

**CITY OF OAKLAND
AGENDA REPORT**

FILED
OFFICE OF THE CITY CLERK
2005 JUN 14 PM 7:17

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Finance and Management Agency
DATE: June 14, 2005

RE: RESOLUTIONS ADOPTING THE CITY OF OAKLAND AND OAKLAND
REDEVELOPMENT AGENCY DEBT MANAGEMENT POLICY AND SWAP
POLICY FOR FISCAL YEAR 2005-2006

SUMMARY

Resolutions have been prepared for the City Council of the City of Oakland (the "Council") and the Governing Board of the Redevelopment Agency of the City of Oakland (the "Agency") (collectively, the "City") to adopt a Debt Management Policy (the "Debt Policy") and Swap Policy for Fiscal Year 2005-2006. The proposed 2005-2006 Debt Policy is in most respects identical to the previous year's Policy, with minor variations reflecting updated City debt levels and rating agency guidelines.

Approving the proposed 2005-2006 Debt Policy (attached as Exhibit A) will set forth the parameters for issuing debt and managing the debt portfolio and provides guidance for the City. Additionally, approving the proposed 2005-2006 Swap Policy (attached as Exhibit B) will set forth parameters for issuing debt involving interest rate swap agreements and further assist in managing the debt portfolio and providing guidance for the City.

A Debt Affordability Study (or Debt Capacity Study) is also attached (as Exhibit C) identifying limits for total annual debt service payments with relation to the City's budget, so as to ensure that any new debt issued is affordable and cost-effective.

FISCAL IMPACTS

The Debt Policy and Swap Policy will have no immediate fiscal impacts. However, the implementation of these policies will assist the City in minimizing borrowing costs in the future, due to the financial market's favorable outlook on such policies.

BACKGROUND

Debt Policy

On July 6, 2004, the Council and the Agency adopted Resolution No. 78660 C.M.S. and Resolution No. 2004-35 C.M.S., respectively, and each adopted a Debt Policy for Fiscal Year 2004-2005. The Debt Policy set the guidelines summarized below:

Approach to Debt Management – The City’s approach to its financings is to ensure continued market access at the lowest cost of borrowing. As such, the Debt Policy outlines debt burden guidelines or targets, which are consistent with ranges established by the rating agencies.

Standards for Use of Debt Financing – Debt financing will be promoted when public policy, equity and economic efficiency favor debt over pay-as-you-go financing.

Financing Criteria – Whenever issuing long- or short-term debt, the City will determine the most appropriate structure, the mode (fixed or variable), and the use of synthetic fixed or floating rate debt. These decisions will be made within the context of already existing obligations.

Terms and Conditions of Bonds – In the issuance of its bonds, the City should carefully consider and evaluate the term of the financing, use of capitalized interest, call provisions, original issue discount and the use of deep discount bonds.

Credit Enhancement – The use of credit enhancement is to be considered on a case-by-case basis and will be purchased only when debt service savings can clearly be demonstrated.

Refinancing Outstanding Debt – A minimum savings threshold of 3 percent or \$500,000 (whichever is smaller) in present value savings is established except when there are legal reasons for defeasance.

Methods of Issuance – A preferred sale method (negotiated or competitive) will be determined for each issuance of bonds.

Underwriter Selection – Both senior manager(s) and co-manager(s) will be selected on the basis of firm and staff qualifications, and experience with structures similar to the proposed issuance.

Market Relationships – The City will actively manage its relationships with the various rating agencies and analysts through frequent and open communication. The City will also maintain compliance with S.E.C. Rule 15c2-12 by the timely filing of its annual financial statements and other financial and operating data for the benefit of its bondholders.

Consultants – Consultants, including financial advisors and bond counsel, will be solicited based upon firm and staff qualifications, and experience with structures similar to what is being proposed.

Swap Policy

Interest rate swap agreements, or “swaps”, are defined as a written contract entered into in connection with the issuance of debt obligations for the City or in connection with City debt already outstanding with a counter-party to provide for an exchange of payments based upon fixed and/or variable interest rates. In an interest rate swap agreement, the City would concurrently issue variable rate long-term bonds and enter into an interest rate swap agreement where the City will pay a fixed rate to the swap counter-party and the counter-party pays a variable rate based on an index to the City. The fixed rate that the City pays under this agreement is less than it would have to pay if it issued traditional fixed rate long-term bonds. The City currently has two swaps entered into in 1998 and 2004. Both swap agreements were entered into by the City in conjunction with variable-rate bond issues to create “synthetic-fixed-rate” obligations.

On July 31, 1998, the City entered into a \$170,000,000 forward-starting, floating-to-fixed-rate swap with Goldman Sachs in conjunction with the \$187,500,000 Oakland Joint Powers Financing Authority, 1998 Series A-1/A-2 Lease Revenue Refunding Bonds, which were issued in variable-rate mode. The agreement terminates on August 1, 2021. The City now receives 65% of the one-month London Interbank Offer Rate (“LIBOR”) and pays the fixed rate of 5.6775%.

On June 10, 2004, the City entered into a swap agreement with Bank of America, N.A. and UBS AG in conjunction with the \$117,200,000 Oakland Joint Powers Financing Authority, 2004 Series A-1/A-2 Lease Revenue Refunding Bonds, which were sold as auction rate securities. The agreement terminates on August 1, 2026. The City pays each of the counter-parties a fixed rate of 3.533% and receives 58% of the one-month LIBOR rate plus 35 basis points.

Debt Capacity Analysis

A Debt Affordability Study (or Debt Capacity Study) identifies limits for total annual debt service payments with relation to the City’s budget, so as to ensure that any new debt issued is affordable and cost-effective. A measure of debt affordability is the debt burden ratio, which is defined as annual debt service payments as a percentage of revenues for the fiscal year. Offsetting revenues may be taken into account in this calculation. In general, debt burden ratio is defined within the following categories:

Low debt burden ratio	<5 percent
Moderate debt burden ratio	5-15 percent
High debt burden ratio	>15 percent

For Fiscal Year 05-06 the City's debt burden ratio is 17.8 percent, which is in the high debt burden range.

It is difficult to arrive at an ideal debt burden ratio, as they are only a portion of the data that rating agencies use in their analysis. Economic, administrative, structural, or subjective factors may outweigh any impact of the debt burden ratio when a rating is assigned. In general, a low or moderate debt burden is preferable to a high debt burden as a factor toward minimizing the City's financing costs.

KEY ISSUES AND IMPACTS

The Debt Policy and Swap Policy work together to achieve the lowest possible cost of capital, subject to prudent risk parameters, while preserving future financial flexibility.

Debt Policy

In the credit rating process, the rating agencies believe it is appropriate to place significant value on debt policies that have been implemented by cities. Sound financial management practices that include a debt policy will not only be viewed positively by the rating agencies but may lead to rating upgrades. Higher ratings will lead to lower borrowing costs to the City in the form of lower interest rates. It is also important to note that decisions to issue debt should take into consideration self-supporting debt which is debt with identified sources of revenue.

Swap Policy

Interest rate swap agreements have become recognized and established financial tools by municipal issuers throughout the nation. The use of these products has become such a regular tool that the Government Finance Officers Association ("GFOA") has adopted an official position viewing swap policies governing the use and management of such swaps as a "Recommended Practice".

Since the scope of interest rate swaps is beyond that of the traditional fixed rate long-term bonds covered by the adopted Debt Policy, it is important that Council adopt a policy that will provide guidance in administering existing swaps and in selecting and implementing future interest rate swaps related to City bond issues.

Adopting the 2005-2006 Swap Policy will set the framework to guide staff in the management of the City's existing swaps and set forth the process for entering into new interest rate swaps. The Swap Policy will govern the use and management of interest rate swaps as they may be used in conjunction with the City's debt issues. The policy establishes guidelines to be used when considering the use of swaps and in the on-going management of existing swaps. Guidance is provided specifying appropriate uses, selection of acceptable providers, negotiation of favorable terms and conditions, and stipulating annual surveillance of the swaps and the providers. The

processes for selection of swap related financial products and professional services are also specified.

In the credit rating process, the rating agencies believe it is appropriate to place significant value on swap policies that have been implemented by cities. Sound financial management practices that include a swap policy will not only be viewed positively by the rating agencies but may lead to rating upgrades. Higher ratings will lead to lower borrowing costs to the City in the form of lower interest rates.

Debt Capacity Analysis

Enhancing the quality of financing decisions through an analysis of debt capacity rationalizes the decision-making process, identifies objectives for staff to implement, and demonstrates a commitment to long-term financial planning objectives. Furthermore, performing a debt capacity analysis is viewed positively by the rating agencies and may contribute to lowered financing/interest costs.

SUSTAINABLE OPPORTUNITIES

None

DISABILITY AND SENIOR CITIZEN ACCESS

Not applicable.

RECOMMENDATIONS AND RATIONALE

Staff recommends that the City Council and the Board of the Redevelopment Agency adopt the proposed debt and swap policies. The adoption of the Debt Policy and Swap Policy will set forth parameters for issuing debt, including debt involving interest rate swap agreements. When adopted, copies of these policies will be maintained at the City Clerk's Office and at the office of the Finance and Management Agency, and be posted on the City's official website, www.oaklandnet.com.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council and the Board of the Redevelopment Agency approve the accompanying Resolutions adopting the Debt Policy and Swap Policy.

