

Taxable Transactions

Table 7 summarizes the annual volume of taxable transactions since 2012.

TABLE 7

**COUNTY OF ORANGE
TAXABLE TRANSACTIONS⁽¹⁾
(In Millions)**

Type of Business	2013	2014	2015	2016	2017	2018 ⁽²⁾
General Merchandising and Clothing	\$8,933	\$9,150	\$8,836	\$8,892	\$9,089	\$9,342
All Food and Drink	8,298	8,814	9,636	10,020	10,230	10,524
Motor Vehicles and Parts	7,148	7,766	8,353	8,649	8,915	9,063
Service Stations	4,707	4,675	3,768	3,347	3,552	3,838
All Other	28,506	29,693	30,766	31,604	32,220	32,871
Total Taxable Sales	<u>\$57,591</u>	<u>\$60,097</u>	<u>\$61,358</u>	<u>\$62,511</u>	<u>\$64,006</u>	<u>\$65,639</u>

⁽¹⁾ May not add due to rounding.

⁽²⁾ 2018 reflects year-end forecast.

Source: *The Chapman University Economic & Business Review, June 2018.*

Housing Characteristics

The total number of housing units in the County was estimated by the California State Department of Finance to be 1,094,169 as of January 1, 2018. This compares to 969,484 reported in 2000 and 875,105 in 1990. According to CoreLogic the May 2018 median home price in the County was \$740,000 as compared to the \$537,450 for the six Southern California Counties combined.

Building Permits

The total valuation of residential building permits issued in the County is projected to exceed \$3.9 billion in 2018 and was \$3.3 billion in 2017. Table 8 provides a summary of residential building permit valuations in the County during the period 2013 through 2018.

TABLE 8

**COUNTY OF ORANGE
RESIDENTIAL BUILDING PERMIT VALUATIONS**

Permit Valuation	2013	2014	2015	2016	2017	2018 ⁽¹⁾
Residential*	\$2,654	\$2,640	\$2,834	\$3,160	\$3,321	\$3,908
Nonresidential*	1,521	1,993	2,196	2,487	2,284	2,787

⁽¹⁾ 2018 reflects year-end forecast.

* Permit valuations are in millions

Source: *The Chapman University Economic & Business Review, June 2018.*

Recreation and Tourism

The County is a tourist center in Southern California because of the broad spectrum of amusement parks and leisure, recreational, and entertainment activities that it offers. These tourist attractions are complimented by the year-round mild climate.

Along the County's Pacific Coast shoreline are five state beaches and parks, five municipal beaches, and five County beaches. There are three small-craft harbors in the County; Newport, Huntington, and Dana Point harbors.

Other major recreational and amusement facilities include Disneyland, Disney's California Adventure, Knott's Berry Farm, and the Spanish Mission of San Juan Capistrano. Also located within the County are the Anaheim Convention Center, Angel Stadium of Anaheim home of the Major League Baseball Team Los Angeles Angels of Anaheim, Honda Center of Anaheim home of the National Hockey Team Anaheim Ducks, Segerstrom Center for the Arts, and the Art Colony at Laguna Beach with its annual Sawdust Art Festival.

Transportation

The County is situated in one of the most heavily populated areas in California and has access to excellent roads, rail, air, and sea transportation. The Santa Ana Freeway (I-5) provides direct access to downtown Los Angeles and connects with the San Diego Freeway (I-405) southeast of the City of Santa Ana providing a direct link with San Diego. The Garden Grove Freeway (SR 22) and the Riverside Freeway (SR 91) provide east-west transportation, linking the San Diego Freeway, Santa Ana Freeway and the Newport Freeway (SR 55). The Newport Freeway provides access to certain beach communities.

Drivers in the County have access to five toll roads. The 91 Express Lanes is a 10-mile express lanes toll road in the median of the SR 91 connecting Orange County and Riverside County. The San Joaquin Toll Road (SR 73) runs from Costa Mesa to Mission Viejo connecting to the I-405 and the I-5 freeways. The Foothill Eastern Toll Roads consisting of SR 241, SR 261 and SR 133 Toll Roads connect to the SR 91 near the Riverside County line and the I-5 freeway in the City of Irvine, the Laguna Canyon Road, and other cities in South County.

Rail freight service is provided by the Burlington Northern Santa Fe Railway and the Union Pacific Railroad Company. Amtrak provides passenger service to San Diego to the south, Riverside and San Bernardino Counties to the east, and Los Angeles and Santa Barbara to the north. Metrolink provides passenger service to San Bernardino and Riverside Counties to the east, San Diego County to the south and Los Angeles County to the north. Bus service is provided by Greyhound Bus Lines. The Orange County Transportation Authority provides bus service between most cities in the County. Most interstate common carrier truck lines operating in the State serve the County.

