Port Commission of the City and County of San Francisco
Municipal Debt Policy

Amended as of November 15, 2016

I. Introduction

A. Purpose and Legal Authority

The purpose of this Policy (this "Policy") of the Port Commission (the "Commission" or "Port") of the City and County of San Francisco (the "City") is to establish comprehensive guidelines for the issuance and management of Commission debt and to comply with applicable law.[1] In this Policy, "Commission debt" includes[2] debt issued by the City or through a special district such as a community facilities district or an infrastructure financing district to finance improvements on or benefitting land under the Port's jurisdiction ("Port land").

Several provisions of the City Charter (the "Charter") authorize the Commission to issue debt for Port-related purposes. Charter Section 9.111 authorizes all City commissions to issue any debt authorized by state law when the bonds are issued. Sections 9.112 and B7.305 authorize the Commission to issue Port revenue bonds; Section 9.107.4 exempts Port revenue bonds from the requirement for prior voter approval. Charter Section B6.406 authorizes the Port to use harbor revenues to pay Commission debt issued for any authorized purpose, and Section B7.310 authorizes the Port to issue debt payable from sources other than harbor revenues and tax increment.

This Policy confirms the commitment of the Commission, the Port Executive Director (the "Executive Director"), and other Port staff to: (i) adhere to sound debt issuance and management practices, including the full and timely repayment of all borrowings; (ii) achieve the lowest practical cost of borrowing commensurate with a prudent level of risk; and (iii) obtain unfettered access to the capital markets by preserving and enhancing the quality of Commission debt.

B. Scope

This Policy shall govern the issuance and management of all Commission debt funded from the capital markets, together with all obligations and facilities related to Commission debt, including investment of bond proceeds. While adherence to this Policy is required under most circumstances, the Commission recognizes that changes in the capital markets, Port programs, and other unforeseen circumstances may produce situations that are not covered by this Policy, or that require modification to this Policy to achieve the Port's objectives. Thus, the Commission may approve financing and other related agreements with terms that deviate from this Policy on recommendation of the Port's Deputy Director of Finance and Administration ("Finance Director") and its consulting financial advisors ("Financial Advisors"). The Commission's failure to comply with this Policy will not affect the validity of any Commission debt that is otherwise authorized and issued.

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[1] Specifically, this Policy is intended to comply with Government Code Section 8855(i).

[2] In this Policy, "include" and "including" are not terms of limitation but always mean the stated terms, without limitation.

C. Objectives

The objectives of this Policy are as follows:

i. Maintain unfettered, cost-effective access to the capital markets through prudent debt management policies.

ii. Provide financial support for the Port's objectives under the Port Strategic Plan and the Port 10-Year Capital Plan ("Capital Plan") through Commission debt.

iii. Provide guidelines for the overall management of Commission debt.

iv. Achieve the highest practical credit ratings and the lowest possible costs commensurate with a prudent level of risk.

II. Requirements for Commission Debt

A. Compliance with Law and Financing Agreements

All Commission debt shall be issued in accordance with the Charter and all federal, state, and other municipal laws, including the Internal Revenue Code of 1986 ("tax law"), the Securities Act of 1934, the Securities Exchange Act of 1933, laws relating to public trust lands, and implementing rules and regulations, in each case as supplemented and amended. Commission debt shall also be issued in compliance with other financing agreements of the Commission and the City, including those with credit or liquidity providers.

The Commission may issue tax-exempt debt when, in the opinion of bond counsel, the planned use of proceeds would comply with tax law. In circumstances where the planned use of proceeds would not meet tax law requirements for tax-exempt debt in the opinion of bond counsel, the Commission may issue taxable bonds to achieve the Port's objectives.

B. Appropriate Uses of Debt

Commission debt may be used for the following purposes:

i. to finance Port capital improvement projects, including the construction, major repair, or enhancement of Port facilities;

ii. to finance the acquisition of capital assets;

iii. to finance the acquisition of capital equipment by direct purchase or lease financing;

iv. to refinance previously issued Commission debt;

v. to finance public capital facilities or private facilities that serve a public purpose on or benefitting Port facilities or projects, subject to applicable state and federal law; and

vi. to finance other large and extraordinary costs.

Long-term debt must never be used to fund Port operating costs.

III. Debt Approval Procedures

A. Staff Level Review and Approval

Port staff has created a Capital Project Request Technical Review Committee ("Staff Review Committee"), consisting of Port staff appointed by the Port's deputy directors. Under this Policy, Port staff has the discretion to change the composition and manner of designating members of the Staff Review Committee on condition that it fairly represents all of the Port's foreseeable ongoing capital needs. The Staff Review Committee must review and recommend all capital projects and capital equipment purchases under consideration for Commission debt financing. All proposed Commission debt issuances shall be submitted for approval to the Finance Director and the Executive Director before submission to the Commission.

B. Commission Approval

Commission authorization and approval are required for all projects financed by Commission debt. All proposed debt issuances payable by the Port Harbor Fund ("Harbor Fund" or "Port harbor revenues") must be submitted to the Commission for its approval and authorization. A majority of the Commission must vote to approve a resolution authorizing each issuance of debt payable by Port harbor revenues.

IV. Commission Debt Payable by the Harbor Fund

The following categories of Commission debt would be payable primarily by the Harbor Fund. However, the Commission may elect to use grant proceeds and other available third-party sources of funds for debt service.

A. Port Revenue Bonds

Port revenue bonds are long-term debt obligations that are secured by the Harbor Fund. The Commission may issue Port revenue bonds to fund capital improvement projects, purchases of large-scale capital equipment, and other nonoperational Port costs. Neither the credit nor the taxing power of the City, any Port special facility, the State of California, or any political subdivision of the State shall be pledged or made available to pay or secure Port revenue bonds, unless specifically authorized.

B. Special Facility Bonds

Special facility bonds are long-term debt obligations used to finance a specific Port project or facility ("special facility"). A distinguishing characteristic of special facility bonds is that they are payable solely by revenues generated by the special facility to be financed by the bonds.