Respectfully submitted,



WILLIAM E. NOLAND

Director, Finance and Management Agency

Prepared by:

Katano Kasaine
Treasury Manager

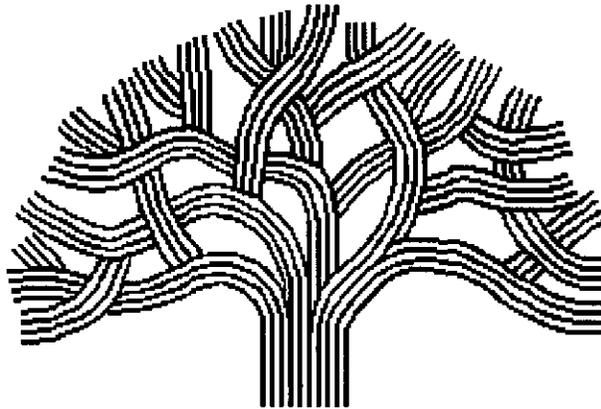
APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE



OFFICE OF THE CITY ADMINISTRATOR

**City of Oakland
&
Oakland Redevelopment Agency**

**Debt Policy
for
Fiscal Year 2005-2006**



Prepared by
Treasury Division, Finance and Management Agency

Adopted by the City Council and Oakland Redevelopment Agency
On June 21, 2005

4

FINANCE & MANAGEMENT CMTE.

JUN 14 2005



Executive Summary of Debt Management Policy

- I. **Goals and Objectives.** In implementing a formal debt management policy, the goal of the City of Oakland and the Oakland Redevelopment Agency (collectively, the “City”) is to maintain long-term financial flexibility while ensuring that the City’s capital needs are adequately supported.

- II. **Approach to Debt Management.** The City’s approach to its financings is to ensure continued market access at the lowest cost of borrowing. As such, the Debt Policy denotes debt affordability for the City compared to capacity ratios which are established by the rating agencies (Moody’s Investor Service, Standard & Poor’s Ratings Services, and Fitch Ratings). Debt capacity ratios are defined as annual debt service payments as a percentage of General Fund and other revenues. Below are the debt capacity ratio ranges:
 - Low debt capacity ratio <5%
 - Moderate debt capacity ratio 5% - 15%
 - High debt capacity ratio >15%

The City’s debt capacity ratio for the Fiscal Year ended June 30, 2006 is 17.8%.

- III. **Standards for Use of Debt Financing.** Debt financing will be utilized when public policy, equity and economic efficiency favor debt over pay-as-you-go financing.
 - Debt will be used to finance long-term capital projects, and the respective maturities will not exceed the respective projects’ useful lives.
 - The City will seek to use the most economical financing alternative.
 - The City will ensure good record-keeping and compliance with all debt covenants and State and Federal laws.

- IV. **Financing Criteria.** Whether issuing long- or short-term debt, the City will determine the most appropriate structure, the mode (fixed or variable), and the possible use of synthetic fixed or floating rate debt. These decisions will be made within the context of already existing obligations.

- V. **Terms and Conditions of Bonds.** In the issuance of its bonds, the City shall carefully consider and evaluate the term of the financing, use of capitalized interest, call provisions, original issue discount and the use of deep discount bonds.



- VI. Credit Enhancement.** The use of credit enhancement is to be considered on a case-by-case basis and will be purchased only when debt service savings can clearly be demonstrated.
- VII. Refinancing Outstanding Debt.** A minimum savings threshold of 3% or \$500,000 in present value savings is utilized except when there are legal reasons for defeasance.
- VIII. Methods of Issuance.** The preferred sale method (negotiated or competitive) will be determined for each issuance of bonds. General Obligation Bonds and Tax and Revenue Anticipation Notes will be issued on a competitive basis.
- IX. Underwriter Selection.** Both senior managers and co-managers will be selected on the basis of firm and staff qualifications, and experience with structures similar to the proposed issuance. Selling groups may be considered for certain transactions. All parties are subject to post-evaluation of performance.
- X. Market Relationships.** The City will actively manage its relationships with the various rating agencies and analysts through frequent and open communication. The City will also maintain compliance with S.E.C. Rule 15c2-12 by the timely filing of its annual financial statements and other financial and operating data for the benefit of its bondholders.
- XI. Consultants.** The selection of financial consultant(s) shall be based upon firm and staff qualifications, and experience with debt structures similar to what is being proposed. Consultants will be required to provide complete disclosure regarding any agreements with other financing team members and outside parties.

**City of Oakland
Debt Policy**

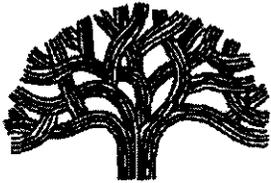


Table of Contents

Introduction	1
Goals and Objectives	1
Approach to Debt Management	2
Standards for Use of Debt Financing	4
Financing Criteria	5
Terms and Conditions of Bonds	6
Credit Enhancements	8
Refinancing Outstanding Debt	9
Methods of Issuance	10
Underwriter Selection	11
Market Relationships	13
Consultants	15
Glossary	17



Introduction

So as to maintain the highest quality debt management program possible, the City of Oakland and the Oakland Redevelopment Agency (the “City”) has adopted the guidelines and policies set forth in this document, referred to hereafter as the “Debt Management Policy.” The Debt Management Policy is intended to guide decisions related to debt issued by the City. Debt issuance should be evaluated on a case-by-case basis as well as within the context of the City’s general debt management program. The Debt Management Policy is not applicable to intra-City borrowing.

I. Goals and Objectives

The Debt Management Policy formally establishes parameters for issuing debt and managing a debt portfolio, which encompasses the City’s specific capital improvement, needs, its ability to repay financial obligations, and the existing legal, economic, financial and debt market conditions. The policies outlined in the Debt Management Policy are not goals or a list of rules to be applied toward the City’s debt issuance; rather, these policies should be utilized as tools to ensure that adequate financial resources are available to support the City’s long-term capital needs. Specifically, the policies outlined in this document are intended to assist the City in the following:

- A.** Evaluating critical debt issuance options
- B.** Promoting sound financial management
- C.** Providing accurate and timely information on financial conditions
- D.** Maintaining appropriate capital assets for present and future needs
- E.** Protecting and enhancing the City's credit rating
- F.** Ensuring the legal use of City bonding authority through an effective system of financial security and internal controls
- G.** Promoting cooperation and coordination with other public entities and the private sector in the financing and delivery of services



II. Approach to Debt Management

In managing its debt, the City's greatest priorities are to:

- achieve the lowest cost of capital
- ensure high credit quality
- assure access to credit markets, and
- preserve financial flexibility

A. Capital Plan Integration. A sound debt management program begins with a well-devised *capital plan*. Therefore, a *multi-year capital plan*, which *integrates pay-as-you-go projects* and the projects to be financed, is critical. The multi-year capital plan (the "Capital Plan") shall be for a minimum of a 5-year period and shall be updated at least once annually. In addition to capital project costs, the Capital Plan shall include the following elements:

1. Qualified capital projects
2. Description of all sources of funds
3. Availability of current revenues (non-debt sources) which are reflected in the City's multi-year forecast
4. Timing of capital projects
5. A financing plan or methodology and debt service requirements

B. Review of Capital Plan. It is anticipated that the Capital Plan will be modified from time to time. Modifications to the Capital Plan shall be accompanied by a report from the City's Director of the Finance and Management Agency and Budget Director that discusses the impact of the proposed borrowing on the Capital Plan. The Capital Plan is reviewed and presented to the City Council at least once annually.

C. Qualified Capital Projects. Generally, the City will not issue bonds for capital improvements with a cost less than \$250,000. The City shall not construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its life.



D. Cash Financing of Capital Outlays. To demonstrate the City's commitment to a continued capital program, ensure careful consideration of capital expenditure levels, and enhance the City's overall credit worthiness, the City shall seek to fund at least between two and five percent of the overall capital program from current resources, depending upon the specific projects and annual budgetary constraints.

E. Authorization for Issuance. Debt issuance for capital projects shall not be considered unless such issuance has been incorporated into the Capital Plan.

F. Affordability Targets. The ratios, standards, and limits identified below are primarily intended to restrict the use of debt financing in order to facilitate long-term access to capital while ensuring that financial leveraging decisions do not negatively impact the City's annual operations.

1. Debt Capacity - The City's approach to its financings is to ensure continued market access at the lowest cost of borrowing. As such, the Debt Policy denotes debt affordability for the City compared to capacity ratios which are established by the rating agencies (Moody's Investor Service, Standard & Poor's Ratings Services, and Fitch Ratings). Debt capacity ratios are defined as annual debt service payments as a percentage of General Fund and other revenues. Below are the debt capacity ratio ranges:

- Low debt capacity ratio <5%
- Moderate debt capacity ratio 5% - 15%
- High debt capacity ratio >15%

The City's debt capacity ratio for the Fiscal Year ended June 30, 2006 is 17.8%.

2. Self-supporting Debt. In some cases, the City will issue debt for which there is an identified repayment source. For debt to be characterized as self-supporting, the repayment source must support the issue through its maturity. Bond issues where interest has been capitalized are not considered to be self-supporting.

3. Overlapping Debt (including debt from all other jurisdictions, which tax City taxpayers) will be taken into consideration in planning debt issuance.

G. Credit Quality. All City debt management activities will be conducted to receive the highest credit ratings possible for each issue, consistent with the City's financing objectives, and to maintain the current credit ratings assigned to the City's debt by the major credit rating agencies.



III. Standards for Use of Debt Financing

The City's debt management program will promote the use of debt only in those cases where public policy, equity, and economic efficiency favor debt over cash (pay-as-you-go) financing. Whenever possible, the debt shall be self-supporting.

- A. Long-Term Capital Projects.** Debt will be used primarily to finance long-term capital projects — paying for the facilities or equipment over some or all of their useful life and concurrent with the stream of benefits from these facilities. The City will consider the debt capacity in determining the use of debt financing.
- B. Special Circumstances for Non-Capital-Project Debt Issuance.** Debt may be used in special circumstances for projects other than long-term capital projects such as pension obligations, only after careful policy evaluation by the City.
- C. Debt Financing Mechanisms.** The City will evaluate the use of all financial alternatives available, including, but not limited to: long-term debt, pay-as-you-go, joint financing, reserve fund releases, lease-purchase, authority sponsored debt, special districts, community facility districts, special assessments, Mello-Roos bonds, state and federal aid, certificates of participation, tax increment, private placement, master lease programs, and interfund borrowing. The City will utilize the most cost advantageous financing alternative available while limiting the General Fund's risk exposure.
- D. Record-Keeping.** All debt related records shall be maintained within the Treasury Division. At a minimum, this repository will include all official statements, bid documents, ordinances, indentures, trustee reports, leases, etc., for all City debt. To the extent that official transcripts incorporate these documents, possession of a transcript will suffice (transcripts may be in hard copy or stored on CD-ROM). The Treasury Division will maintain all available documentation for outstanding debt and will develop a standard procedure for archiving transcripts for any new debt.
- E. Rebate Policy and System.** The City will accurately account for all interest earnings in debt-related funds. These records will be designed to ensure that the City is in compliance with all debt covenants, and with State and Federal laws. The City will maximize the interest earnings on all funds within the investment parameters set forth in each respective indenture. The City will calculate and report interest earnings that relate to Internal Revenue Code rebate, yield limits, and arbitrage.