John Wayne Airport is located in the unincorporated area between the cities of Costa Mesa, Irvine, and Newport Beach and is owned and operated by the County. The airport is classified as a medium air traffic hub by the Federal Aviation Administration, serving the County and portions of Los Angeles, Riverside, San Bernardino and San Diego counties (its "Trade Area"). The airport is an origination and destination airport, primarily for short-to-medium haul markets in its Trade Area. Presently, thirteen airlines operate out of the airport, including ten commercial airlines (Alaska, American, Delta, Frontier, Southwest, United, Compass, Horizon, Skywest Commercial, and WestJet), one commuter airline (SkyWest dba United Express and Delta Connection) and two cargo airlines (FedEx and UPS). From January through December 2017, the airport served approximately 10.4 million passengers. General aviation activities at the airport are served by two full service fixed base operators.

APPENDIX B -1

**AUDITED FINANCIAL STATEMENTS
OF THE
ORANGE COUNTY LOCAL TRANSPORTATION AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

AND

APPENDIX B-2

**AUDITED FINANCIAL STATEMENTS
OF THE
ORANGE COUNTY TRANSPORTATION AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

APPENDIX C
SUMMARY OF PRINCIPAL DOCUMENTS

APPENDIX D
FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX E
PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX F

Orange County Transportation Authority 2018 Investment Policy June 11, 2018

I. PURPOSE

This Investment Policy sets forth the investment guidelines for all funds of the Orange County Transportation Authority (OCTA) invested on and after June 11, 2018. The objective of this Investment Policy is to ensure OCTA's funds are prudently invested to preserve capital, provide necessary liquidity and to achieve a market-average rate of return through economic cycles.

Investments may only be made as authorized by this Investment Policy. The OCTA Investment Policy conforms to the California Government Code (the Code) as well as customary standards of prudent investment management. Irrespective of these policy provisions, should the provisions of the Code be or become more restrictive than those contained herein, such provisions will be considered immediately incorporated into the Investment Policy and adhered to.

II. OBJECTIVES

1. **Safety of Principal** -- Safety of principal is the foremost objective of the OCTA. Each investment transaction shall seek to ensure that capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of the securities.
2. **Liquidity** -- Liquidity is the second most important objective of the OCTA. It is important that the portfolio contain investments for which there is an active secondary market and which offer the flexibility to be easily sold at any time with minimal risk of loss of either the principal or interest based upon then prevailing rates.
3. **Total Return** -- The OCTA's portfolio shall be designed to attain a market-average rate of return through economic cycles.
4. **Diversification** -- Finally, the OCTA shall diversify its portfolio(s) to avoid incurring unreasonable market risks.

III. COMPLIANCE

The OCTA has provided each of its portfolio managers with a copy of this Investment Policy as a part of their contract and expects its portfolio managers to invest each portfolio they manage for OCTA in accordance with the provisions of the Investment Policy. However, bond proceeds may be invested in approved short-term investments without regard to diversification limits. This may occur during the initial deposit of the

bond proceeds portfolio, the final drawdown of the portfolio, or other times in between when appropriate due to drawdown requirements as requested by OCTA's Treasurer. When diversification limits are exceeded by a portfolio manager, the Treasurer will document the situation and report the circumstances to the Finance and Administration Committee monthly and include a write-up in the quarterly Debt and Investment report to the Board of Directors.

The OCTA Treasurer is responsible for verifying each portfolio manager's compliance as well as OCTA's entire portfolio's compliance with the provisions of the Investment Policy.

If OCTA's Treasurer, in his sole discretion, finds that a portfolio manager has made an investment that does not comply with the provisions of the Investment Policy, the Treasurer shall immediately notify the portfolio manager of the compliance violation. At that point, the portfolio manager is on probation for a period of one year. The second time a violation occurs while the portfolio manager is on probation, the Finance and Administration Committee shall review the error and may request that the portfolio manager responsible for the compliance violation meet with the Chair of the Finance and Administration Committee and the Treasurer as soon as practical at which time it will be decided whether the Board of Directors will be notified of the violation.

If OCTA's Treasurer finds that the portfolio manager has made a third investment while on probation that does not comply with the provisions of the Investment Policy, the Treasurer shall notify the Board of Directors of the compliance violations. OCTA may terminate services for its convenience any time by providing at least 30 days written notice.