The use of special facility bonds is appropriate when the following conditions are met:

i. Revenues of the facility or project to be financed can be identified and segregated from other revenues in the Harbor Fund;

ii. Revenues from the facility are projected to be sufficient to fully pay debt service and all facility maintenance costs during the entire term of the bonds; and

iii. Other revenues in the Harbor Fund, excluding revenues from the facility, are projected to be sufficient for the Commission to comply with all financing covenants with respect to its other outstanding debt payable by the Harbor Fund.

Financial Advisors may assist the Port in verifying that these conditions are met before the Commission authorizes the issuance of any special facility bonds.

C. Equipment Lease Financing

Lease obligations are an appropriate means of financing capital equipment. A capital lease is a fixed-term, non-cancelable lease that is similar to a loan and is used to finance the acquisition of capital assets such as equipment. At the end of the capital lease term, the lessee has the option to purchase the assets.

The Commission may enter into a capital lease or implement a master capital lease program to finance the acquisition of capital equipment. These types of obligations can be considered for equipment and assets as an alternative to other debt financing such as revenue bonds. Only high priority equipment with a useful life of five years or longer will be financed with capital leases. The size of the capital lease finance contract or program will be determined by the Finance Director in consultation with the Port's Financial Advisor. The term of lease or lease program must not exceed the average useful life of the equipment being financed. If necessary for a lease financing issued on behalf of the Port, the Commission may authorize the lease of a Port asset other than the asset being financed, subject to applicable state law and the Port's operational needs.

Equipment with a useful life of less than five years will be purchased or leased with Port harbor fund revenues budgeted for operating expenses. Short term operating leases for equipment are not covered by this Policy.

D. Certificates of Participation

Certificates of Participation ("COPs") are lease-financing arrangements between the City and a for-profit lessor. Lease payments made by the City related to COPs are subject to annual appropriation by the Board of Supervisors.

The Commission may enter into agreements with the City for the City to execute and deliver COPs on the Commission's behalf if all of the following conditions are met.

i. Proceeds from the debt issuance are made available to the Port only for purposes described in this Policy.
ii. Port harbor revenues or special taxes, special assessments, or tax increment allocated to a Port district will be used to repay the debt.
iii. The total cost to the Port of the debt over the term of the COP financing is expected to be significantly less than the total cost of the other forms of Commission debt as reasonably determined by the Finance Director in consultation with the Financial Advisors.

In order to facilitate these financings, the Commission may authorize the lease of a Port asset to secure the debt.

E. Additional Types of Borrowings

The Commission may enter into other agreements with the City for the City to issue debt on behalf of the Port to finance Port capital improvements or for any other purpose described in this Policy. The terms and conditions of such financings will be determined on a case-by-case basis.

The Commission may also incur long-term or short-term bank debt in appropriate circumstances described below.

V. Bonds Issued by Special Districts

A. Mello-Roos Bonds

The Board of Supervisors may establish community facilities districts under the Community Facilities Act of 1982 (Cal. Gov't Code §§ 53311-53368) or the San Francisco Special Tax Financing Law (Admin. Code ch. 43, art. X). The Commission may request that the Board of Supervisors establish one or more community facilities districts on Port land that are authorized to issue bonds payable by special taxes ("Mello-Roos bonds") on the Commission's recommendation.

The City has adopted Local Goals and Policies for Community Facilities Districts and Special Tax Districts (as amended from time to time, the "Local Goals") that apply to districts established under state or city law. Under the Local Goals and state and City law, Mello-Roos bond proceeds may finance costs of public improvements and specified private improvements that serve public policy purposes. Mello-Roos bonds are secured by special taxes levied on land within the district.

The Commission may enter into agreements with horizontal developers of Port land to use Mello-Roos bond proceeds to finance predevelopment costs for and capital improvements on or benefitting development of Port land, including capital improvements outside of Port land, that the Port Commission and the Board of Supervisors previously authorized in connection with approval of a horizontal development project.

The Commission may also recommend issuance of Mello-Roos bonds to finance other Port capital improvement programs approved from time to time in its Capital Plan.

The Commission must not pledge Port harbor revenues to Mello-Roos bond debt service. But the Commission may elect to use or pledge available grant funds, other third-party sources, and tax increment for that purpose.

B. Tax Increment Financing

The Board of Supervisors may establish infrastructure financing districts under state law. The Commission may request that the Board of Supervisors establish one or more infrastructure financing districts on Port land that would be authorized to issue tax allocation bonds on the Commission's recommendation.

The City has adopted Guidelines for the Establishment and Use of an Infrastructure Financing District with Project Areas on Land Under the Jurisdiction of the San Francisco Port Commission (as amended from time to time, the "Port IFD Guidelines") that apply to districts established under state law. Under the Port IFD Guidelines and state law, tax allocation bond proceeds may finance costs of public improvements and specified private improvements that serve public policy purposes. Tax allocation bonds are secured by increases in property and possessory interest taxes ("tax increment") levied on land within the district.

The Commission may enter into agreements with horizontal developers of Port land to use tax allocation bond proceeds to finance predevelopment costs for and capital improvements on or benefitting development of Port land, including capital improvements outside of Port land, that the Port Commission and the Board of Supervisors previously authorized in connection with approval of a horizontal development project.

The Commission may also recommend issuance of tax allocation bonds to finance other Port capital improvement programs approved from time to time in its Capital Plan.

The Commission must not pledge Port harbor revenues to pay tax allocation bonds. But the Commission may elect to use or pledge available grant funds, other third-party sources, and special taxes for that purpose.

VI. Types of Debt and Other Considerations for Borrowing

A. New Money Bonds

New money bonds are bonds issued to finance capital improvement projects or for any other purpose described in this Policy. The issuance of new money bonds will generally result in an increase in the amount of Commission debt outstanding, in contrast to refunding bonds, which simply refinance previously issued debt.

B. Refunding Bonds

Refunding bonds are bonds issued to refinance (refund) previously issued and currently outstanding debt. The Commission may issue refunding bonds to refinance outstanding bonds or other Commission debt to: (i) achieve debt service savings; (ii) restructure scheduled debt service; (iii) convert from or to a variable or fixed interest rate structure; (iv) change or modify the source or sources of payment and security for the refunded debt; or (v) modify covenants otherwise binding on the Commission.