IV. Financing Criteria

- A. Types of Debt.** When the City determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued.



1. **Long-Term Debt.** The City may issue long-term debt (e.g., general obligation bonds, revenue bonds, conduit revenue bonds, tax increment bonds, lease obligations, or variable rate bonds) when required capital improvements cannot be financed from current revenues. The proceeds derived from long-term borrowing will not be used to finance current operations or normal maintenance. Long-term debt will be structured such that the obligations do not exceed the expected useful life of the respective projects.

The City shall not use any debt, lease financing or other instruments of installment repayments with terms longer than two years to finance its operating costs. Exceptions to the policy may be made on a case-by-case basis by the Council.

2. **Short-Term Debt.** Short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or anticipated revenues (defined as an assured source with the anticipated amount based on conservative estimates). The City will determine and utilize the least costly method for short-term borrowing. The City may issue short-term debt when there is a defined repayment source or amortization of principal, subject to the following policies:

- a) **Bond Anticipation Notes (BANs)** may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANs shall mature not more than 3 years from the date of issuance. BANs shall mature within 6 months after substantial completion of the financed facility.

- b) **Tax and Revenue Anticipation Notes (TRANS)** shall be issued only to meet projected cash flow needs consistent with a finding by bond counsel that the sizing of the issue fully conforms to Federal IRS requirements and limitations.

- c) **Lines of Credit** shall be considered as an alternative to other short-term borrowing options. The lines of credit shall be structured to limit concerns as to the Internal Revenue Code.

- d) **Other Short-Term Debt**, including commercial paper notes, may be used.

3. **Lease-Purchase Debt.** Lease-purchase debt, including certificates of participation, shall be considered as an alternative to long-term vendor leases. Such debt shall be subject to annual appropriation. In order to reduce the cost of lease borrowing and to improve control over leases, the City may adopt a master lease program.

4. **Variable Rate Debt.** To maintain a predictable debt service burden, the City may give preference to debt that carries a fixed interest rate. Variable rate debt, which is



synthetically fixed, shall be considered fixed rate debt through the maturity of the swap. The City, however, may consider variable rate debt in certain instances, such as:

- a) **High Interest Rate Environment.** Current interest rates are above historic average trends.
- b) **Variable Revenue Stream.** The revenue stream for repayment is variable, and is anticipated to move in the same direction as market-generated variable interest rates, or the dedication of revenues allows capacity for variability.
- c) **Adequate Safeguards Against Risk.** Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts; such structures could include, but are not limited to, interest rate swaps, interest rate caps and the matching of assets and liabilities.
- d) **As a Component to Synthetic Fixed Rate Debt.** Variable rate bonds may be used in conjunction with a financial strategy, which results in synthetic fixed rate debt. Prior to using synthetic fixed rate debt, the City shall certify that the interest rate cost is lower than traditional fixed rate debt.
- e) **Variable Rate Debt Capacity.** Consistent with rating agency guidelines, the percentage of variable rate debt outstanding (not including debt which has been converted to synthetic fixed rate debt) shall be hedged by cash flow liquidity.

V. Terms and Conditions of Bonds

The City shall establish all terms and conditions relating to the issuance of bonds, and will control, manage, and invest all bond proceeds. Unless otherwise authorized by the City, the following shall serve as bond requirements:

- A. **Term.** All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event greater than thirty years.
- B. **Capitalized Interest.** Certain types of financings such as certificates of participation and lease-secured financings will require the use of capitalized interest from the issuance date until the City has beneficial use and occupancy of the financed project. Interest shall not be funded (capitalized) beyond a period of three years, or a shorter period if further restricted by statute. The City may require that capitalized interest on the initial series of bonds be funded from the proceeds of the bonds. Interest earnings may, at the City's



discretion, be applied to extend the term of capitalized interest but in no event beyond the term statutorily authorized.

- C. Debt Service Structure.** Debt issuance shall be planned to achieve relatively rapid repayment of debt while still matching debt service to the useful life of facilities. The City shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to levelize existing debt service.
- D. Call Provisions.** In general, the City's securities will include a call feature, which is no later than 10 years from the date of delivery of the bonds. The City will avoid the sale of non-callable bonds absent careful evaluation by the City of the value of the call option.
- E. Original Issue Discount.** An original issue discount will be permitted only if the City determines that such discount results in a lower true interest cost on the bonds and that the use of an original issue discount will not adversely affect the project identified by the bond documents.
- F. Deep Discount Bonds.** Deep discount bonds may provide a lower cost of borrowing in certain markets. The City will carefully consider their value and effect on any future refinancings as a result of the lower-than-market coupon.
- G. Derivative Structures.** When appropriate, the City will consider the use of derivative structures as a hedge against future interest rate risk and as a means for increasing financial flexibility. The City will avoid the use of derivative structures for speculative purposes. The City will consider the use of derivative structures when it is able to gain a comparative borrowing advantage of 10 or more basis points, and is able to reasonably quantify and understand potential risks.

The City shall not use derivative structures for the sole purpose of generating operating or capital proceeds, without a determination that such structure will accrue interest rate and borrowing costs benefits for the City. For more information on "swaps", please refer to the City's Swap Policy.

- H. Multiple Series.** In instances where multiple series of bonds are to be issued, the City shall make a final determination as to which facilities are of the highest priority and those facilities which will be financed first, pursuant to funding availability and the proposed timing of facilities development, and which will generally be subject to the earliest or most senior lien.

VI. Credit Enhancements

The City will consider the use of credit enhancement on a case-by-case basis, evaluating the



economic benefit versus cost for each case. Only when a clearly demonstrable savings can be shown shall enhancement be considered. The City will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement.

A. Bond Insurance. The City shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.

1. Provider Selection. The Director of the Finance and Management Agency or his/her designee will solicit quotes for bond insurance from interested providers, or in the case of a competitive sale submit an application for pre-qualification on insurance. In a negotiated sale, the Director or the Treasury Manager shall have the authority to select a provider whose bid is most cost effective and whose terms and conditions governing the guarantee are satisfactory to the City. The winning bidder in a competitive sale will determine whether it chooses to purchase bond insurance for the issue.

B. Debt Service Reserves. When required, a reserve fund equal to the least of ten percent (10%) of the original principal amount of the bonds, one hundred percent (100%) of the maximum annual debt service, and one hundred and twenty five percent (125%) of average annual debt service, or, if permitted, 10 percent (10%) of par value of bonds outstanding (the "Reserve Requirement") shall be funded from the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies.

The City may purchase reserve equivalents (i.e., the use of a reserve fund surety) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

C. Letters of Credit. The City may enter into a letter-of-credit ("LOC") agreement when such an agreement is deemed prudent and advantageous. The Director of the Finance and Management Agency or the Treasury Manager shall prepare (or cause to be prepared) and distribute to qualified financial institutions as described in paragraph 2 below, a request for qualifications which includes terms and conditions that are acceptable to the City.

4
FINANCE & MANAGEMENT CMTE.

JUN 14 2005



1. **Provider Selection.** Only those financial institutions with long-term ratings greater than or equal to that of the City, and short-term ratings of VMIG 1/A-1 F1, by Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings, respectively, may be solicited.
2. **Selection Criteria.** The selection of LOC providers will be based on responses to a City-issued request for qualifications; criteria will include, but not be limited to, the following:
 - a) Ratings at least equal to or better than the City's
 - b) Evidence of ratings (including "Outlook")
 - c) Trading value relative to other financial institutions
 - d) Terms and conditions acceptable to the City; the City may provide a term sheet along with the request for qualifications to which the financial institution may make modifications
 - e) Representative list of clients for whom the bank has provided liquidity facilities
 - f) Fees, specifically, cost of LOC, draws, financial institution counsel and other administrative charges

VII. Refinancing Outstanding Debt

The Treasury Manager shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or financial advisory firms. The Treasury Manager will consider the following issues when analyzing possible refunding opportunities:

- A. Debt Service Savings.** The City establishes a minimum savings threshold goal of three percent of the refunded bond principal amount or at least \$500,000 in present value savings (including foregone interest earnings) unless there are legal reasons for defeasance. The present value savings will be net of all costs related to the refinancing. The decision to take savings on an upfront or deferred basis must be explicitly approved by the City Administrator or the Director of the Finance and Management Agency.
- B. Restructuring.** The City will refund debt when in its best interest to do so. Refundings will include restructuring to meet unanticipated revenue expectations, terminate swaps, achieve cost savings, mitigate irregular debt service payments, release reserve funds, or remove unduly restrictive bond covenants.



- C. Term of Refunding Issues.** The City may refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.
- D. Escrow Structuring.** The City shall utilize the least costly securities available in structuring refunding escrows. The City will examine the viability of an economic versus legal defeasance on a net present value basis. A certificate will be required from a third party agent who is not a broker-dealer, stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the City from its own account.
- E. Arbitrage.** The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refundings. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

VIII. Methods of Issuance

The City will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation. General Obligation Bonds and Tax and Revenue Anticipation Notes will be issued on a competitive basis unless otherwise determined on a case-by-case basis that a negotiated sale is the most advantageous.