IV. PRUDENCE

OCTA's Board of Directors or persons authorized to make investment decisions on behalf of OCTA are trustees and fiduciaries subject to the prudent investor standard.

The standard of prudence to be used by investment officials shall be the "prudent investor" standard as defined in the Code below and shall be applied in the context of managing an overall portfolio. OCTA's investment professionals acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control developments.

The Prudent Investor Standard: When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of OCTA, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.

V. DELEGATION OF AUTHORITY

Authority to manage OCTA's investment program is derived from an order of the Board of Directors. Management responsibility for the investment program is hereby delegated to OCTA's Treasurer pursuant to Section 53607 of the Code. On an annual basis, the Board of Directors is required to renew the authority of OCTA's Treasurer to invest or reinvest OCTA funds. The Treasurer is hereby authorized to delegate his authority as he determines to be appropriate. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all actions undertaken and shall establish a system of controls to regulate the activities of subordinate professionals.

The Treasurer shall develop administrative procedures and internal control, consistent with this Investment Policy, for the operation of OCTA's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of OCTA.

VI. ETHICS AND CONFLICTS OF INTEREST

OCTA's officers and employees involved in the investment process shall not participate in personal business activity that conflicts with the proper execution of OCTA's investment program, or which impairs their ability to make impartial investment decisions. OCTA's investment professionals and Treasury/Public Finance Department employees are not permitted to have any material financial interests in financial institutions that conduct business with OCTA, and they are not permitted to have any personal financial/investment holdings that have a material effect on the performance of OCTA's investments.

VII. RESPONSIBILITIES

The Finance and Administration Committee of the OCTA Board of Directors, subject to the approval of the OCTA Board of Directors, is responsible for establishing the Investment Policy and ensuring investments are made in compliance with this Investment Policy. This Investment Policy shall be reviewed annually by the Board of Directors at a public meeting.

The Treasurer is responsible for making investments and for compliance with this policy pursuant to the delegation of authority to invest funds or to sell or exchange securities and shall make a quarterly report to the Board of Directors in accordance with Section 53646 (b) of the Code. Under Section 53646 (b) the Code states that the Treasurer may make a quarterly report to the Board of Directors. OCTA policy is to provide a monthly report to the Finance and Administration Committee and provide copies to the Board of Directors. In addition, the Treasurer will prepare a quarterly report to the Board of Directors.

The Treasurer is responsible for establishing a procedural manual for OCTA's investment program and for having an annual independent audit performed on OCTA's investments.

VIII. FINANCIAL BENCHMARKS

In order to establish a basis for evaluating investment results, the Authority uses four nationally recognized fixed income security performance benchmarks to evaluate return on investments. The ICE/BAML 1-3 year Treasury Index and the ICE/BAML 1-3 year AAA-A U.S. Corporate and Government Index benchmarks are used for OCTA's short-term portfolios, the ICE/BAML 1-5 year Treasury Index and the ICE/BAML 1-5 year AAA-A U.S. Corporate and Government Index benchmarks are used for the extended fund, while a customized performance benchmark may be used for the bond proceeds portfolios.

IX. BOND PROCEEDS INVESTMENTS

Bond proceeds from OCTA's capital project financing programs are to be invested in accordance with the provisions of their specific indenture and are further limited by the maturity and diversification guidelines of this Investment Policy. Debt service reserve funds of bond proceeds are to be invested in accordance with the maturity provision of their specific indenture.

X. INVESTMENT AGREEMENTS – BOND PROCEEDS

Investment agreements must be approved and signed by OCTA's Treasurer. Investment agreements are permitted with any bank, insurance company or broker/dealer, or any corporation if:

A. At the time of such investment,

- such bank has an unsecured, uninsured and unguaranteed obligation rated long-term Aa2 or better by Moody's and AA or better by Standard & Poor's, or
- such insurance company or corporation has an unsecured, uninsured and unguaranteed claims paying ability rated long-term Aaa by Moody's and AAA by Standard & Poor's, or
- such bank or broker/dealer has an unsecured, uninsured and unguaranteed obligation rated long-term A2 or better by Moody's and A or better by Standard & Poor's (and with respect to such broker/dealer rated short-term P-1 by Moody's and A-1 by Standard & Poor's); provided, that such broker/dealer or A2/A rated bank also collateralize the obligation under the investing agreement with U.S. Treasuries, Government National Mortgage Association securities, Federal National Mortgage Association securities or Federal Home Loan Mortgage Association securities meeting the following requirements:

1. the securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent "Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee; and
 2. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA; and
 3. the Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.
- B. The agreement shall include a provision to the effect that if any rating of any such bank, insurance, broker-dealer or corporation is downgraded below a minimum rating to be established at the time the agreement is executed, OCTA shall have the right to terminate such agreement.

