment and that it is appropriate that they pay a share of the asset cost. Long-term debt will not be used to fund MTA operations.

   b) Lease Financing: Lease obligations are a routine and appropriate means of financing capital equipment. These types of obligations should be considered where lease financing will be more beneficial, either economically or from a policy perspective. The useful life of the capital equipment, the terms and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. Efforts will be made to fund capital equipment on a pay-as-you-go basis where feasible. Cashflow sufficiency, capital program requirements, lease program structures and cost, and market factors will be considered in conjunction with a pay-as-you-go strategy in lieu of lease financing. All leases providing tax-exempt financing are subject to this policy, as are all leases, master leases and leasing programs having a cumulative value exceeding $10 million.

2. Use of Short-Term and Variable Rate Debt

a) Commercial Paper: Commercial paper is a cash management tool that the MTA uses to provide interim funding for capital expenditures that will ultimately be funded from another source such as a grant or long-term bond. The Board has previously approved the use of both the tax-exempt and taxable commercial paper programs for $350 million and $150 million, respectively. Periodic issuances or retirements of commercial paper notes within the Board approved programs do not require further Board action.

b) Tax and Revenue Anticipation Notes: Borrowing for cash flow purposes through the use of tax and revenue anticipation notes may be used to bridge temporary cash flow deficits within a fiscal year.

c) Grant Anticipation Notes: The MTA may issue short-term notes to be repaid with the proceeds of State or Federal grants if appropriate for the project and in the best interests of the MTA. Generally, grant anticipation notes will only be issued if there is no other viable source of up-front cash for the project.

d) Variable Rate Debt: It is often appropriate to issue short-term or long-term variable rate debt to diversify the debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of assets to liabilities. The amount of unhedged variable rate debt will generally not exceed 20% of all outstanding debt. Under no circumstances will the MTA issue variable rate debt solely for the purpose of earning arbitrage. If unhedged variable rate debt is used, the MTA will periodically, but at least annually, determine whether it is appropriate to convert the debt to fixed interest rates. The MTA may issue commercial paper~~, other forms of variable rate debt and synthetic variable rate debt,~~ from time to time, but its use will generally be restricted to providing interim financing for capital projects programmed for long-term debt or grant funding.

IV. Debt Affordability Targets and Policy Limits

Target and policy maximum amounts of revenues to be used to pay debt service are listed as percentages of the respective revenue sources. These limits in combination with the CP and multi-year planning documents ensure that the MTA will be able to continue providing its essential operational services while planning for replacement, rehabilitation and expansion of its capital investments.

Proposition A Sales Tax Revenue Debt Affordability Targets			
Category	***Allowable Uses & Status***		***Debt Policy Maximum***
Prop A Rail 35%	*Rail Operations & Capital.* Is currently committed to debt service in an amount close to the Policy Maximum.		87% of Prop A 35% Rail revenues.
Discretionary 40%	*Any transit purpose.* Current state law directs these funds to bus subsidies and incentives.		No further issuance.
Local Return 25%	*Any transit purpose.* Distributed to localities based on population.		N/A

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

Other Revenue Debt Affordability Targets			
Category	***Allowable Uses & Status***		***Debt Policy Maximum***
Fare Box Revenue	*Any transit purpose.*		No further issuance.
Federal Grant Revenues	*In accordance with grant.*		No further issuance.
State Grant Revenues	*In accordance with grant.*		No debt issuance.
TDA	*Various transit purposes.*		No further issuance.
Benefit Assessment Levies	*Historically to support rail construction.*		100% of levies
Lease Revenues	*Any transit purpose.*		Limited issuance for special projects.
Other System Revenues	*Any transit purpose.*		Limited issuance for special projects.

V. **Purpose of Financing**

~~For each financing, documentation will be prepared and retained in a permanent "transaction file" regarding the various vendor and product selections undertaken by the financial advisor, such as the selection and bidding for professional services, financial products and investments, as well as documentation of the decision processes for determining the size, structure and features of the transaction and the determination of the method of bond sale.~~

A. New Money Financing

New money issues are those financings that generate additional funding to be available for expenditure on capital projects. These funds will be used for acquisition, construction and major rehabilitation of capital assets. New money bond proceeds may not be used to fund operational activities. The funding requirement by sales tax ordinance category is determined in the context of the CP and Annual Budget. For competitive issuances, the financial advisor will recommend the financing structure based on the type of financial products to be used and in consideration of market conditions at the time of the sale.