- A. Competitive Sale.** In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale.
- B. Negotiated Sale.** The City recognizes that some securities are best sold through negotiation. In its consideration of a negotiated sale, the City shall assess the following circumstances:



1. Bonds issued as variable rate demand obligations
2. A complex structure which may require a strong pre-marketing effort
3. Size of the issue which may limit the number of potential bidders
4. Market volatility is such that the City would be better served by flexibility in timing its sale in changing interest rate environments

C. Private Placement. From time to time the City may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to result in a cost savings to the City relative to other methods of debt issuance.

D. Conduit Debt Issuance. The City may issue conduit revenue bonds that are not a debt or obligation of the City itself, but are obligations of a private borrower. Notwithstanding other credit requirements of the City, such conduit revenue bonds may be issued and sold with or without a credit rating, provided that for any bond with a rating lower than "A", the following conditions shall be met:

1. Bonds shall be issued only in denominations of not less than two-hundred and fifty thousand dollars
2. Bonds shall be eligible for purchase only by "qualified institutional buyers" as defined in Rule 144A of the Securities Act of 1933
3. Bonds shall be sold only to buyers who execute a standard form investor letter containing, among other things, representations of the buyer as sophistication as an investor and its familiarity with the transaction

E. Issuance Method Analysis. The City shall evaluate each method of issuance on a net present value basis.

F. Feasibility Analysis. Issuance of self-supporting revenue bonds will be accompanied by a finding that demonstrates the projected revenue stream's ability to meet future debt service payments.

IX. Underwriter Selection

A. Senior Manager Selection. The Director of the Finance and Management Agency and/or the Treasury Manager shall recommend to the City Administrator the selection of a senior manager for a proposed negotiated sale. Solicited or unsolicited Request for Proposals (RFP) or Request of Qualifications (RFQ) will be used to determine the



selection and appointment of the senior managers and co-managers on the debt issuances. The criteria for selection as reflected in the RFP or RFQ shall include but not be limited to the following:

1. The firm's ability and experience in managing complex transactions
2. Prior knowledge and experience with the City
3. The firm's willingness to risk capital and demonstration of such risk
4. The firm's ability to sell bonds
5. Quality and experience of personnel assigned to the City's engagement
6. Financing plan presented

B. Co-Manager Selection. Co-managers will be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the City's bonds.

C. Selling Groups. The City may establish selling groups in certain transactions. To the extent that selling groups are used, the Director of the Finance and Management Agency and/or the Treasury Manager at his or her discretion, may make appointments to selling groups from within the pool of underwriters or from outside the pool, as the transaction dictates.

D. Underwriter's Counsel. In any negotiated sale of City debt in which legal counsel is required to represent the underwriter, the appointment will be made by the lead underwriter.

E. Underwriter's Discount.

1. The Director of the Finance and Management Agency and/or the Treasury Manager will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Director and/or the Treasury Manager will determine the allocation of fees with respect to the management fee. The determination will be based upon participation in the structuring phase of the transaction.
2. All fees and allocation of the management fee will be determined prior to the sale date; a cap on management fee, expenses and underwriter's counsel will be



established and communicated to all parties by the Treasury Manager. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

F. Evaluation of Financing Team Performance. The City will evaluate each bond sale after its completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

G. Syndicate Policies. For each negotiated transaction, syndicate policies will be prepared that will describe the designation policies governing the upcoming sale. The Treasury Manager or Financial Advisor shall ensure receipt of each member's acknowledgement of the syndicate policies for the upcoming sale prior to the sale date.

H. Designation Policies. To encourage the pre-marketing efforts of each member of the underwriting team, orders for the City's bonds will be net designated, unless otherwise expressly stated. The City shall require the senior manager to:

1. Equitably allocate bonds to other managers and the selling group
2. Comply with MSRB regulations governing the priority of orders and allocations
3. Within 10 working days after the sale date, submit to the Director of the Finance and Management Agency or Treasury Manager a detail of orders, allocations and other relevant information pertaining to the City's sale

X. Market Relationships

A. Rating Agencies and Investors. The City Administrator, the Director of the Finance and Management Agency, and the Treasury Manager shall be responsible for maintaining the City's relationships with Moody's Investors Service, Standard & Poor's Ratings Services and Fitch Ratings. The City may, from time to time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the City Administrator, the Director of the Finance and Management Agency and the Treasury Manager shall: (1) meet with credit analysts at least once each fiscal year, and (2) prior to each competitive or negotiated sale, offer conference calls with agency analysts in connection with the planned sale.

B. Continuing Disclosure. The City shall 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 270 days of the close of the fiscal year. The inability to make timely filings must be disclosed and would be a negative reflection on the City. While



also relying on timely audit and preparation of the City's annual report, the Treasury Manager will ensure the City's timely filing with each Nationally Recognized Municipal Securities Information Repository.

C. Rebate Reporting. The use of bond proceeds and their investments must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate annual rebates, if any, related to each bond issue, with rebate, if due, paid every five years. Therefore, the Treasury Manager shall ensure that proceeds and investments are tracked in a manner that facilitates accurate calculation, that calculations are completed, and rebates, if any, are made in a timely manner.

D. Other Jurisdictions. From time to time, the City will issue bonds on behalf of other public or private entities ("conduit" issues). While the City will make every effort to facilitate the desires of these entities, the Director of the Finance and Management Agency and the Treasury Manager will ensure that the highest quality financings are done and that the City is insulated from all risks. The City shall require that all conduit financings achieve a rating at least equal to the City's ratings or that credit enhancement is obtained.

XI. Fees. The City will charge an administrative fee equal to direct costs plus indirect costs as calculated by the City's OMB A87 model to reimburse its administrative costs incurred in debt issuance on behalf of other governmental entities.

XII. Consultants

The City shall select its primary consultant(s) by competitive process through a Request for Proposals (RFP).

A. Selection of Financing Team Members. The City Administrator and/or the Director of the Finance and Management Agency will make recommendations for financial advisors and underwriters. Final approval will be provided by the City Council. The City Attorney will make recommendations for bond and tax counsel.

B. Financial Advisor. A pool of financial advisors will be created to assist the City in its debt issuance and debt administration processes. Selection of the City's financial advisor(s) shall be based on, but not limited to, the following criteria:



1. Experience in providing consulting services to complex issuers
2. Knowledge and experience in structuring and analyzing complex issues
3. Experience and reputation of assigned personnel
4. Fees and expenses

C. Financial Advisory Services. Financial advisory services provided to the City shall include, but shall not be limited to the following:

1. Evaluation of risks and opportunities associated with debt issuance
2. Monitoring marketing opportunities
3. Evaluation of proposals submitted to the City by investment banking firms
4. Structuring and pricing
5. Preparation of request for proposals for other financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.)
6. Advice, assistance and preparation for presentations with rating agencies and investors

D. Conflicts of Interest. The City also expects that its financial advisor will provide the City with objective advice and analysis, maintain the confidentiality of City financial plans, and be free from any conflicts of interest.

E. Bond Counsel. City debt will include a written opinion by legal counsel affirming that the City is authorized to issue the proposed debt, that the City has met all constitution and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. The counsel will be selected by the City Attorney's Office. Final approval will be provided by the City Council. Compensation will be based on a fixed fee schedule and will vary based on the complexity of the transaction.

F. Disclosure by Financing Team Members. All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements



shall be permitted which could compromise the firm's ability to provide independent advice which is solely in the City's best interests or which could reasonably be perceived as a conflict of interest.

G. Financing Team Selection Process. The City shall conduct a request for qualifications from all red-book firms and other potential candidates in the San Francisco and Oakland Metropolitan areas every three years to establish pools of qualified underwriters, financial advisors, bond counsel and other consultants for each of the following areas:

- General Obligation Bonds, assessment bonds and other bond issuances based on voter-approval revenues;
- Redevelopment tax-increment bonds (including low and moderate income housing);
- Revenue bonds, lease financing and other obligations on existing City revenues.

The City shall select at least three qualified applicants for each pool category, subject to the approval of the City Council. The City shall utilize the services of qualified applicants in the pool on a rotational basis for any issue of debt, financing or debt instrument having an aggregated principal amount of less than \$50,000,000.

For any issue of debt, financing or debt instrument having an aggregated principal amount of \$50,000,000 or more, the City shall select underwriter(s) and financing advisor for that issue through the issuance of a request for proposal from all red-book firms and other potential candidates.



Glossary

Arbitrage. The difference between the interest paid on the tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

Balloon Maturity. A later maturity within an issue of bonds which contains a disproportionately large percentage of the principal amount of the original issue.

Bond Anticipation Notes (BANs). Notes issued by the government unit, usually for capital projects, which are paid from the proceeds of the issuance of long term bonds.

Bullet Maturity. A maturity for which there are no sinking fund payments prior to the stated maturity date.

Call Provisions. The terms of the bond contract giving the issuer the right to redeem all or a portion of an outstanding issue of bonds prior to their stated dates of maturity at a specific price, usually at or above par.

Capitalized Interest. A portion of the proceeds of an issue which is set aside to pay interest on the securities for a specific period of time. Interest is commonly capitalized for the construction period of the project.

Certificates of Participation (COP). A bond from an issue, which is secured by lease payments made by the party leasing the facilities, financed by the issue. Typically certificates of participation ("COPs") are used to finance construction of facilities (i.e., schools or office buildings) used by a state or municipality, which leases the facilities from a financing authority. Often the leasing municipality is legally obligated to appropriate moneys from its general tax revenues to make lease payments.

Commercial Paper. Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

Competitive Sale. A sale of securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities in contrast to a negotiated sale.

Continuing Disclosure. The principle that accurate and complete information material to the transaction which potential investors would be likely to consider material in making investment decisions with respect to the securities be made available on an ongoing basis.



Credit Enhancement. Credit support purchased by the issuer to raise the credit rating of the issue. The most common credit enhancements consist of bond insurance, direct or standby letters of credit, and lines of credit.

Debt Service Reserve Fund. The fund in which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements.

Deep Discount Bonds. Bonds which are priced for sale at a substantial discount from their face or par value.

Derivatives. A financial product whose value is derived from some underlying asset value.