XI. PERMITTED INVESTMENTS FOR NON-BOND PROCEEDS:

Maturity and Term

All investments, unless otherwise specified, are subject to a maximum stated term of five years. Maturity shall mean the stated final maturity or the mandatory redemption date of the security, or the unconditional put option date if the security contains such a provision. Term or tenure shall mean the remaining time to maturity from the settlement date.

The Board of Directors must grant express written authority to make an investment or to establish an investment program of a longer term.

Eligible Instruments and Quality

OCTA policy is to invest only in high quality instruments as permitted by the Code, subject to the limitations of this Investment Policy. If an eligible security already contained in the Authority's portfolio is subsequently placed on "Negative Credit Watch" by any of the three Nationally Recognized Statistical Rating Organizations (NRSROs), then the security will be handled under the provisions of Rating Downgrades.

1) OCTA Notes and Bonds

Notes and bonds issued by OCTA, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate.

2) U.S. Treasuries

Direct obligations of the United States of America and securities which are fully and unconditionally guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States of America.

U.S. Treasury coupon and principal STRIPS (Separate Trading of Registered Interest and Principal of Securities) and TIPS (Treasury Inflation Protected Securities) are permitted investments pursuant to the Investment Policy.

3) Federal Instrumentality Securities (Government Sponsored Enterprises)

Debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement issued by the following:

- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
- Federal National Mortgage Association (FNMA or Fannie Mae)
- Federal Farm Credit Bank (FFCB)
- Federal Agricultural Mortgage Corporation (Farmer Mac)

4) Federal Agencies

Mortgage-backed securities and debentures with a final maturity not exceeding five years from the date of trade settlement issued by the following:

- Government National Mortgage Association (GNMA or Ginnie Mae)
- Small Business Administration (SBA)
- Export-Import Bank of the United States (EXIMBANK)
- Maritime Administration
- Washington Metro Area Transit
- U.S. Department of Housing & Urban Development

- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA)

Any Federal Agency and U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment.

5) State of California and Local Agency Obligations

Registered state warrants, treasury notes or bonds of the State of California and bonds, notes, warrants or other evidences of indebtedness of any local agency, other than OCTA, of the State, including bonds payable solely out of revenues from a revenue producing property owned, controlled, or operated by the state or local agency or by a department, board, agency or authority of the State or local agency. Such obligations must be issued by an entity whose debt is rated at least A-1 or better by two of the three NRSROs for short-term obligations, or A or the equivalent for long-term debt.

OCTA may also purchase defeased state and local obligations as long as the obligations have been legally defeased with U.S. Treasury securities and such obligations mature or otherwise terminate within five years of the date of purchase.

Public agency bonds issued for private purposes (industrial development bonds) are specifically excluded as allowable investments.

6) Bankers Acceptances

Bankers acceptances which:

- are eligible for purchase by the Federal Reserve System, and
- are rated by at least two of the NRSROs with at least A-1 or the equivalent for short-term deposits, and
- may not exceed the 5 percent limit on any one commercial bank.

Maximum Term: 180 days (Code)

7) Commercial Paper

Commercial Paper must :

- be rated at least A-1 or the equivalent by two of the three NRSRO's, and
- be issued by corporations rated at least A- or the equivalent rating by a NRSRO for issuer's debt, other than commercial paper, and

- C. be issued by corporations organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000), and
- D. not represent more than 10 percent of the outstanding paper of the issuing corporation.

Maximum Term: 180 days (Code 270 days)

8) Negotiable Certificates of Deposit

Negotiable Certificates of Deposit issued by a nationally or state-chartered bank or state or federal association or by a state licensed branch of a foreign bank, which have been rated by at least two of the NRSRO's with at least A-1 or the equivalent for short-term deposits.