In compliance with federal tax law, refunding bonds may be issued either on a current basis (the outstanding bonds will be paid within 90 days after the issue date of the refunding bonds) or advance basis (the outstanding bonds will be paid 90 days or later than the issue date of the refunding bonds). The Commission may also use a tender offer process to purchase bonds that are not otherwise subject to optional call by the Commission.

Refunding bonds to be issued solely to achieve debt service savings shall not be issued unless:

i. The estimated net present value of the savings, as determined by the Port's Financial Advisors, is at least 3% of the principal amount of the refunded bonds; and

ii. It is unlikely, in the judgment of the Financial Advisors, that a future refunding would realize greater savings.

C. Senior Debt

Senior debt is Commission debt that is senior in lien and order of repayment to some or all of the other then-outstanding Commission debt payable from the same source established when the debt is incurred or by subordinating other Commission debt. The Commission may issue senior lien debt to achieve the most advantageous borrowing costs.

D. Subordinate Debt

Subordinate debt is Commission debt that is junior in lien and repayment priority to some or all of the other then-outstanding Commission debt payable from the same source. The Commission may issue subordinate debt when necessary or desirable to achieve the Port's interests.

An example of Commission subordinate debt is the $12 million bank loan that the Port secured to fund moving the Port's maintenance facility to Pier 50 and purchasing land needed for the SF Giants ballpark at China Basin. The loan was secured by Port revenues, which were subject to a senior lien for pre-existing Port revenue bonds. Therefore, the lien of the bank loan was subordinated to the lien of the outstanding revenue bonds.

E. Long-Term Debt

In this Policy, long-term debt means bonds or other debt with a final maturity of five years or more. The Commission may issue debt with longer-term maturities to amortize Port capital or other costs over a period commensurate with the expected life, use, or benefit provided by the projects, programs, or facilities being financed.

F. Short-Term Debt

In this Policy, short-term debt means any debt with a final maturity of less than five years. The Commission may issue debt with shorter-term maturities, including commercial paper and grant and revenue anticipation notes, to provide interim financing for capital projects in anticipation of the issuance of longer-term bonds or other debt or the receipt of grant or other third-party funds.

G. Fixed-Rate Borrowings

Fixed-rate borrowings are debt issuances that pay a fixed rate of interest. Fixed-rate debt shall be the primary type of debt issued by the Commission to assure future costs and to insulate the Port from interest rate risk.

H. Variable Rate Borrowings

Variable rate borrowings are debt issuances with interest rates that change at fixed periods, based on pre-determined market indices and conditions. Variable rate bonds are often secured by a letter of credit, which assures the liquidity needed to support the remarketing of variable rate bonds and enhances the credit quality of the bonds. Variable rate debt can be issued to reduce an issuer's overall borrowing costs because, over the long term, variable rate debt has been historically cheaper than fixed-rate debt. The potentially lower cost of variable rate debt must be balanced with the issuer's ability to manage the risk that interest rates could rise.

The Commission may issue variable rate debt when it determines, in consultation with its Financial Advisors, that it would help achieve the Port's objectives. The Commission shall limit its variable rate debt exposure to no more than 10% of the aggregate outstanding principal amount of its long-term debt, determined on the date the variable rate debt is issued.

VII. Debt Affordability Targets and Policy Limits

Unless otherwise approved by Commission action, it is the policy of the Port to meet the targets listed below. These limits, in combination with the Port's 10-Year Capital Plan ("Capital Plan") and other multi-year planning activities, will ensure that the Port continues to provide essential operational services while planning for replacement, rehabilitation, repair, and expansion of its capital investments.

A. The Port will maintain a minimum debt service coverage on its revenue bond debt of 1.30x.

B. The Port will maintain a minimum unappropriated operating reserve pursuant to the Port's Operating Reserve Policy.

C. As long as the above conditions are met, the Port will seek to minimize the level of debt outstanding consistent with its Capital Plan.

D. Coverage and other requirements for debt issued by special districts will be determined on a case-by-case basis in consultation with the Port's Financial Advisors and bond counsel.

Debt service coverage requirements for other Port debt will vary based on the nature of the debt and prevailing market conditions.

VII. Structuring Considerations

A. <u>Long-Term Debt</u>

i. Term: Maturities may be up to 35 years depending on cash flow assumptions, construction timeline, and remaining useful life of the asset being financed. The weighted average maturity of such debt should not exceed 120% of the reasonably estimated weighted average life, use, or benefit (measured in years) of the projects, programs, or facilities financed by the debt.

ii. Maximum Yield: Yields may not exceed 12%.

iii. Coupons: May be fixed rate or variable.

iv. Call Provisions: Must provide the shortest possible optional call consistent with optimal pricing on no more than 30 days' notice.

v. Structure of Debt: Where debt is issued with a fixed interest rate, combined interest and principal payments generally will be structured to have approximately level payments, although non-level debt service payments may be appropriate depending on the underlying remaining useful lives of the assets financed. Exceptions may also occur for refunding debt.

vi. Debt Service Reserve: Federal tax law limits the amount that may be set aside in a debt service reserve fund to the least of 10% of the initial principal amount, 125% of the average annual debt service, and 100% of the maximum annual debt service. The exact amount set aside in a debt service reserve fund should be the minimum necessary to meet both federal tax law and pricing objectives given capital market conditions at the time of sale.

The Finance Director, with the assistance of the Port's Financial Advisors, will evaluate whether it is more cost-effective for the Port to issue debt without a reserve fund, fund the reserve fund with cash, or purchase a reserve fund insurance policy.

vii. Capitalized Interest: The Port may finance capitalized interest when the Port's Finance Director in consultation with its Financial Advisors determines it is cost-effective and will further Port objectives. For example, interest may be capitalized during construction of a revenue-generating facility. Interest also may be capitalized for land-secured bonds to address the timing of placing taxes and assessments on the property tax roll.

viii Net Funding: The project and capitalized interest funds may be reduced by the amount of projected interest earnings (net funded) if investments are secured at issuance of debt.

ix. Reimbursement Resolution: Commission must adopt a resolution to make the Port's subsequent project-related expenditures eligible for reimbursement from future bond proceeds in conformance with federal tax law requirements.

x. Good faith deposit: The Port's Finance Director, in consultation with its Financial Advisors, will determine whether a good faith deposit is appropriate and, if so, the appropriate amount.

xi. Budgeting Debt Service: The annual budgets shall include gross debt service for the outstanding debt, taking into account special taxes, tax increment, grant or other third-party funds, as applicable.

xii. Disclosure: The Port shall undertake to provide continuing disclosure to the extent required to sell the debt at a cost-effective interest rate.