Designation Policies. Outline of how an investor's order is filled when a maturity is oversubscribed when there is an underwriting syndicate. The senior managing underwriter and issuer decide how the bonds will be allocated among the syndicate. There are three primary classifications of orders, which form the designation policy.

The highest priority is given to Group Net orders; the next priority is given to Net Designated orders and Member orders are given the lowest priority.

Escrow. A fund established to hold moneys pledged and to be used to pay debt service on an outstanding issue.

Expenses. Compensates senior managers for out-of-pocket expenses including: underwriters' counsel, DTC charges, travel, syndicate expenses, dealer fees, overtime expenses, communication expenses, computer time and postage.

Lease-Purchase. A financing lease which may be sold publicly to finance capital equipment, real property acquisition or construction. The lease may be resold as certificates of participation or lease revenue bonds.

Letters of Credit. A bank credit facility wherein the bank agrees to lend a specified amount of funds for a limited term.

Management Fee. The fixed percentage of the gross spread which is paid to the managing underwriter for the structuring phase of a transaction.

Members. Underwriters in a syndicate other than the senior underwriter.



Moody's Median. Key financial, debt, economic and tax base statistics with median values for each statistic presented. Moody's uses audits for both rated and unrated cities to ensure that the medians presented are representative of all cities.

Negotiated Sale. A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

Original Issue Discount. The amount by which the original par amount of an issue exceeds its public offering price at the time it is originally offered to an investor.

Overlapping Debt. That portion of the debt of other governmental units for which residents of a particular municipality are responsible.

Pay-As-You-Go. An issuer elects to finance a project with existing cash flow as opposed to issuing debt obligations.

Present Value. The current value of a future cash flow.

Private Placement. The original placement of an issue with one or more investors as opposed to being publicly offered or sold.

Rebate. A requirement imposed by Tax Reform Act of 1986 whereby the issuer of the bonds must pay the IRS an amount equal to its profit earned from investment of bond proceeds at a yield above the bond yield calculated pursuant to the IRS code together with all income earned on the accumulated profit pending payment.

Selling Groups. The group of securities dealers that participate in an offering not as underwriters but as sellers who receive securities, less the selling concession, from the managing underwriter for distribution at the public offering price.

Special Assessments. Fees imposed against properties, which have received a special benefit by the construction of public improvements such as water, sewer and irrigation.

Syndicate Policies. The contractual obligations placed on the underwriting group relating to distribution, price limitations and market transactions.

Tax Increment. A portion of property tax revenue received by a redevelopment agency, which is attributable to the increase in assessed valuation since adoption of the project area plan.



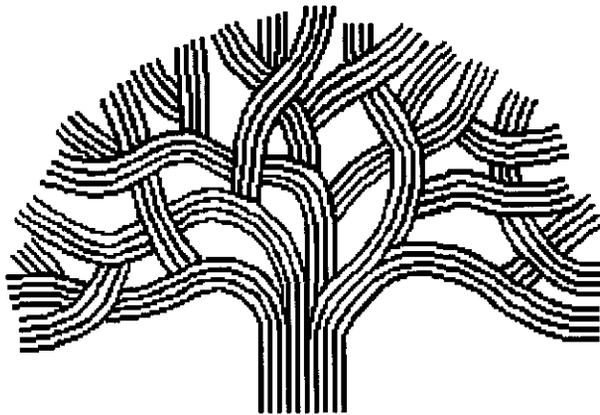
Underwriter. A dealer that purchases new issues of municipal securities from the Issuer and resells them to investors.

Underwriter's Discount. The difference between the price at which bonds are bought by the Underwriter from the Issuer and the price at which they are reoffered to investors.

Variable Rate Debt. An interest rate on a security, which changes at intervals according to an index or a formula or other standard of measurement, as stated in the bond contract.

**City of Oakland
&
Oakland Redevelopment Agency**

**Swap Policy
for
Fiscal Year 2005-2006**



Prepared by
Treasury Division, Finance and Management Agency
with the assistance of Public Financial Management, Inc.

Adopted by the City Council and Oakland Redevelopment Agency
On June 21, 2005

4

FINANCE & MANAGEMENT CMTE.

JUN 14 2005

Table of Contents

	<u>Page</u>
I. INTRODUCTION	1
II. SCOPE AND AUTHORITY	1
III. CONDITIONS FOR THE USE OF INTEREST RATE SWAPS	1
A. General Usage.....	1
B. Maximum Notional Amount.....	2
C. Interest Rate Swap Considerations	2
IV. INTEREST RATE SWAP FEATURES	2
A. Interest Rate Swap Agreement.....	2
B. Interest Rate Swap Counterparties.....	3
C. Term and Notional Amount	4
D. Collateral Requirements.....	5
E. Security and Source of Repayment.....	5
F. Prohibited Interest Rate Swap Features	5
V. EVALUATION AND MANAGEMENT OF INTEREST RATE SWAP RISKS	6
A. Evaluation Methodology	6
B. Managing Interest Rate Swap Risks	7
C. Terminating Interest Rate Swaps.....	7
VI. SELECTING AND PROCURING INTEREST RATE SWAPS	8
A. Financing Team	8
B. Underwriter Selection	9
C. Counterparty Selection	9
VII. DISCLOSURE AND FINANCIAL REPORTING.....	9

I. Introduction

The purpose of the Swap Policy (the "Policy") of the City of Oakland (the "City") is to establish guidelines for the use and management of interest rate swaps. This Policy will provide the appropriate internal framework to ensure that consistent objectives, practices, controls and authorizations are maintained throughout the City in terms of debt related risks and the management of hedging thereof.

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

II. Scope and Authority

This Policy shall govern the City's use and management of all interest rate swaps. While adherence to this Policy is required in applicable circumstances, the City maintains the right to modify this Policy and make exceptions to certain guidelines at any time to the extent that it achieves one or more of the City's overall financial and/or policy goals.

In conjunction with the City's Debt Policy, this Policy shall be reviewed and updated at least annually and presented to the City Council (the "Council") for approval. The City Administrator, in conjunction with the Finance and Management Agency Director (the "Finance Director"), are the designated administrators of this Policy. The Finance Director and/or the Treasury Manager shall have the day-to-day responsibility and authority for structuring, implementing, and managing interest rate swaps.

Council shall approve any transaction involving an interest rate swap. The City shall be authorized to enter into interest rate swap or derivative hedging transactions only with qualified counterparties. The Finance Director, in consultation with the City Administrator, shall have the authority to select the counterparties, so long as the criteria set forth in this Policy are met.

III. Conditions for the Use of Interest Rate Swaps

A. General Usage

The City will use interest rate swaps or derivative hedging products (collectively referred to as "swap products") to produce debt service savings, limit or hedge overall interest rate exposure, enhance investment returns within prudent risk guidelines, achieve market flexibility not available in the traditional market, optimize capital structure (i.e., alter the pattern of debt service payments), or for asset/liability matching purposes.

In connection with the use of any swap products, Council shall make a finding that the authorized swap product will be used in a beneficial manner that when implemented in combination with new or outstanding bonds, the swap product will enhance the relationship between risk and return, or achieve other policy objectives of the City.

Any agreement implementing the use of swap product will only be entered into after the careful assessment of all inherent risks. Swap products will not be used for speculative purposes.

B. Maximum Notional Amount

The City will limit the total notional amount of any interest rate swaps based on criteria set forth in this Policy regarding the proper management of risks, calculation of termination exposure, and development of a contingency plan for mandatory termination. As outlined in this Policy, the total "net notional amount" of all swaps related to a bond issue should not exceed the amount of outstanding bonds.

C. Interest Rate Swap Considerations

When considering the relative advantage of an interest rate swap versus traditional fixed rate or variable rate bonds, the City, among other things, will consider the impact of all associated up-front costs, ongoing support costs, and potential impact of market fluctuation.

IV. Interest Rate Swap Features

A. Interest Rate Swap Agreement

To the extent possible, any interest rate swap agreements entered into by the City will contain the terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, including the Schedule to the Master Agreement, the Credit Support Annex, and any other related document. The swap agreement between the City and each counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, provisions and safeguards as the City, in consultation with its legal counsel, deems necessary or desirable.

Subject to the provisions contained herein, the terms of any City swap agreement shall use the following guidelines:

1. Downgrade provisions triggering termination shall in no event be worse than those affecting the counterparty.
2. Governing law for swaps will be New York, but should reflect California authorization provisions.
3. The specified indebtedness related to credit events in any swap agreement should be narrowly defined and refer only to indebtedness of the City that

could have a materially adverse effect on City's ability to perform its obligations under the swap. Debt should typically only include obligations within the same lien as the swap obligation.

4. Collateral thresholds stipulating when collateral will be required to be posted by the swap provider are designated in the policy and are based on credit ratings of the swap provider. Collateral requirements setting out the amount and types of collateral will be established for each swap based upon the credit ratings of the swap provider and any guarantor.
5. Eligible collateral should generally be limited to U.S. Treasury securities and obligations of Federal Agencies where the principal and interest are guaranteed by the full faith and credit of the United States government. At the discretion of the Finance Director and/or the Treasury Manager, other high-quality obligations of Federal agencies, not secured by the full faith and credit of the U.S. government, may be used as collateral.
6. City shall have the right to optionally terminate a swap agreement at "market," at any time over the term of the agreement.
7. Termination value should be set by a "market quotation" methodology, unless the City deems an alternate methodology appropriate.

B. Interest Rate Swap Counterparties

1. Credit Criteria

The City will make its best efforts to work with qualified swap counterparties that have a general credit rating of:

- a. at least "Aa3" or "AA-" by at least two of the three nationally recognized rating agencies, which are Moody's, S&P and Fitch, and not rated lower than "A2" or "A" by any of these rating agencies, or
- b. have a "AAA" subsidiary that is appropriately rated by at least one of the three nationally recognized rating agencies.

For lower rated counterparties, where two of the three ratings from the nationally recognized firms is below "AA-" or "Aa3", the City will seek credit enhancement in the form of:

- a. Contingent credit support or enhancement;
- b. Collateral consistent with the policies contained herein;
- c. Ratings downgrade triggers;
- d. Guaranty of parent, if any.