MTA uses its commercial paper programs to provide interim new money funding. Proceeds from the sale of commercial paper are used to provide interim funding for capital expenditures identified in the CP and approved Annual Budget pending receipt of grant funds or long-term bond proceeds to permanently fund those expenditures. The commercial paper notes are retired upon receipt of the grant funds or bond proceeds. The retirement of commercial paper is most commonly a result of the issuance of long-term bonds.

B. Refunding Bonds

Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance to a lower interest rate to reduce debt service. Alternatively, some refundings are executed for other than economic purposes, such as to restructure the repayment schedule of the debt, to change the type of debt instruments being used, or to retire an indenture in order to remove undesirable covenants. In any event, a present value analysis must be prepared that identifies the economic effects of the refunding being proposed to the Board.

The target savings amount shall be measured using either a call option pricing model or the savings as percentage of par method. When using the call option model, the target savings from any particular refunding candidate shall be in the range of 80% of the expected value of the call option, net of all transaction expenses. The Treasurer shall have discretion in making the final determination to include individual refunding candidates that are above or below the target in order to optimize MTA policy and/or financial objectives.

Alternatively, the more traditional methodology of measuring the net present value savings as a percentage of the refunded par amount may be used with a minimum average savings of 3% for any one refunding transaction.

VI. Types of Products

A. Current Coupon Bonds

Current coupon bonds are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Current coupon bonds may be structured to meet the demands of the investor and, thereby, reduce the cost of borrowing. Features such as annual principal maturities, the use of discounts, maturity of the debt, the parameters of the call provisions, bond insurance and cash funded or surety DSRF are adjusted to the market conditions at the time of sale.

B Zero Coupon and Capital Appreciation Bonds

Zero coupon bonds and capital appreciation bonds have principal amortization that is much slower than level debt service resulting in increased interest expenditure over the life of the bond and, therefore, shall only be recommended in limited situations.

C. Lease Purchase Financing

Lease purchase financing represents a long-term financing lease that is suitable for financing capital equipment or the acquisition and construction of real property.

1. Equipment. It has been the MTA's practice to purchase equipment and buses on a pay-as-you-go basis; however, the MTA shall have the ability to consider lease purchase transactions, including certificates of participation as an alternative to long-term vendor leases, including the ability to implement a master lease program. Only the highest priority equipment purchases will be lease purchased. Financing of equipment will be limited to contracts of at least $20,000 and a useful life that is greater than 3 years. The final maturity of equipment lease financings will be limited to the average useful life of the equipment.

2. Real Property. The final maturity shall not exceed the estimated useful life of the facility. In no case will the final maturity exceed 30 years. Principal payments related to real property acquisition or construction are to be amortized such that it results in level debt service payments; although the MTA may consider rapid amortization to meet its repayment objectives.

D. Derivative Products

Derivative products will be considered where appropriate in the issuance or management of debt only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces risk of fluctuations in expense or revenue, or alternatively, where it will reduce total project cost. For interest rate swaps, the MTA will utilize the guidelines set forth in the Board approved Interest Rate Swap Policy. For derivatives other than interest rate swaps, the MTA will undertake ~~A~~an analysis of early termination costs and other conditional terms ~~will also be performed~~ given certain financing and marketing assumptions. Such analysis will document the risks and benefits associated with the use of the particular derivative product. Derivative products will only be utilized with prior Board approval.

VII. Structural Features

A. Maturity of Debt

The final maturity of the debt shall be equal to or less than the useful life of the assets being financed, and the average life of the financing shall not exceed 120% of the average life of the assets being financed.

B. Debt Service Structure

Combined principal and interest payments for any particular bond issue will be structured to have approximately equal debt service payments over the life of the bond. Exceptions will occur for refunding bonds that will have varying principal repayments structured to fill in the holes created by refunding specific principal maturities. The objective is to have level debt service in aggregate for each lien, with the debt service trailing off as bonds mature.