Maximum Term: 270 days

9) Repurchase Agreements

Repurchase agreements collateralized by U.S. Treasuries or Agency securities as defined in the Investment Policy with any registered broker-dealer subject to the Securities Investors Protection Act or any commercial banks insured by the FDIC so long as at the time of the investment such dealer (or its parent) has an uninsured, unsecured and unguaranteed obligation rated P-1 short-term or A2 long-term or better by Moody's, and A-1 short-term or A long-term or better by Standard & Poor's, provided:

- A. a Securities Industry and Financial Markets Association (SIFMA) master repurchase agreement and a tri-party agreement, if applicable, representing a custodial undertaking in connection with a master repurchase agreement, which governs the transaction and has been signed by OCTA; and
- B. the securities are held free and clear of any lien by OCTA's custodian or trustee or an independent third party acting as agent "Agent" for the custodian or trustee, and such third party is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million and the custodian or trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for OCTA's custodian or trustee; and
- C. a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of OCTA's custodian or trustee and OCTA; and

- D. the Agent provides OCTA's custodian or trustee and OCTA with valuation of the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required 102 percent collateral percentage is not restored within two business days of such valuation.

Maximum Term: 30 days (Code 1 year)

Reverse repurchase agreements are not permitted unless used as a permitted investment in the Local Agency Investment Fund

10) Medium Term Maturity Corporate Securities

Corporate securities which:

- A. are rated A- or better by two of the three NRSRO's, and
- B. are issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, and
- C. may not represent more than ten percent (10%) of the issue in the case of a specific public offering. This limitation does not apply to debt that is "continuously offered" in a mode similar to commercial paper, i.e. medium term notes ("MTNs"). Under no circumstance can any one corporate issuer represent more than 5 percent of the portfolio.

Maximum Term: Five (5) years. (Code)

11) Money Market Funds

Shares of beneficial interest issued by diversified management companies (commonly called money market funds) which:

- A. are rated AAA (or the equivalent highest ranking) by two of the three NRSRO's, and
- B. may not represent more than 10 percent of the money market fund's assets.

12) Other Mutual Funds

Shares of beneficial interest issued by diversified management companies (commonly called mutual funds) which:

- A. are rated AAA (or the equivalent highest ranking) by two of the three NRSRO's, and
- B. may not represent more than 10 percent of the fund's or pool's assets.

13) Mortgage or Asset-backed Securities

Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond which:

- A. is rated AAA or equivalent (excluding US Government/Agency/Instrumentality backed structured product which will be permitted with their prevailing ratings even if those ratings are below AAA) by a NRSRO, or be rated at least A-1 or the equivalent by two of the three NRSRO's for money-market asset-backed securities, and
- B. is issued by an issuer having at least an A or equivalent rating by a NRSRO for its long-term debt.

Maximum Term: Five year stated final maturity. (Code)

Asset-backed securities, excluding mortgages, may not exceed 10 percent of the allocation.

14) State of California Local Agency Investment Fund (LAIF)

LAIF is a pooled fund managed by the State Treasurer referred to in Section 16429.1 of the Code. All securities are purchased under the authority of the Code Section 16430 and 16480.4.

15) Orange County Treasury Investment Pool (OCIP)

The OCIP is a pooled fund managed by the Orange County Treasurer and is comprised of two funds, the Money Market Fund and Extended Fund. The Money Market Fund is invested in cash equivalent securities. The Extended Fund is for cash requirements past one year and is based on the Code Sections 53601 and 53635. These pools are based on the investment requirements detailed in Government Code Sections 53600 et seq. and 53630 et seq.

16) California Asset Management Program (CAMP)

CAMP is a California Joint Powers Authority ("JPA") established in 1989 to provide California public agencies with professional investment services. CAMP investments must be rated AA or better by two of the three NRSRO's.

17) Variable and Floating Rate Securities

Variable and floating rate securities are restricted to investments in securities with a final maturity of not to exceed five years as described above, must utilize traditional money market reset indices such as U. S. Treasury bills, Federal Funds, commercial paper or LIBOR (London Interbank Offered Rate), and must meet all minimum credit requirements previously detailed in the Investment Policy. Investments in floating

rate securities whose reset is calculated using more than one of the above indices are not permitted, i.e. dual index notes.

18) Bank Deposits

Bank deposits in California banks which have a minimum short-term rating of A-1 by Standard and Poor's and a minimum short-term rating of P-1 by Moody's. The Treasurer shall draft and execute a contract describing provisions for bank deposits.

19) Derivatives

Derivatives are to be used as a tool for bonafide hedging investments only where deemed appropriate. Derivatives shall not be used for the purpose of interest rate speculation.

Derivative products in any of the eligible investment categories listed above may be permitted. The Treasurer has the sole responsibility for determining which prospective investments are derivatives. Each prospective investment in a derivative product must be documented by the Treasurer as to the purpose and specific financial risk being hedged. Each such investment must be approved by the Finance and Administration Committee prior to entering into such investment.