B. <u>Variable Rate Debt</u>

i. Purpose: To reduce net borrowing cost; match of assets and liabilities.

ii. Maximum Portfolio Allocation: No more than 10% of the Port's outstanding debt portfolio shall be in variable rate debt.

iii. Term: Must be consistent with policies for underlying debt types.

iv. Maximum Yield: May not exceed 12%.

v. Monitoring: The Port shall monitor all variable rate bonds on a monthly basis and shall determine, from time to time, whether to change modes, alter hedging strategies, or replace a remarketing agent.

vi. Remarketing Provisions: The Port shall seek to obtain remarketing agent agreements containing a provision requiring the remarketing agent, in the event of a failed remarketing, to purchase the Port's bonds, at prevailing interest rates, for up to 30 days to allow the Port time to convert illiquid bonds to an alternative, marketable mode before incurring liquidity rates.

vii. Call/Conversion Provisions: Permitted on any date without penalty, with as short of a notice period as possible.

viii. Liquidity: A liquidity facility shall be obtained, either externally or internally, for all short-term indebtedness containing a put feature. Liquidity providers shall maintain the short-term ratings and long-term ratings specified in Section XII.A of this Policy.

ix. Disclosure: The Port shall undertake to provide continuing disclosure to the extent required to sell the debt at a cost-effective interest rate.

x. Mode: All bonds issued as variable rate bonds shall be issued as "multi-modal" bonds.

IX. Methods of Sale for Port Bonds and Other Long Term Debt

There are three principal methods for the sale of long term debt, including bonds:

A. Competitive: The bonds are sold in a public offering pursuant to an auction process.

B. Negotiated: Bonds are sold in a public offering pursuant to a negotiated bond purchase agreement with one or a small handful of underwriting firms.

C. Private placement: The bonds are sold to one or a small handful of institutional investors pursuant to a negotiated bond purchase agreement.

The Commission shall use the method of sale that: (a) is reasonably expected to produce the most advantageous interest cost with respect to the bonds; and (b) provides the Commission with the flexibility necessary or desirable in connection with the structuring, timing, or terms of the sale and of the related bonds.

A. Competitive Sale

The Commission's fixed-rate revenue bonds will typically be sold in a competitive sale when the following circumstances exist:

i. The bonds do not include any unusual call provisions or other terms.

ii. The bonds will be rated no lower than an "AA" category or equivalent by at least two of the following major "Nationally Recognized Statistical Rating Organizations" ("NRSROs"): S&P Global Ratings, Moody's Investors Service, Fitch Ratings or their successors ("major NRSRO"), or the bonds will or can be insured by a bond insurer that is rated "AA" or equivalent by at least two of the major NRSROs.

iii. Prices in the municipal bond market are relatively stable;
iv. Market timing is not critical to the pricing of the bonds;
v. The municipal bond market is in a period of sufficient stability and receptivity to the rating assigned to the Port's bonds that a competitive sale is deemed to be advantageous;
vi. The structure of the financing is relatively straightforward; and
vii. Demand for the bonds is expected to be relatively strong.

The Commission shall approve competitive sales procedures to be used, which may include internet-based or other electronic bidding systems.

B. Negotiated Sales

The Commission's land-secured bonds are likely to be sold on a negotiated basis because of the unique nature of their credit characteristics and because they are unlikely to qualify for an investment grade rating.

The Commission's tax increment bonds are likely to be sold on a negotiated basis because infrastructure financing districts are a recent replacement for redevelopment agencies and have sold few or no bonds so far, the bonds may not qualify for investment grade ratings (at least early in the development cycle of the district), and the unique nature of the bonds' credit characteristics.

Otherwise, the Port's bonds will be sold on a negotiated basis when the circumstances for a public sale cannot be met or when some of the following circumstances exist:

i. The bonds are not traditional long-term fixed-rate new money revenue bonds;
ii. The bonds are not senior lien obligations of the Commission;
iii. The bonds include unusual call provisions or other terms;
iv. The bonds are or will be rated below an "AA" category or equivalent by at least two of the major NRSROs;
v. Prices in the municipal bond market are relatively volatile;
vi. Market timing is important to the pricing of the bonds;
vii. Volume in the municipal bond market is unusually heavy or unusually light;
viii. The structure of the financing is complex or unusual, and is expected to require additional pre-marketing and marketing efforts and activities;
ix. Demand for the bonds is expected to be weak, as a result of credit issues, market perceptions, unusual structures, or other factors;
x. The sale of the bonds must be coordinated with other related transactions, such as a tender offer for outstanding bonds, the closing of an acquisition of property or facilities to be acquired from the proceeds of the bonds, or related transactions.
xi. The expected demand for the bonds is from retail rather than institutional investors.
xii. The impetus for the transaction has been the result of significant innovation and efforts provided by one or more underwriters (the "Underwriters").

The Underwriters for a negotiated sale of bonds may be selected from a pre-qualified pool of Underwriters with experience and expertise in connection with the particular type of bonds being offered for sale.

Port staff, with the assistance of its Financial Advisors, shall evaluate the proposed pricing and other terms offered by the Underwriters in relationship to prevailing market prices on the date of sale and prevailing practices in the municipal bond market, in each case with respect to comparable issuers and transactions.

If there are multiple Underwriters, the Port, with its Financial Advisors, shall establish appropriate levels of liability, participation, and the priority of orders among the firms. The Senior Managing Underwriter shall provide Port staff with a summary of all orders, allocations, and underwriting activities with respect to the sales, a copy of the pricing wire, and the total designations and compensation to each Underwriter promptly after the bond sale closes.