C. Lien Levels

Senior and Junior Liens for each revenue source will be utilized in a manner that will maximize the most critical constraint -- typically either cost or capacity -- thus allowing for the most beneficial use of the revenue source securing the bond.

D. Capitalized Interest

Unless otherwise required, MTA will avoid the use of capitalized interest in order to avoid unnecessarily increasing the bond size. Certain types of financings such as certificates of participation, lease-secured financings, and certain revenue bond projects may require that interest on the bonds be paid from capitalized interest until the issuer has constructive use of the project.

E. Discount and Premium Bonds

While discount and deep discount bonds may slightly reduce the interest cost of the bonds below that of non-discount bonds, the amount of discount will be structured to minimize the negative impact of discounting on MTA's ability to refund bonds for interest savings.

The MTA will also evaluate the impact of premium bonds that can be redeemed prior to maturity. The price on these bonds, and thus the amount the MTA receives, may be proportionally less in comparison to par bonds, or bonds with slight discounts or premiums. The MTA will compare the price of redeemable premium bonds to the yield savings, if any, and the higher potential for future refunding savings.

F. Debt Service Reserve Fund

The debt service reserve fund (the "DSRF") is generally cash funded with bond proceeds. The MTA's trustee maintains the DSRF throughout the life of the bonds. A cash funded DSRF is invested pursuant to investment of proceeds guidelines within the respective indenture and interest earnings are generally used to offset debt service payments. In the final year of the bond issue, the cash available in the DSRF is usually used to make the final debt service payment. Since a cash funded DSRF generates interest income, the MTA would have the potential to be in a financially neutral position if the interest earnings equal or exceed the interest rate of the bonds.

An alternative to having a cash funded DSRF is to use a DSRF surety policy that would be provided by an appropriately rated bond insurer. The surety policy requires an up-front fee payment to the insurer and results in a loss of future income to the DSRF. The Treasurer will evaluate and document the DSRF funding decision. Factors to be considered in this evaluation include: arbitrage yield restrictions, current interest rates, availability and cost of a surety policy, foregone interest and capital gains from a cash funded DSRF, the relative size of the reserve requirement compared to the prior reserve requirement (refunding issues only), and~~,~~ opportunities for the use of the funds withdrawn from the DSRF including additional capital projects or investment opportunities.

G. Amortization

The MTA will amortize its debt within each lien to achieve overall level debt service or may utilize more accelerated repayment schedules after giving consideration to bonding capacity constraints. The MTA shall avoid the use of bullet and balloon maturities except to achieve wrapped debt service so as to level aggregate outstanding debt service.

H. Financial and Risk Analysis of Issuance

Net present value cost analysis, assessment of structural risks and complexities, and consideration of restrictions to future financing flexibility will be assessed and documented to determine the most efficient bond type and structuring features. The MTA's long-term pooled investment rate will be used as the discount rate when comparing alternatives.

I. Call Provisions

In general, MTA securities will not include a non-call feature which is longer than 10 years. However, if determined to be financially advantageous, MTA may issue non-callable bonds. Prior to the use of any non-call provision, the MTA will compare the option-adjusted yields on the bonds with and without a non-call provision to determine which is most financially beneficial.

J. Credit Enhancement

1. Bond insurance. Bond insurance will be used when it provides an economic advantage to a particular bond maturity or entire issue. Bond insurance provides improved credit quality for the bonds as a result of the insurance

provider's guarantee of the payment of principal and interest on the bonds. Because of the decreased risk, investors are willing to purchase bonds with lower yields than uninsured bonds, thus providing the issuer with interest cost savings.

a) Benefit analysis. The decision to use bond insurance is an economic decision. The analysis compares the present value of the interest savings to the cost of the insurance premium. Insurance will be purchased when the premium cost is less than the projected interest savings.

b) Provider selection. The financial advisor will perform a competitive process for bond insurance, or in the case of a competitive sale facilitate the pre-qualification of insurance. MTA recognizes that all providers may not be interested in providing bids to the MTA or pre-qualifying the issue. The winning underwriter in a competitive sale will determine whether it will purchase insurance for the issue. For a negotiated sale, the Treasurer shall have the authority to purchase bond insurance when deemed advantageous and the terms and conditions governing the guarantee are satisfactory