No investments shall be permitted that have the possibility of returning a zero or negative yield if held to maturity. In addition, the investment in inverse floaters, range notes, strips derived from mortgage obligations, step-up notes and dual index notes are not permitted investments.

Rating Downgrades

OCTA may from time to time be invested in a security whose rating is down-graded below the quality criteria permitted by this Investment Policy.

Any security held as an investment whose rating falls below the investment guidelines or whose rating is put on notice for possible downgrade shall be immediately reviewed by the Treasurer for action, and notification shall be made to the Board of Directors in writing as soon as practical and/or included in the monthly Orange County Transportation Authority Investment and Debt Programs report. The decision to retain the security until maturity, sell (or put) the security, or other action shall be approved by the Treasurer.

Diversification Guidelines

Diversification limits ensure the portfolio is not unduly concentrated in the securities of one type, industry, or entity, thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

<u>Instruments</u>	<u>At All Times Maximum % Portfolio</u>
1) OCTA Note and Bonds	25%
2) U.S. Treasuries (including U.S. Treasury STRIPS & TIPS)	100%
3) Federal Instrumentality Securities	100%
4) Federal Agencies	100%
5) State of California and Local Agencies	25%
6) Bankers Acceptances	30% (Code 40%)
7) Commercial Paper	25% (Code)
8) Negotiable CDs	30% (Code)
9) Repurchase Agreements	75%
10) Medium Term Maturity Corporate Securities	30% (Code)
11) Money Market Funds and 12) Other Mutual Funds (in total)	20% (Code)
13) Mortgage and Asset-backed Securities	20% (Code)
14) LAIF	\$40mm maximum per entity
15) OCIP	\$40mm maximum per entity
16) CAMP	10%
17) Variable and Floating Rate Securities	30%
18) Bank Deposits	5%
19) Derivatives (hedging transactions only) and subject to prior approval	5%
20) Investment Agreements pursuant to indenture	100%

Outside portfolio managers must review the portfolios they manage to ensure compliance with OCTA's diversification guidelines on an ongoing basis.

Issuer/Counter-Party Diversification Guidelines For All Securities Except Federal Agencies, Federal Instrumentalities, Investment Agreements, Repurchase Agreements and OCTA Debt

Any one corporation, bank, local agency, special purpose vehicle or other corporate name for one or more series of securities.

5%

**Issuer/Counter-Party Diversification Guidelines For Federal Agencies,
Federal Instrumentalities and Repurchase Agreements**

Any one Federal Agency or Federal Instrumentalities
35%

Any one repurchase agreement counter-party name
If maturity/term is ≤ 7 days
50%
If maturity/term is > 7 days
35%

Issuer/Counter-Party Diversification Guidelines For OCTA's Debt

The Authority can purchase all or a portion of the Orange County Transportation Authority's debt, including notes and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by OCTA or by a department, board, agency or authority of OCTA which may bear interest at a fixed or floating rate, providing the purchase does not exceed 25% of the Maximum Portfolio and when authorized by the Internal Revenue Service.

XII SECURITIES SAFE KEEPING

All security transactions, including collateral for repurchase agreements, entered into by OCTA shall be conducted on a delivery-versus-payment basis. Securities shall be held by a third party custodian designated by the Treasurer, evidenced by safe keeping receipts and in compliance with Code Section 53608.

XIII. BROKER DEALERS

The Treasurer, and investment professionals authorized by the Treasurer, may buy securities from a list of broker dealers and financial institutions that will be periodically reviewed.

Outside portfolio managers must certify that they will purchase securities from broker/dealers (other than themselves) or financial institutions in compliance with this Investment Policy.

XIV. INVESTMENT POLICY REVIEW

This Investment Policy shall be reviewed annually by the Finance and Administration Committee of the OCTA Board of Directors to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends.

XV. DEFINITION OF TERMS

ACCRUED INTEREST: The amount of interest that is earned but unpaid since the last interest payment date.

AGENCY SECURITIES: (See U.S. Government Agency Securities)

ASK PRICE: (Offer Price) The price at which securities are offered from a seller.

ASSET BACKED SECURITIES (ABS): Securities collateralized or backed by receivables such as automobile loans and credit card receivables. The assets are transferred or sold by the company to a Special Purpose Vehicle and held in trust. The SPV or trust will issue debt collateralized by the receivables.

BANKERS ACCEPTANCES (BAs): Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount, and are obligations of the drawer (the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

BASIS POINT: When a yield is expressed as X.YZ%, the YZ digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

BID PRICE: The price at which a buyer offers to buy a security.