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

2. Counterparty Termination Exposure

In order to diversify City's counterparty credit risk, and to limit the City's credit exposure to any one counterparty, limits will be established for each counterparty based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing swap transaction. The risk measure will be calculated based upon the mark-to-market sensitivity of each transaction to an assumed shift in interest rates. Assuming a 25 basis point movement in the swap rate, the maximum net exposure (termination payment) per counterparty shall not exceed the following amounts based on the lowest credit rating assigned by any of the three nationally recognized rating agencies unless fully collateralized:

Credit Rating	Maximum Net Sensitivity to a 25 Basis Point Shift in Yield Curve*
Fully Collateralized	\$10,000,000
AAA	\$10,000,000
AA Category	\$ 8,000,000

The calculation of net interest rate sensitivity per counterparty will take into consideration multiple transactions, some of which may offset market interest rate risk thereby reducing overall exposure to City. In addition, additional exposure provisions are as follows:

- a. The sum total notional amount per swap counterparty may not exceed 25 percent of City's total revenue bond indebtedness. The appropriate collateral amount will be determined on a case by case basis, and approved by the Finance Director and/or the Treasury Manager in consultation with the City Administrator.
- b. If the sensitivity limit is exceeded by a counterparty, City shall conduct a review of the exposure sensitivity limit calculation of the counterparty. The Finance Director and/or the Treasury Manager shall evaluate appropriate strategies in consultation with the City Administrator to mitigate this exposure.

C. Term and Notional Amount

The City shall determine the appropriate term for an interest rate swap agreement on a case-by-case basis. In connection with the issuance or carrying of bonds, the term of the swap agreement between the City and a qualified swap provider shall not extend beyond the final maturity date of the related bonds. The total "net notional amount" of all swaps related to a bond

* The maximum net exposure limitations establish guidelines with respect to whether City should enter into an additional swap agreement with an existing counterparty. For example, assume City executed a fifteen-year \$400 million notional amount swap with a "AAA" rated counterparty. If the yield curve moved 25 basis points, City could have a significant market exposure to that swap counterparty (i.e. in order to terminate the swap City would have to make a payment of up to \$10 million dollars). The same scenario would apply to a fully collateralized counterparty. If such event occurred, the Finance Director and/or the Treasury Manager would evaluate whether it is prudent and advisable to enter into additional swap transactions with such counterparties in order to mitigate the exposure to such counterparty. For "AA" rated counterparties, the maximum net exposure limitation would be reduced to \$8 million given its lower credit rating.

issue should not exceed the amount of outstanding bonds. For purposes of calculating the net notional amount, credit shall be given in situations where there are off-setting fixed rate and variable rate swaps. In addition, for variable rate transactions, credit may also be given for any assets that are used to hedge a transaction as long as in the City's judgment such assets are reasonably expected to remain in place on a conterminous basis with the swap.

D. Collateral Requirements

As part of any swap agreement, the City will seek to include terms imposing collateral requirements based on credit ratings of the counterparty, requiring collateralization or other forms of credit enhancements to secure any or all swap payment obligations. The City will determine the collateral requirements in consultation with its counsel and its financial advisor, if applicable, and may require the posting of securities, surety bonds, letters of credit or other credit enhancement if the highest credit rating of the counterparty, parent, or guarantor falls below a rating of "AA-" or "Aa3". Additional collateral for further decreases in credit ratings of the counterparty shall be posted by the counterparty in accordance with the provisions contained in the collateral support agreement to the counterparty with the City.

Threshold collateral amounts shall be determined by the City on a case-by-case basis. The City will determine the reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter. Collateral shall be deposited with a third party trustee, or as mutually agreed upon between the City and the counterparty. 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. The market value of the collateral shall be determined on a monthly basis or more frequently if the City determines it is in its best interest given the specific nature of the swap(s) and/or collateral security.

E. Security and Source of Repayment

The City will generally use the same security and source of repayment (pledged revenues) for interest rate swaps as is used for the bonds that are hedged or carried by the swap, if any, but shall consider the economic costs and benefits of subordinating the City's payments under the swap and/or termination payment.

F. Prohibited Interest Rate Swap Features

The City will not use interest rate swaps that are:

1. speculative or create extraordinary leverage or risk,
2. lacking in adequate liquidity to terminate without incurring a significant bid/ask spread,
3. providing insufficient price transparency to allow reasonable valuation, or
4. used as investments.

V. Evaluation and Management of Interest Rate Swap Risks

Prior to the execution of any swap transaction, the City Administrator, the Finance Director, the Treasury Manager and Bond Counsel shall evaluate the proposed transaction and recommend the findings to Council. Such a review shall include the identification of the proposed benefit and potential risks inherent in the transaction. As part of this evaluation, the City shall compute the Maximum Net Termination Exposure to the proposed swap counterparty.

A. Evaluation Methodology

The City will review the following areas of potential risk for new and existing interest rate swaps:

Type of Risk	Description	Evaluation Methodology
Basis Risk	The risk where there is a mismatch between actual variable rate debt service and variable rate indices used to determine swap payment.	The City will review historical trading differentials between the variable rate bonds and the variable rate index.
Credit Risk	The occurrence of an event modifying the credit quality or credit rating of the City or its counterparty.	The City will actively monitor the ratings of its counterparties, insurers and guarantors, if applicable.
Counterparty Risk	The failure of the counterparty to make required payments or otherwise comply with the terms of the swap agreement.	The City will monitor exposure levels, ratings thresholds and collateralization requirements.
Rollover Risk	The risk that the City can not secure a cost-effective renewal of a line or letter of credit.	The City will evaluate the expected availability of liquidity support for hedged (swapped) and unhedged variable rate debt.
Tax Event Risk	The risk that the spread between taxable and tax-exempt rates will change as a result of changes in income tax laws or other conditions.	The City will review the tax events proposed in swap agreements and evaluate the impact of potential changes in tax law on LIBOR-based swaps.
Termination Risk	The risk that a swap has a negative value and the City will owe a "breakage" fee if the contract has to be liquidated for any reason.	The City will compute its termination exposure for all existing and proposed swaps at market value and under an expected worst-case scenario. A contingency plan will be periodically updated specifying how much the City would finance a termination payment and/or replace the hedge.

B. Managing Interest Rate Swap Risks

1. Annual Reporting

The City will evaluate the risks associated with outstanding interest rates swaps at least annually and provide a written report along with the updated Swap Policy to Council. This evaluation will include the following information:

- a. A description of all outstanding interest rate swaps, including related bond series, types of swaps, rates paid and received by the City, existing notional amount, the mark-to-market value of each swap, and the average life and remaining term of each swap agreement.
- b. The credit rating of each swap counterparty, parent, guarantor, and credit enhancer insuring swap payments, if any.
- c. Actual collateral posting by swap counterparty, if any, per swap agreement and in total by swap counterparty.
- d. Information concerning any material event involving outstanding swap agreements, including a default by a swap counterparty, counterparty downgrade, or termination.
- e. An updated contingency plan to replace, or fund a termination payment in the event an outstanding swap is terminated.
- f. The status of any liquidity support used in connection with interest rate swaps, including the remaining term and current fee.

The Finance Director and/or the Treasury Manager shall update this Policy in accordance with its Debt Policy at least annually and submit the update to Council for approval.

2. Contingency Plan for Mandatory Termination

The City shall compute the termination exposure of each of its swaps and its total swap termination payment exposure at least annually and prepare a contingency plan to either replace the swaps or fund the termination payments, if any, in the event one or more outstanding swaps are terminated. The City shall assess its ability to obtain replacement swaps and identify revenue sources to fund potential termination payments.

C. Terminating Interest Rate Swaps

1. Optional Termination

All swap transactions shall contain provisions granting the City the right to optionally terminate the agreement at its market value at any time. The City, in consultation with its counsel, may terminate a swap if it is determined that it is financially advantageous, or will further other policy objectives, such as management of exposure to swaps or variable rate debt.

In general, except in the event of the counterparty's ratings being downgraded below the ratings required by this Policy, the counterparty will not have the right to assign or optionally terminate the agreement.

2. Mandatory Termination

In the event a swap is terminated as a result of a termination event, such as a default or a decrease in credit rating of either the City or the counterparty, the City will evaluate whether it is financially advantageous to obtain a replacement swap, or, depending on market value, make or receive a termination payment.

It is the intent of the City not to make a termination payment to a counterparty that does not meet its contractual obligations.

In the event the City makes a swap termination payment, the City shall attempt to follow the process identified in its contingency plan for mandatory termination. The City shall also evaluate the economic costs and benefits of incorporating a provision into the swap agreement that will allow the City to make termination payments over time.

3. Events of Default

The City will incorporate into any swap contract the right to terminate the agreement upon an event of default by the counterparty. Such right may be conditioned on the consent of any person providing credit enhancement or liquidity to any transaction. Upon such termination, the counterparty will be the "defaulting party" for the purposes of calculating the termination payment owed. Events of default of a counterparty will include the following:

- a. Failure to make payments when due
- b. Material breach of representations and warranties
- c. Illegality
- d. Failure to comply with downgrade provisions, and
- e. Failure to comply with any other provisions of the agreement after a specified notice period.

VI. Selecting and Procuring Interest Rate Swaps

A. Financing Team

The City will retain the services of a nationally recognized municipal bond counsel firm, and will consider the use of a qualified financial advisor and/or swap advisor for all interest rate swaps.

4
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JUN 14 2005

B. Underwriter Selection

In the event bonds are issued in connection with interest rate swaps and/or hedging products, the City will price the bonds according to the guidelines set forth in its approved Debt Policy.

C. Counterparty Selection

The City will determine, on a case-by-case basis, whether to select a counterparty (or counterparties, if applicable) through a competitive bid process or on a negotiated basis.

VII. Disclosure and Financial Reporting

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

Glossary of Terms

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

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

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

Downgrade - A negative change in credit ratings.