2. Letters of Credit. When used for credit enhancement, letters of credit ("LOC") represent a bank's promise to pay principal and interest when due for a defined period of time, and subject to certain conditions. In the case of a direct pay LOC, the trustee can draw upon the letter of credit to make debt service payments. A stand-by LOC can be used to ensure the availability of funds to pay principal and interest of an obligation.

a) Liquidity Facility. The issuance of most variable rate debt, including variable rate demand bonds and commercial paper requires the use of a liquidity facility.

b) Provider selection. The financial advisor will conduct a competitive process to recommend a letter of credit provider. The Treasurer will obtain contract approval in accordance with established dollar award policies. Only those banks with long-term ratings greater than or equal to that of the MTA, and short-term ratings of P-1/A-1, by Moody's Investors Service and Standard & Poor's, respectively, may be solicited.

c) Selection criteria will include, but not be limited to the following:
   (1) the bank(s) has long-term ratings at least equal to or better than the MTA's;
   (2) the bank(s) has short-term ratings of P-1/A-1;

(3) the bank's acceptance of terms and conditions acceptable to the MTA. MTA will provide a term sheet along with the request for qualifications to which the banks will highlight modifications;

(4) review of representative list of clients for whom the bank has provided liquidity facilities;

(5) evaluation of fees; specifically, cost of LOC, draws, bank counsel and other administrative charges and estimate of trading differential cost.

VIII. Documentation of Transactions

The decision processes used in each financing process will be fully documented. The documentation will capture information regarding the selection of the financing team, decisions on product selection and structuring features, selection of vendors providing ancillary services and selection of investment securities or products. This information will be compiled into a post-pricing book~~,~~ "transaction file"~~,~~ which will be retained for each financing.

IX. Credit Objectives

The MTA will actively seek to:

1. Maintain and improve the credit ratings of its outstanding bonds.
2. Adhere to benchmarks, overall debt ratios and affordability targets.
3. Have frequent communications with the credit rating agencies.

X. Method of Bond Sale

A. The MTA will utilize a competitive sale process when it will provide the lowest interest cost for the bond. However, there are three methods of sale: competitive, negotiated and private placement. Each type of bond sale has the potential to provide the lowest cost given the right conditions. The conditions under which each type of bond sale is best used are provided below.

1. *Competitive Sale*
    a) Bond prices are stable and/or demand is strong.
    b) Market timing and interest rate sensitivity are not critical to the pricing.
    c) Participation from DBE / SBE firms is best efforts only and not required for winning bid.
    d) Issuer has a strong credit rating.
    e) Issuer is well known to investors.
    f) There are no complex explanations required during marketing

regarding the issuer's projects, media coverage, political structure, political support, funding, or credit quality.

g) The bond type and structural features are conventional.

h) Bond insurance is included or pre-qualified (available).

~~h)~~ i) Manageable transaction size.

2. *Negotiated Sale*

a) Bond prices are volatile.

b) Demand is weak or supply of competing bonds is high.

c) Market timing is important, such as for refundings.

d) Coordination of multiple components of the financing is required.

e) Participation from DBE / SBE firms is enhanced.

f) Issuer has lower or weakening credit rating.

g) Issuer is not well known to investors.

h) Sale and marketing of the bonds will require complex explanations about the issuer's projects, media coverage, political structure, political support, funding, or credit quality.

i) The bond type and/or structural features are non-standard, such as for a forward delivery bond sale, issuance of variable rate bonds or where there is use of derivative products.

j) Bond insurance is not available or not offered.

k) Early structuring and market participation by underwriters are desired.

~~l)A pre-qualified underwriters pool is established.~~

~~m)~~l) The par amount for the transaction is significantly larger than normal.

~~n)~~m) Demand for the bonds by retail investors is expected to be high.

3. *Private Placement* is a sale that is structured specifically for one purchaser such as a bank. While the MTA has not previously used this method of sale, the MTA reserves to the right to place its securities privately if the need arises.

XI. Investment of Bond Proceeds

A. Purchase and Sale of Investments. The MTA shall competitively bid the purchase of securities, investment agreements, float contracts, forward purchase contracts and any other investment products used to invest bond proceeds. The MTA shall comply with all applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds as well as restrictions on the time period over which some bond proceeds may be invested. The MTA Treasurer may direct the investment of bond and lease proceeds in accordance with the permitted investments for any particular bond issue or lease. Providers of structured investment products and professional services required to implement the product or agreement,_will be recommended based on a competitive process conducted by the financial advisor.