BOOK ENTRY: The system, maintained by the Federal Reserve, by which most securities are "delivered" to an investor's custodian bank. The Federal Reserve maintains an electronic record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). These securities do not receive physical certificates.

BOOK VALUE: The original cost of the investment.

CALLABLE BONDS: A bond issue which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

CAPITAL GAIN/LOSS: The profit or loss realized from the sale of a security.

CERTIFICATES OF DEPOSIT (NEGOTIABLE CDs): A negotiable (marketable or transferable) receipt for a time deposit at a bank or other financial institution for a fixed time and interest rate.

COLLATERAL: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits in an Investment Agreement.

COMMERCIAL PAPER (CP): Unsecured promissory notes issued by companies and government entities usually at a discount. Commercial paper is negotiable, although it is typically held to maturity. The maximum maturity is 270 days, with most CP issued for terms of less than 30 days.

COUPON: The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as "interest rate."

CURRENT YIELD: The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

CUSTODIAN: A bank or other financial institution that keeps custody of assets in the name of the depositor.

DELIVERY VERSUS PAYMENT (DVP): Delivery of securities with a simultaneous exchange of money for the securities.

DERIVATIVE SECURITY: Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

DISCOUNT: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION: An investment principal designed to spread the risk in a portfolio by dividing investments by sector, maturity and quality rating.

DOLLAR-WEIGHTED AVERAGE MATURITY: A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size or book-value of that investment.

DURATION: A measure of the timing of cash flows, such as the interest payments and principal repayment, to be received from a given fixed-income security.

FEDERAL FUNDS RATE: Interest rate at which banks lend federal funds to each other.

FEDERAL OPEN MARKET COMMITTEE (FOMC): A committee within the Federal Reserve System that makes short-term monetary policy for the Fed. The committee decides either to sell securities to reduce the money supply, or to buy government securities to increase the money supply. Decisions made at FOMC meetings will cause interest rates to either rise or fall.

FEDERAL RESERVE SYSTEM: A U.S. centralized banking system which has supervisory powers over the 2 Federal Reserve banks and about 3,000 member banks.

FITCH Ratings referred to as Fitch: (See Nationally Recognized Statistical Rating Organizations)

INTEREST: The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

INTEREST RATE RISK: The risk associated with declines or rises in interest rates, which causes the market price of a fixed-income security to increase or decrease in value.

LIQUIDITY: The speed and ease with which an investment can be converted to cash.

MARK-TO-MARKET: The process by which the value of a security is adjusted to reflect current market conditions.

MARKET RISK: The risk that the value of a security will rise or decline as a result in changes in market conditions.

MARKET VALUE: The current market price of a security.

MATURITY: The date that the principal or stated value of an investment becomes due and payable.

MEDIUM TERM MATURITY CORPORATE SECURITIES: Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

MONEY MARKET: The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers acceptances, etc.) are issued and traded.

MONEY MARKET MUTUAL FUNDS: An investment company that pools money from investors and invest in a variety of short-term money market instruments.

MOODY'S INVESTORS SERVICE, INC. referred to as Moody's: (See Nationally Recognized Statistical Rating Organizations)

MORTGAGE-BACKED SECURITY: A debt instrument with a pool of real estate loans as the underlying collateral. The mortgage payments of the individual real estate assets are used to pay interest and principal on the bonds.

MUNICIPAL DEBT: Issued by public entities to meet capital needs.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATIONS (NRSRO's): Firms that review the creditworthiness of the issuers of debt securities, and express

their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies include Standard & Poor's Corporation; Moody's Investor Services, Inc. and Fitch Ratings.

NEGOTIABLE CD: (See Certificates of Deposit)

NET ASSET VALUE (NAV): The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling the fund's assets which includes securities, cash and accrued earnings, then subtracting this from the fund's liabilities and dividing by the total number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio.

NON-CALLABLE: Bond that is exempt from any kind of redemption for a stated time period.

OCTA BONDS: Bonds, notes, warrants, or other evidences of indebtedness.

OFFER PRICE: An indicated price at which market participants are willing to sell a security.

PAR VALUE: The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

PHYSICAL DELIVERY: The delivery of an investment to a custodian bank in the form of a certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

PORTFOLIO: A group of securities held by an investor.

PREMIUM: The amount by which the price paid for a security exceeds the security's par value.

PRIME RATE: A preferred interest rate charged by commercial banks to their most creditworthy customers.

PRINCIPAL: The face value or par value of an investment.