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

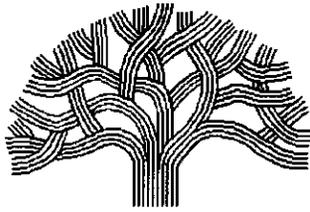
Interest Rate Swap - The exchange of a fixed interest rate and a floating interest rate between counterparties.

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

LIBOR - London Interbank Offer Rate. Often used as an index to compute the variable rate on an interest rate swap.

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

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



City of Oakland

Debt Capacity Analysis for Fiscal Year 2005-2006

June 2005

Prepared by
Finance and Management Agency
Treasury Division
150 Frank H. Ogawa Plaza, Suite 5330
Oakland, California 94612

Debt Burden and Debt Capacity

Direct Debt Outstanding¹

(All amounts in thousands)

	Original Par Amount	Principal Outstanding	FY 05-06 Debt Service
General Obligation Debt			
2002A General Obligation Bonds, Series 2002A (Measure G)	38,000	37,315	2,528
2003DD General Obligation Bonds, Series 2003 (Measure DD)	71,450	67,525	4,419
2005A General Obligation Bonds, Series 2005 A ²	121,995	121,995	10,957
Subtotal	231,445	226,835	17,905
Pension Obligation Bonds			
1997A & B Taxable Pension Obligation Bonds, Series 1997 A & B	436,290	196,205	34,948
2001 Taxable Pension Obligation Bonds, Series 2001	195,636	195,636	-
Subtotal	631,926	391,841	34,948
Lease Revenue Bonds and Certificates of Participation			
1985 Civic Improvement Corporation Variable Rate Demand COP, 1985 ³	52,300	33,900	3,085
1992 Refunding Certificates of Participation (Oakland Museum), 1992 Series A	39,408	2,203	2,750
2001 Oakland JPFA Lease Revenue Refunding Bonds, Series 2001	134,890	108,745	13,986
2002 Refunding Certificates of Participation (Oakland Museum), 2002 Series A	16,295	16,295	777
2004 Oakland JPFA Lease Revenue Refunding Bonds (Admin Building), Series 2004 A-1 & A-2 ⁴	117,200	112,550	7,267
2005 Oakland JPFA Special Refunding Revenue Bonds, Series 2005 ⁵	144,900	144,900	13,012
Subtotal	504,993	418,593	40,877
Oakland-Alameda County Coliseum Authority (50% City share)			
1996A-1 & A-2 Variable Rate Lease Revenue Bonds (Taxable), Oakland Coliseum Arena Project ⁶	70,000	61,800	4,460
2000C-1 & C-2 Variable Rate Lease Revenue Bonds Oakland Coliseum Project ⁷	75,400	75,400	2,262
2000D Variable Rate Lease Revenue Bonds (Taxable), Oakland Coliseum Project ⁸	25,250	15,750	3,798
Subtotal	170,650	152,950	10,520
Total Direct Debt	\$ 1,539,014	\$ 1,190,219	\$ 104,248.878

Existing Direct Debt as a % of FY 05-06 General Fund and Other Revenues

17.80%

¹ As of July 1, 2005. Reflects estimated effects of pending refunding transactions. Excludes TRAN & non-bonded capital lease obligations.

² Transaction in progress and expected to be completed by end of FY04-05; preliminary numbers and subject to change.

³ Debt service assumes tax-exempt variable rate of 3.00%; does not include ancillary fees.

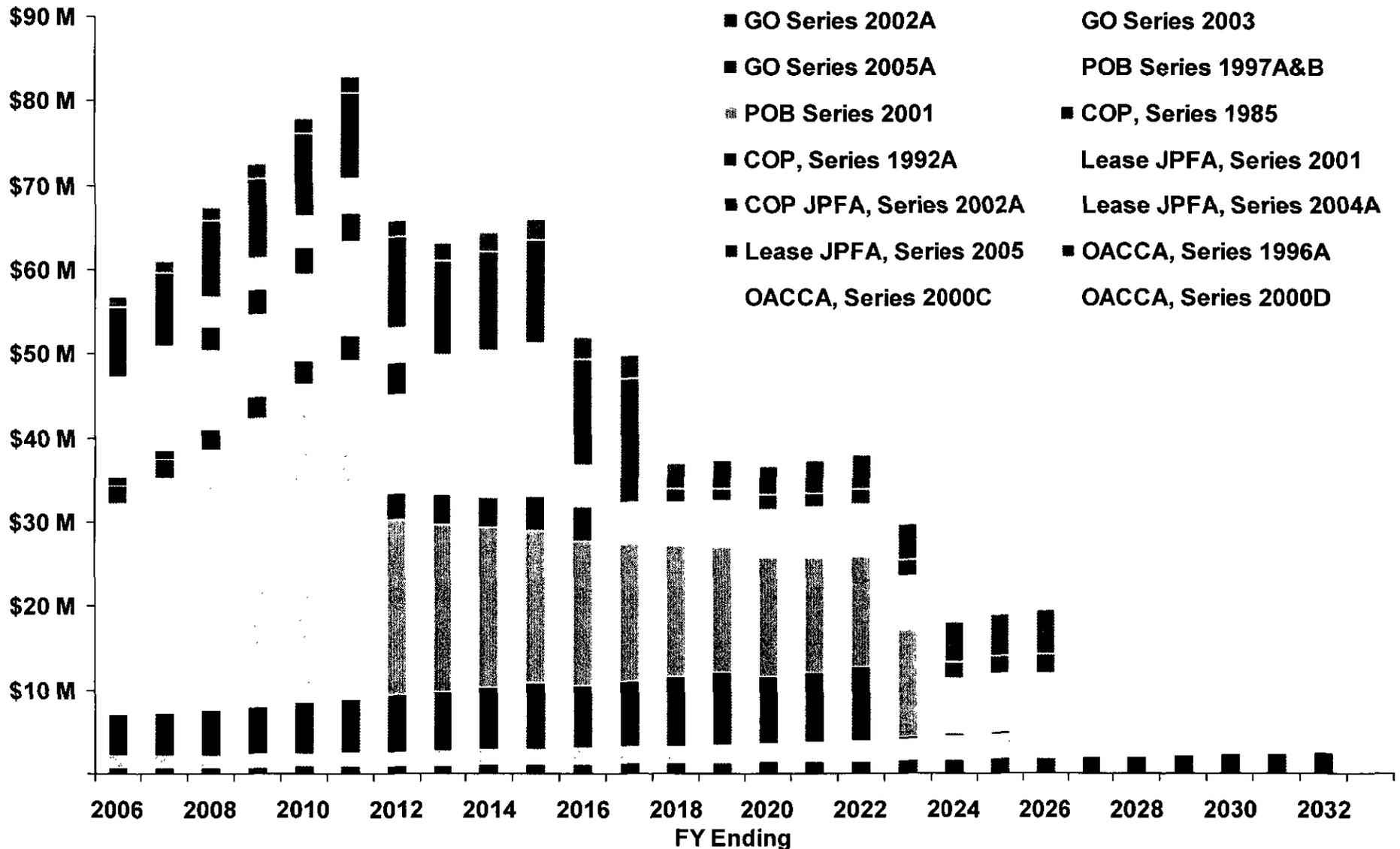
⁴ Debt service assumes swap rate of 3.533%; does not include ancillary fees.

⁵ Debt service based on rate of 5.667%; does not include ancillary fees.

⁶ Debt service assumes taxable variable rate of 5.00%; does not include ancillary fees.



Principal Amortization of All Debt



Debt Capacity Analysis

(All amounts in thousands)

Fiscal Year Ending	General Fund Revenues ¹	Offsetting Revenues ²	Available Revenues	----- DEBT SERVICE -----				TOTAL	Debt Burden ³	Add'l Annual Debt Capacity ⁴
				GO Bonds	POB	Lease & COP	OACCA			
2006	577,921	7,666	585,587	17,905	34,948	40,877	10,520	104,249	17.8%	(16,411)
2007	595,258	7,871	603,129	17,904	35,968	44,114	10,149	108,134	17.9%	(17,665)
2008	613,116	7,873	620,989	17,921	37,011	44,145	10,144	109,221	17.6%	(16,073)
2009	631,510	8,001	639,510	17,958	38,083	44,140	10,196	110,376	17.3%	(14,450)
2010	650,455	8,174	658,629	17,985	39,181	44,055	10,353	111,574	16.9%	(12,780)
2011	669,969	8,431	678,399	18,009	40,305	44,446	10,456	113,216	16.7%	(11,457)
2012	690,068	7,661	697,729	18,049	38,375	44,694	10,549	111,667	16.0%	(7,008)
2013	710,770	4,696	715,465	18,080	39,555	40,686	10,664	108,985	15.2%	(1,665)
2014	732,093	4,731	736,824	18,127	40,765	40,629	10,783	110,304	15.0%	219
2015	754,055	4,809	758,865	18,158	42,010	40,597	10,934	111,699	14.7%	2,131
2016	776,677	4,833	781,510	17,184	43,285	26,453	10,979	97,901	12.5%	19,326
2017	799,977	4,887	804,865	17,215	44,590	23,389	11,140	96,334	12.0%	24,395
2018	823,977	4,937	828,913	17,245	45,925	9,774	11,248	84,193	10.2%	40,144
2019	848,696	4,976	853,672	17,290	47,295	9,749	11,337	85,671	10.0%	42,380
2020	874,157	5,009	879,166	16,118	48,700	9,787	11,514	86,119	9.8%	45,755
2021	900,382	5,123	905,505	16,158	50,140	9,787	11,709	87,794	9.7%	48,032
2022	927,393	5,226	932,619	16,191	51,620	9,799	11,939	89,549	9.6%	50,344
2023	955,215	5,313	960,528	7,391	53,130	9,822	12,143	82,486	8.6%	61,593
2024	983,871	5,337	989,208	7,394	-	9,806	12,226	29,426	3.0%	118,955
2025	1,013,388	5,444	1,018,831	7,395	-	9,849	12,482	29,727	2.9%	123,097
2026	1,043,789	5,584	1,049,373	6,981	-	9,852	5,584	22,416	2.1%	134,990
2027	1,075,103	-	1,075,103	6,980	-	7,531	-	14,511	1.3%	146,755
2028	1,107,356	-	1,107,356	6,988	-	-	-	6,988	0.6%	159,116
2029	1,140,577	-	1,140,577	6,982	-	-	-	6,982	0.6%	164,104
2030	1,174,794	-	1,174,794	6,989	-	-	-	6,989	0.6%	169,231
2031	1,210,038	-	1,210,038	6,991	-	-	-	6,991	0.6%	174,515
2032	1,246,339	-	1,246,339	6,993	-	-	-	6,993	0.6%	179,958
2033	1,283,729	-	1,283,729	4,415	-	-	-	4,415	0.3%	188,144
2034	1,322,241	-	1,322,241	-	-	-	-	-	0.0%	198,336
2035	1,361,908	-	1,361,908	-	-	-	-	-	0.0%	204,286
2036	1,402,765	-	1,402,765	-	-	-	-	-	0.0%	210,415
TOTAL	\$ 28,897,585	\$ 126,581	\$ 29,024,166	\$ 372,996	\$ 770,886	\$ 573,982	\$ 227,049	\$ 1,944,912		

¹ General Fund ("GF") revenue for fiscal year ending 2006 based on revenue projection (see 2005-2006 Tax and Revenue Anticipation Notes Official Statement); remaining years based on 3% GF growth rate assumption.