B. Diversification. The MTA shall diversify invested proceeds in order to reduce risk exposure to providers, types of investment products and types of securities held.

C. Disclosure. The MTA will require that all fees resulting from investment services or sale of products to the MTA be fully disclosed to ensure that there are no conflicts of interest and investments are being purchased at a fair market price. Underwriters of the bonds, but not the financial or investment advisor, may bid on the sale of investment products for the proceeds. The financial or investment advisor shall document the bidding process and results and shall certify in writing that the MTA received a competitive and fair market price on the investments based on the bidding process.

XII. Market Relationships

A. Rating Agencies and Investors: The Deputy Chief Executive Officer and the Chief Financial Officer shall be primarily responsible, along with the Executive Officer, Finance and Treasurer, for maintaining the MTA's relationships with Moody's Investors Service, Standard & Poor's and Fitch IBCA. In addition to general communications, the Deputy Chief Executive Officer and the Chief Financial Officer, or their appropriate designees, shall: 1) meet with each agency's credit analyst at least once each fiscal year, and 2) communicate with each agency's analysts prior to each competitive or negotiated sale.

B. Board Communication: As a means of providing feedback from rating agencies and/or investors regarding the MTA's financial strengths and weaknesses as perceived by the market place, information will be provided to the Board by Board Box Report as material information develops.

XIII. Continuing Disclosure

It is the policy of the MTA to remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 195 days of the close of the fiscal year.

XIV. Consultants

The MTA will select its financial advisor(s) and its bond counsel by competitive process through a Request for Proposals (RFP). The MTA's contracting policies that are in effect at the time will apply to the contracts with finance professionals. Selection may be based on a best value approach for professional services or the lowest responsive cost effective bid based upon pre-determined criteria.

A. Financial Advisor. The MTA will select a financial advisor (or advisors) to assist in the debt issuance and debt administration processes. Additionally, the financial advisor will conduct competitive processes to recommend providers of financial services including investment management, investment measurement, and custody services. Selection of the MTA's financial advisor(s) should be based on the following:

1. Experience in providing consulting services to complex issuers.
2. Knowledge and experience in structuring and analyzing complex issues.
3. Ability to conduct competitive selection processes to obtain investment products and financial services.
4. Experience and reputation of assigned personnel.
5. Fees and expenses.

Financial advisory services provided to the MTA shall include, but shall not be limited to the following:

1. Evaluation of risks and opportunities associated with debt issuance.
2. Monitoring of the debt portfolio and bond proceeds investments to alert MTA to opportunities to refund or restructure bond issues or modify investments.
3. Evaluation and recommendation regarding proposals submitted to the MTA by investment banking firms.
4. Structuring and pricing bond issues, financial instruments and investments.
5. Preparation of requests for proposals and selection of providers for investment products, financial products and financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, investment management services, custody services etc.).
6. Provide advice, assistance and preparation for presentations with rating agencies and investors.

B. Bond Counsel. MTA debt will include a written opinion by legal counsel affirming that the MTA is authorized to issue the proposed debt, that the MTA has met all constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. A nationally recognized bond counsel firm with extensive experience in public finance and tax issues will prepare this approving opinion and other documents relating to the issuance of debt. The counsel will be selected from the pool of bond counsel firms.

C. Disclosure Counsel**.** The MTA will hire, when appropriate, Disclosure Counsel to prepare official statements in the event of a competitive sale. Disclosure Counsel will be responsible for ensuring that the official statement complies with all applicable rules regulations and guidelines. Disclosure Counsel will be a nationally recognized firm with extensive experience in public finance. The counsel will be selected from the pool of bond counsel firms.

D. Disclosure by Financing Team Members

The MTA expects that all of its financial advisory team will at all times provide the MTA with objective advice and analysis, maintain the confidentiality of MTA financial plans, and be free from any conflicts of interest. All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties that could compromise any firm's ability to provide independent advice that is solely in the best interests of the MTA or that could be perceived as a conflict of interest. The extent of disclosure may vary depending on the nature of the transaction.

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