The Senior Managing Underwriter or the Port's Financial Advisors shall also provide Port staff with a pricing analysis promptly following the closing, including the results of comparable sales in the market at or near the time of the Commission's sale.

C. Private Placements

The private placement of the Commission's bonds will be appropriate only in circumstances where: (i) a public offering would require the registration of the bonds under applicable federal securities laws; (ii) the bonds are or will be either unrated or rated in a category below investment grade; or (iii) the cost of a private placement will be lower than the cost of a public offering. In the event such circumstances arise, the bonds may be sold pursuant to a private placement only under terms and conditions and in such manner as the Commission shall determine, in consultation with its Financial Advisors.

X. Method for Selecting a Short Term Debt Lender

The Commission shall use the method for selecting a financial institution that (a) is reasonably expected to produce the lowest total cost with respect to the debt being incurred, taking into consideration interest costs and all fees, and (b) provides the Commission with the flexibility desired with regards to structuring, timing, terms, and payment provisions, including the ability to repay the debt, in full or in part, without incurring penalties. A competitive request for proposals selection process is preferred; but a selection may be made from a pre-qualified pool of banks, if the situation warrants.

XI. Pricing of Port Debt

A. Bonds

Subject to state and local law, the Commission's bonds may be sold at such prices, including at par, a premium, or a discount, as the Commission may determine is likely to produce the most advantageous cost, inclusive of interest and all fees and charges, under then-prevailing market conditions.

B. Other Port Debt

Other debt issued or incurred by the Commission will be priced at the lowest practical cost, inclusive of interest and all fees, under then-prevailing market conditions.

XII. Credit Enhancement of Port Debt

The Commission may secure credit enhancement for its bonds or other debt from third-party credit providers when it provides an economic advantage, to the extent that such credit enhancement is available at reasonable, competitive, and cost-effective terms. Credit enhancement may take the form of municipal bond insurance ("Bond Insurance"), stand-by or direct pay letters of credit, and lines of credit (each, a "Credit Facility"), as well as other similar instruments. Credit enhancement providers shall be selected on a competitive basis.

A. Credit Facilities

The issuance of certain types of bonds or other debt requires a Credit Facility from a commercial bank or other qualified financial institution. The purpose of these facilities is to provide liquidity and credit support for the debt issuance. The types of debt issuance where a Credit Facility may be necessary include commercial paper, variable rate bonds with a tender option, and bonds that would not receive an investment grade credit rating in the absence of such a facility. The criteria for selecting a Credit Facility provider shall include:

i. Long-term credit ratings better than the Port's then-current long-term credit ratings from at least two of the major NRSROs;

ii. Short term rating from at least two of the three major NRSROs of "P-1/A-1/F-1" or equivalent;

iii. Experience in providing such facilities to state and local government issuers;

iv. Pricing of the facility, including initial and ongoing costs of the Credit Facility, draw, transfer, and related fees, legal counsel fees, termination fees, and any trading differential; and

v. Willingness to agree to the terms and conditions proposed or required by the Commission.

B. Bond Insurance

All or any portion of a Commission bond issue may be secured by Bond Insurance provided by municipal bond insurers if it is economically advantageous to do so, or if it is otherwise deemed necessary or desirable in connection with a particular issue of bonds. Bond insurance providers must have long-term credit ratings better than the Port's then-current long-term credit rating from at least two of the major NRSROs. The relative cost or benefit of Bond Insurance may be determined by comparing the amount of the Bond Insurance premium to the present value of the estimated interest savings to be derived as a result of the insurance.

XIII. Derivatives

Financial derivative products can be beneficial interest rate management tools that can assist the Port as part of its overall debt and investment management policy. However, these products need to be monitored very closely, and they have their own set of risks that need to be thoroughly understood before they can be used effectively. Therefore, the Commission shall not authorize the use of any financial derivative until Port staff has developed, and the Commission has adopted, a financial derivatives policy.

XIV. Investment of Bond Proceeds

A. Permitted Investments

All investments of bond proceeds held outside of the City Treasury shall adhere to the City's Investment Policy as approved periodically by the City Treasury Oversight Committee. With the exception of investment contracts, investment of Port bond proceeds shall not allow security types or credit standards less than those of the City's Investment Policy.

B. Purchase of Investments

The Commission shall competitively bid the purchase of securities, investment agreements, forward purchase contracts, and other investment products used to invest bond proceeds. The Commission shall comply with all applicable federal, state, and contractual restrictions regarding the use and investment of bond proceeds including: (i) compliance with restrictions on the type of permitted investments; (ii) restrictions on allowable yield of some invested funds; and (iii) restrictions on the time period allowed for the investment of some bond proceeds.

C. Structure of Investment Agreements

The Commission may enter into investment agreements for the following purposes: (i) to maximize interest earnings thereby reducing net borrowing costs; (ii) to match assets and liabilities; or (iii) for hedging. All investment agreements that the Commission enters into shall be structured as follows:

i. Investment Provider:	Minimum ratings of "AA-" from at least two of major NRSROs.
ii. Mandatory Termination:	Limited to nonpayment and credit-related events.
iii. Cure Provisions:	Timelines on Commission's obligations to cure must provide for appropriate approvals and legislative action, if applicable.
iv. Priority of Payment:	Termination payments to be subordinate to related debt payments.
v. Award:	Based on best bid as defined in the bid form after limited negotiation of terms.
vi. Term:	Not to exceed the term of the related debt.

XV. External Consultants

The Commission may retain professional external consultants as necessary or desirable in connection with: (i) the structuring, issuance, and sale of its debt; (ii) monitoring of and advice regarding its outstanding bonds; (iii) the negotiation, execution, and monitoring of related agreements, including Bond Insurance, Credit Facilities, and investment agreements; and (iv) other similar or related matters. External consultants may include Financial Advisors, bond counsel, disclosure counsel, special tax and other consultants related to the Port's development activities, bank trustees and federal arbitrage rebate services providers, and may include, as appropriate, Underwriters, feasibility consultants, remarketing agents, auction agents, broker-dealers, escrow agents, verification agents, and other similar parties.