PURCHASE DATE: See (Trade Date)

REINVESTMENT RISK: The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

REPURCHASE AGREEMENTS (REPOS): A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment, with the difference between the purchase price and sales price determining the earnings.

SAFEKEEPING: Holding of assets (e.g. securities) by a financial institution.

SECURITIES & EXCHANGE COMMISSION (SEC): The federal agency responsible for supervising and regulating the securities industry.

SETTLEMENT DATE: The date on which the purchase or sale of securities is executed. For example, in a purchase transaction, the day securities are physically delivered or wired to the buyer in exchange for cash is the settlement date.

SPECIAL PURPOSE VEHICLE (SPV): A trust or similar structure created specifically to purchase securities and reprofile cash flows and/or credit risk. Mortgage or Asset-backed securities may be issued out of the SPV and secured by the collateral transferred from the corporation.

STANDARD & POOR'S CORPORATION referred to as Standard and Poor's or S & P: (See Nationally Recognized Statistical Rating Organizations)

THIRD-PARTY CUSTODIAL AGREEMENT: (See Custodian)

TOTAL RETURN: The sum of all investment income plus changes in the capital value of the portfolio.

TRADE DATE: The date and time corresponding to an investor's commitment to buy or sell a security.

U.S. GOVERNMENT AGENCY SECURITIES or FEDERAL AGENCIES AND U.S. FEDERAL INSTRUMENTALITIES: U.S. Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture). Often simply referred to as "Agencies", they include:

- Federal Home Loan Bank (FHLB)
- Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac)
- Federal National Mortgage Association (FNMA or Fannie Mae)
- Federal Farm Credit Bank (FFCB)
- Federal Agricultural Mortgage Corporation (Farmer Mac)
- Government National Mortgage Association (GNMA or Ginnie Mae)
- Small Business Administration (SBA)
- Export-Import Bank of the United States
- Maritime Administration
- Washington Metro Area Transit
- U.S. Department of Housing & Urban Development
 - Federal Deposit Insurance Corporation (FDIC)
 - National Credit Union Administration (NCUA)

Any Federal Agency and U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment.

U.S. TREASURY SECURITIES: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. The Treasury issues both discounted securities and fixed coupon notes and bonds.

Treasury bills: non-interest bearing discount securities of the U.S. Treasury with maturities under one year.

Treasury notes: interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from the date of issue.

Treasury bond: interest-bearing obligations issued by the U.S. Treasury with maturities ranging from ten to thirty years from the date of issue.

Treasury STRIPS: U.S. Treasury securities that have been separated into their component parts of principal and interest payments and recorded as such in the Federal Reserve book entry record-keeping system.

Treasury TIPS: U.S. Treasury securities whose principal increases at the same rate as the Consumer Price Index. The interest payment is then calculated from the inflated principal and repaid at maturity.

VARIABLE AND FLOATING RATE SECURITIES: Variable and floating rate securities are appropriate investments when used to enhance yield and reduce risk. They should have the same stability, liquidity and quality as traditional money market securities.

For the purposes of this Investment Policy, a Variable Rate Security, where the variable rate of interest is readjusted no less frequently than every 762 calendar days, shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest. A Floating Rate Security shall be deemed to have a remaining maturity of one day.

VOLITILITY: The degree of fluctuation in the price and valuation of securities.

YIELD: The current rate of return on an investment security generally expressed as a percentage of the securities current price.

ZERO COUPON SECURITIES: Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Orange County Local Transportation Authority Measure M Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2019 (the "Series 2019 Bonds"). The Series 2019 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each maturity of Series 2019 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the front portion of this Official Statement or in Appendix C - "Summary of Principal Documents."

The following information has been obtained from DTC, and neither the Orange County Local Transportation Authority (the "Authority") nor any underwriter identified on the cover page of this Official Statement makes any representation as to its accuracy or completeness. For further information, beneficial owners should contact DTC in New York, New York.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2019 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2019 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2019 Bond (each a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners, are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2019 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2019 Bonds, except in the event that use of the book-entry system for the Series 2019 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2019 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2019 Bonds with DTC and their registration in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2019 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2019 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2019 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2019 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2019 Bonds, such as redemptions, defaults and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2019 Bonds may wish to ascertain that the nominee holding Series 2019 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2019 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2019 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy (the "Omnibus Proxy") to the Authority and the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2019 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2019 Bonds and redemption proceeds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest, including upon redemption, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2019 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered in accordance with the provisions set forth in the Indenture.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered in accordance with the provisions of the Indenture.