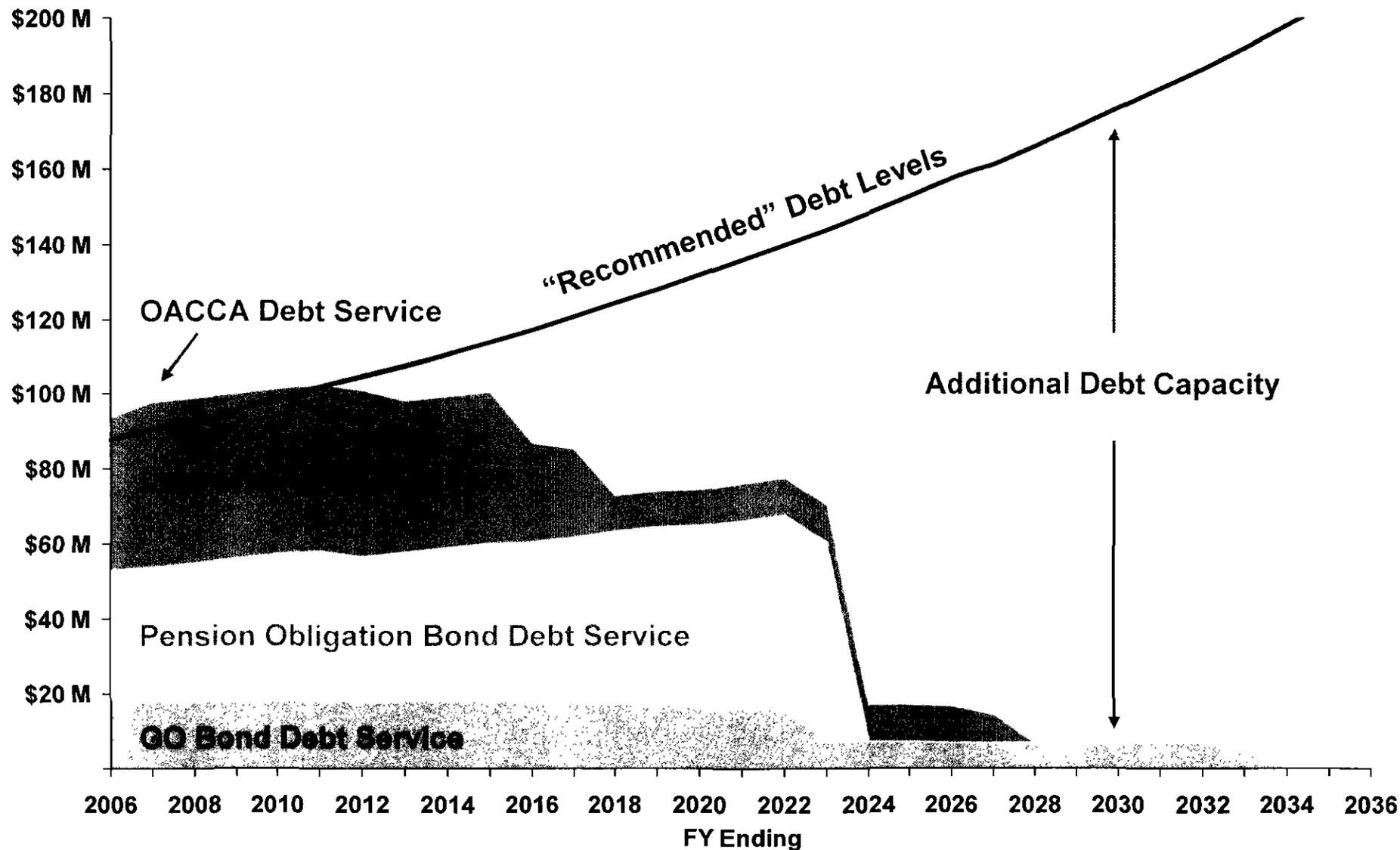
² Offsetting revenues for 1985 Civic Center Variable Rate COP and Oakland Coliseum Arena Project, 1996 Series A-1 and A-2.

³ Debt Burden calculated by "Total Debt Service" divided by "Available Revenues".

⁴ Add'l Annual Debt Capacity shows additional annual debt service the City is projected to be able to absorb at rating agency recommended debt levels; calculated by taking 15% of "Available Revenues" less "Total Debt Service".



Total Debt Service and Additional Debt Capacity



[INCLUDING EXHIBIT A AND EXHIBIT B]

INTRODUCED BY COUNCIL MEMBER _____

APPROVED AS TO FORM AND LEGALITY
OFFICE OF THE DEPUTY CITY ATTORNEY
[Signature]
CITY OF OAKLAND

OAKLAND CITY COUNCIL 2005 JUN -2 PM 7:19
RESOLUTION NO. _____ C. M. S.

RESOLUTION ADOPTING THE CITY OF OAKLAND'S DEBT MANAGEMENT POLICY AND SWAP POLICY FOR FISCAL YEAR 2005-2006

WHEREAS, an annual debt management policy which provides guidance to City of Oakland (the "City") staff and the City Council of the City (the "Council") by identifying parameters for issuing debt and for managing the City's debt portfolio would be beneficial to the City; and

WHEREAS, an annual swap policy which provides guidance to City staff and the Council by identifying parameters for issuing "swaps" and for managing the City's swap agreements would be beneficial to the City; and

WHEREAS, the proposed debt management policy and swap policy are to be effective for the 2005-2006 fiscal year and until subsequent policies are adopted; and

WHEREAS, the proposed debt management policy and swap policy have been considered at a public meeting of the Council;

NOW THEREFORE BE IT RESOLVED, as follows:

Section 1. Debt Management Policy. The Debt Management Policy of the City for fiscal year 2005-2006, in substantially the form attached hereto as Exhibit A, is hereby approved and adopted, with such changes, additions, amendments or modifications as are approved by the City Administrator, in consultation with the City Attorney.

Section 2. Swap Policy. The Swap Policy of the City for fiscal year 2005-2006, in substantially the form attached hereto as Exhibit B, is hereby approved and adopted, with such changes, additions, amendments or modifications as are approved by the City Administrator, in consultation with the City Attorney.

Section 3. Effect. This Resolution shall take effect immediately upon its passage.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 2005

4-1
FINANCE & MANAGEMENT CMTE.

JUN 14 2005

PASSED BY THE FOLLOWING VOTE:

AYES: -

NOES -

ABSENT -

ABSTENTION -

ATTEST:

LATONDA SIMMONS
Secretary and Clerk of the Council of the
City of Oakland, California

2005 JUN -2 PM 7:19

REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

RESOLUTION NO. ____ C.M.S.

RESOLUTION ADOPTING THE OAKLAND REDEVELOPMENT AGENCY'S DEBT MANAGEMENT POLICY AND SWAP POLICY FOR FISCAL YEAR 2005-2006

WHEREAS, an annual debt management policy which provides guidance to Oakland Redevelopment Agency (the "Agency") staff and the Board of the Agency by identifying parameters for issuing debt and for managing the Agency's debt portfolio would be beneficial to the Agency; and

WHEREAS, an annual swap policy which provides guidance to the Agency and the Board of the Agency by identifying parameters for issuing "swaps" and for managing the Agency's swap agreements would be beneficial to the Agency; and

WHEREAS, the proposed debt management policy and swap policy are to be effective for the 2005-2006 fiscal year and until subsequent policies are adopted; and

WHEREAS, the proposed debt management policy and swap policy have been considered at a public meeting of the Agency;

NOW THEREFORE BE IT RESOLVED, as follows:

Section 1. Debt Management Policy. The Debt Management Policy of the Agency for fiscal year 2005-2006, in substantially the form attached hereto as Exhibit A, is hereby approved and adopted, with such changes, additions, amendments or modifications as are approved by the Agency Administrator, in consultation with Agency Counsel.

Section 2. Swap Policy. The Swap Policy of the Agency for fiscal year 2005-2006, in substantially the form attached hereto as Exhibit B, is hereby approved and adopted, with such changes, additions, amendments or modifications as are approved by the Agency Administrator, in consultation with Agency Counsel.

Section 3. Effect. This Resolution shall take effect immediately upon its passage.

IN AGENCY, OAKLAND, CALIFORNIA, _____, 2005

4-2

FINANCE & MANAGEMENT CMTE.

PASSED BY THE FOLLOWING VOTE:

AYES: -

NOES -

ABSENT -

ABSTENTION -

ATTEST:

LATONDA SIMMONS
Secretary and Clerk of the Agency of the
City of Oakland, California