External consultants shall be selected pursuant to a competitive selection process. The criteria for selecting these consultants shall include, among other things, their relative experience with and expertise regarding the Port, comparable port issuers, special districts such as a community benefits district or an infrastructure financing district, and the Commission's various types of outstanding and proposed debt.

The Commission shall require that its Financial Advisors, bond and disclosure counsel, and Port consultants be free of any conflicts of interest, or that any necessary or appropriate waivers or consents are obtained.

A. <u>Financial Advisors</u>
The Commission shall have one or more Financial Advisors to provide ongoing advisory services with respect to the Commission's outstanding and proposed bonds and related agreements; including Credit Facilities, investment agreements, and other similar matters.

B. <u>Bond Counsel, Disclosure Counsel, and Other Legal Counsel</u>

i. *Bond Counsel:* The City Attorney shall procure on behalf of the Commission one or more bond counsel law firms to provide ongoing legal advisory services with respect to the Commission's outstanding and proposed bonds and related agreements, including Credit Facilities, investment agreements, and other similar matters. All bonds issued by the Commission shall require a written opinion from the Port's bond counsel, as appropriate, regarding the validity and binding effect of the bonds and, if applicable, the exemption of interest from federal and state income taxes.

ii. *Disclosure Counsel:* The City Attorney shall procure on behalf of the Commission a disclosure counsel law firm to provide ongoing legal advisory services with respect to initial and continuing disclosure in connection with the Commission's outstanding and proposed bonds. Such firm may be one of the Commission's bond counsel firms. The Commission's issuance of bonds shall require a written opinion from the Commission's disclosure counsel regarding: (i) the exemption of the bonds from registration requirements under federal securities laws; and (ii) their absence of knowledge, after due review, regarding any material misstatement in or omission from the official statement or other public offering document with respect to the bonds.

iii. *Other Legal Counsel:* The Port shall use the City Attorney for ongoing legal advisory services with respect to the Commission's other (non-bond) outstanding and proposed debt and related agreements. Other debt issued by the Commission may require a written opinion from the City Attorney, as appropriate, regarding the validity and binding effect of the debt and the Port Commission's authorization to issue the debt.

The Commission may encourage or require, as appropriate, the retention and use of legal counsel by other parties involved in the issuance of Port debt.

C. Bank Trustees and Fiscal Agents

The Commission may engage bond trustees, fiscal agents, paying agents, and tender agents, as necessary or appropriate, in connection with the issuance of its bonds. Bond trustees and fiscal agents shall be federally-chartered banks with a minimum capitalization of $100 million.

D. Underwriters

The Commission may engage a team of Underwriters, including a Senior Managing Underwriter, in connection with the negotiated sale of its bonds. The Commission also may engage one or more Underwriters, as necessary or appropriate, to serve as remarketing agents, broker-dealers, or in other similar capacities with respect to variable rate demand bonds, commercial paper, and other similar types of bonds issued by the Commission.

E. Feasibility Consultants

The Commission may retain feasibility consultants with specialized expertise in connection with any proposed project, program, facility, or activity to be financed in whole or in part from proceeds of debt. The criteria for the selection of such feasibility consultants, in addition to those set forth above, shall include their expertise and experience with projects, programs, facilities, or activities similar to those proposed to be undertaken by the Commission.

F. Arbitrage Rebate Service Providers

Because of the complexity of the federal arbitrage rebate statutes and regulations, and the severity of potential penalties for noncompliance, the Commission may retain an arbitrage rebate services provider in connection with any outstanding and proposed bonds of the Commission or of any special districts, and may also solicit related legal and tax advice from the City Attorney and the Commission's bond counsel. The responsibilities of the arbitrage rebate services provider shall include: (i) periodic calculation of any accrued arbitrage rebate liability and of any rebate payments due under and in accordance with the Internal Revenue Code and the related rebate regulations; (ii) advice regarding strategies for minimizing arbitrage rebate liability; (iii) preparing and filing periodic forms and information required to be submitted to the Internal Revenue Service; (iv) preparing and filing requests for reimbursement of any prior overpayments; and (v) other related matters as requested by the Commission.

The Commission shall maintain necessary and appropriate records regarding: (i) the expenditure of bond proceeds, including amounts spent on individual projects and facilities financed; and (ii) investment earnings on bond proceeds. The Commission shall maintain such records for such period of time as shall be required by the Internal Revenue Code.

XVI. Market Relationships

A. Rating Agencies

The Finance Director will be responsible for maintaining the Port's relationships with the major NRSROs. The Port may choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the Finance Director will meet with credit analysts from these organizations: (i) at least once each fiscal year to update the agencies on the Port's business operations and financial condition; and (ii) before each public offering.

Port staff shall make diligent efforts to accommodate reasonable requests for information from the rating agencies. Communication may take the form of conference calls, one-on-one meetings, and Port tours.

B. Credit Enhancers, Current and Prospective Investors, and Other Market Participants

The Finance Director will be responsible for maintaining the Port's relationships and reputation with institutions that credit enhance or may credit enhance Commission debt, current and prospective investors in Commission debt, and other market participants. When and if appropriate, communication with institutional investors may take the form of conference calls, one-on-one meetings, Port tours, and "virtual" road shows.

XVII. Disclosure

A. Initial Disclosure

Whenever the Port's bonds will be sold in a public offering, the Finance Director will work with the Port's disclosure counsel, Financial Advisors and bond counsel, and staff to prepare a public disclosure document ("Official Statement") for the bonds that includes all "material" information (as defined in federal securities law).

The Finance Director shall review any Official Statement prepared in connection with any debt issuance by the City on behalf of the Port to ensure there are no misstatements or omissions of material information.

As part of the review process, the Finance Director shall submit all Official Statements to the Commission for approval.
The Commission's approval of an Official Statement shall be listed on the Commission's agenda as a new business matter and shall not be approved as a consent item. The Commission shall undertake such review as it deems necessary, following consultation with the Finance Director, to fulfill the Commission's responsibilities under applicable federal and state securities laws. In this regard, the Finance Director shall consult with the Port's disclosure counsel to the extent considered appropriate.

B. Continuing Disclosure

The Port will remain in compliance with its continuing disclosure undertakings made under Securities and Exchange Commission Rule 15c2-12. The Finance Director will ensure the

Port's compliance by timely filing each of the following items on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board:

i. The Port's annual disclosure report (including applicable audited financial statements) and associated materials of the Port and the special districts, as applicable, filed no later than the date specified in the Port's continuing disclosure undertakings; and

ii. Enumerated events for which notification to bondholders and investors is required in accordance with Rule 15c2-12.

The Finance Director will also ensure that the annual financial statements, annual disclosure reports, and associated materials of the Port and the special districts, are posted on the Port's website. The Port's Finance Department will keep and maintain copies of the annual disclosure reports and other notifications outlined in (i) and (ii) above, along with documents verifying their submission to EMMA. Additional details regarding the continuing disclosure and reporting requirements for the Port and the special districts are provided in Appendix A.

C. <u>Training</u>
The Finance Director shall ensure that the members of Port staff involved in the initial or continuing disclosure process and the Commissioners are properly trained to understand and perform their responsibilities.

The Finance Director shall arrange for disclosure training sessions conducted by the Port's disclosure counsel. Such training sessions shall include education on the Commission's disclosure obligations under applicable federal and state securities laws and the disclosure responsibilities and potential liabilities of members of the Port's staff and members of the Commission. Such training sessions may be conducted using a recorded presentation.

A glossary of terms as commonly used in the financial industry is attached.

XVIII. Ongoing Debt Administration

Unless otherwise noted, the following administrative requirements apply to all debt issued by the Commission or the City on behalf of the Port or a Port special district.

A. <u>Use of Debt Proceeds</u>

i. <u>Internal Control Procedures.</u> Whenever reasonably possible, proceeds of debt used to finance capital improvements will be held by a third-party trustee and the Port will submit written requisitions for such proceeds. The Finance Director will execute each such requisition. **[Purpose -- compliance with Section 8855: "internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use."]**

ii. <u>Compliance with Federal Tax Law.</u> The use and investment of bond proceeds must be monitored to ensure compliance with arbitrage restrictions under federal tax law. The

Finance Director shall ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculation and, if necessary, timely rebate payments.

The Commission shall use proceeds of tax-exempt debt issues in a manner that is consistent with then-applicable federal tax laws.

B. Arbitrage Rebate Compliance and Reporting

The Finance Director shall engage the services of a rebate service provider to calculate the arbitrage rebate liability as required by federal tax law or as otherwise required by the financing documents.

C. Policies and Procedures Related to Federal Tax Law

The Port will establish policies and procedures for post-issuance compliance to the extent required to comply with federal tax law and will comply with such policies and procedures in the administration of its tax-exempt debt.

D. Insurance Certificates

The Port, through the City's Risk Manager, will provide annual insurance certification to bond trustees and holders of other Commission debt as and when required.

E. Additional Internal Reporting

i. *Ratings:* The Finance Director will promptly report credit agency ratings on new debt issues and any rating changes on existing debt to: (i) the Commission; (ii) the Executive Director; and (iii) the City's Office of Public Finance.

ii. *Enumerated Event:* The Finance Director will promptly report any Rule 15c2-12 Enumerated Event to: (i) the Commission; (ii) the Executive Director; and (iii) the City's Office of Public Finance.

F. Financial Modeling

The Finance Director shall develop and maintain a five-year financial model to evaluate the financial impact on the Port's budget of proposed bond issues and related expenditures, including debt service, revenues, operation and maintenance expense, and other related effects.

G. Outstanding Bonds Database

The Finance Director shall maintain detailed information regarding the outstanding bonds of the Commission and the special districts, including the following information with respect to each issue:

i. Name;

ii. Initial principal amount, and principal amount for each maturity;

iii. Date;

iv. Purpose or purposes;

v. Type of issue, including new money or refunding, fixed rate or variable rate, and other features;

vi. Method of sale;
vii. True interest cost, arbitrage yield, and weighted average maturity;
viii. Principal amount currently outstanding, in the aggregate and by maturity;
xi. Debt service reserve fund balance;
x. Underwriters and underwriters' discount;
xi. Interest rates by maturity;
xii. Call provisions, including any mandatory sinking fund provisions; and
xiii. Bond Insurance or Credit Facilities, if any.

H. Other Reporting Obligations

Debt issued under state law may involve additional reporting. For example, debt issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, requires annual reporting. Additional reporting is also required when a special tax is levied.

The Finance Director will be responsible for ensuring compliance with these reporting requirements and will work with the Port's Financial Advisors, bond counsel, and disclosure counsel to identify these requirements.

XIX. Relationship with the City's Office of Public Finance

The Finance Director shall maintain communications with the City's Office of Public Finance, through periodic meetings, conference calls, and status reports, and may consult with such Office regarding the proposed issuance of bonds and other debt, credit and rating strategies, and other related matters. The Finance Director shall provide the City's Office of Public Finance with copies of all preliminary and final Official Statements, financial statements, continuing disclosure reports, and notices of enumerated events in connection with Commission bonds.

XX. Periodic Review

The Finance Director shall review this Policy on a periodic basis and recommend any changes to the Executive Director and the Commission for consideration. This Policy, including any proposed changes or additions, shall be presented to the Commission at least once every five years for re-approval. The Municipal Debt Policy shall be posted in the Finance and Administration section of the Port's website at www.sfport.com.

Appendix A

Port of San Francisco

Summary of Disclosure Requirements as of November 2016

Issue	Source Document	Disclosure Obligation	Recipient	Due
Port Revenue Bonds	Indenture - Section 6.06	Audited Financial Statements	Trustee	Within 210 days of fiscal year end
Port Revenue Bonds	1st Supplement to Indenture - Section 4.01 2nd Supplemental to Indenture - Section 4.01 Continuing Disclosure Certificates	Annual Disclosure Report *For 2010 Series A&B includes* - Audited Financials - Major Port Operating Revenues - Real Estate Leases, Remaining Lease Terms - Top Ten Port tenants - Historical Results of Operations - Historical Operating and Maintenance Expenses - Historical Debt Coverage *In addition to the above, for Series 2014A&B, the following is included* - Top Ten Real Estate Tenants	MSRB's, EMMA website	Nine months after fiscal year end (currently March 31)
Port Revenue Bonds	Moody's Credit Ratings Report	Financial and statistical information	Moody's Investor Service	Provide on an ongoing basis
Port Revenue Bonds	Standard and Poor's Ratings Report (now known as S&P Global Ratings)	All relevant financial and other information	S&P Global Ratings	As soon as available
Port Revenue Bonds	Fitch Ratings Ratings Report	All information that may be material to the rating	Fitch Ratings	Promptly

Port Commission of the City and County of San Francisco
Financial Industry
Glossary of Terms[1]

Advance Refunding:

For purposes of certain tax and securities laws and regulations, a refunding in which the refunded issue remains outstanding for a period of more than 90 days after the issuance of the refunding issue. The proceeds of the refunding issue are generally invested in Treasury securities or federal agency securities (although other instruments are sometimes used), with principal and interest from these investments being used (with limited exceptions) to pay principal and interest on the refunded issue. Bonds are "escrowed to maturity" when the proceeds of the refunding issue are deposited in an escrow account for investment in an amount sufficient to pay the principal of and interest on the issue being refunded on the original interest payment and maturity dates, although in some cases an issuer may expressly reserve its right (pursuant to certain procedures delineated by the Securities and Exchange Commission) to exercise an early call of bonds that have been escrowed to maturity. Bonds are considered "pre-refunded" when the refunding issue's proceeds are escrowed only until a call date or dates on the refunded issue, with the refunded issue redeemed at that time.

Amortization:

The gradual reduction in principal of an outstanding debt according to a specific repayment schedule, which details specific dates and repayment amounts on those dates.

Bond Counsel:

The legal firm that provides an opinion as to the tax status, validity and legality of a bond or note issue as of the date of its issuance.

Bond Insurance:

A financial guaranty issued by a private insurance company that guarantees the timely payment of principal and interest for a debt issue. In the event that an issuer is unable to make a timely payment, the company issuing the bond insurance is responsible to make the payment.

Call Provisions:

Mandatory or optional provisions that require or allow an issuer to prepay or refinance a bond prior to its stated maturity date. These provisions identify which bonds may be called, when they may be called, and what premium, if any, must be paid upon redemption prior to the stated maturity date of the bond.

Capitalized Interest:

Specific interest payments of a bond issue that are funded in advance, or capitalized, through proceeds of the same bond issue. These proceeds are set aside in a specially designated fund in order to pay these designated interest payments. In other words, the bond issue pays for itself for a designated period of time.

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Port Commission of the City and County of San Francisco
Financial Industry
Glossary of Terms[1]

Commercial Paper:

Promissory notes issued by state and local governments to finance construction of facilities, which are secured by pledged revenues of the issuer and a credit agreement. Commercial paper is issued with a short maturity of 270 days or less from the date of issue.

Competitive Sale:

A method of sale in which an issuer solicits bids from underwriters to purchase its debt offering via electronic bidding, or other type of auction method. The issue is awarded to the bidder judged to have submitted the best bid by offering the lowest interest rate, taking into account underwriting spread, interest rates and any discounts or premiums.

Coupon:

A colloquial term for a bond's interest rate. Historically, the coupon was a detachable part of a certificated security that evidenced interest due.

Credit Rating Agencies:

Firms that evaluate the credit quality and ability of debt issuers (corporations and governments) to repay obligations as well as their likelihood of defaulting on an obligation.

Current Coupon Bonds:

Traditional "plain vanilla" bond issues where the bond's coupon is set at a fixed rate to maturity at the time of its issuance and immediately, upon issuance, begins to accrue interest, which is payable on pre-set interest payment dates.

Current Refunding:

A refunding transaction where the municipal securities being refunded will all mature or be redeemed within 90 days or less from the date of issuance of the refunding issue.

Debt Affordability:

The principal amount of debt that an issuer can afford within the constraints of net revenues and debt service coverage requirements.

Debt:

A promise to pay back a specified sum of borrowed money, or the principal loan amount, according to a specified repayment schedule. For public entities, debt is usually incurred with a specific principal and interest repayment schedule.

Debt Service Coverage:

The ratio of the net revenue stream pledged against a debt to the debt service payments of the debt. Debt service coverage ratios are most often used by rating agencies to determine repayment sufficiency with respect to bonds secured by a specific revenue stream.

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Port Commission of the City and County of San Francisco
Financial Industry
Glossary of Terms[1]

Debt Service Reserve Fund:

Fixed interest rate bond issues are often structured with a debt service reserve fund, which assures the timely availability of sufficient moneys for the payment of debt service in the event that an issuer cannot make the required debt service payment(s). Typically, in order to comply with Federal tax law, the required size of the reserve fund is determined by the lesser of: 100% of maximum annual debt service; 125% of average annual debt service; or 10% of the aggregate issue price. Reserve funds are usually fully funded out of bond proceeds and are set aside in a separate fund held by the issue's trustee. Interest earned on the debt service reserve fund, as long as the debt service fund is fully funded, can be used to offset debt service payments.

Defeasance:

Termination of the rights and interests of the bondholders and of their lien on the pledged revenues or other security in accordance with the terms of the bond contract for an issue of bonds. Defeasance usually occurs in connection with the refunding of an outstanding issue after provision has been made for future payment of all obligations under the outstanding bonds through funds provided by the issuance of a new series of bonds.

Derivative Product:

A product, such as an option or futures contract, whose value is derived from the performance of an underlying security. A commonly used derivative is an interest rate swap

Disclosure Counsel:

The legal firm that provides advice to the issuer of bonds with respect to the legal disclosure documentation for an issue, most often in the form of the preliminary and final Official Statement and continuing disclosure agreement, for dissemination to the public.

Discount Rate:

The interest rate used for adjusting for the time value of money for net present value calculations, option pricing models and other market models. The term "discount rate" can also refer to the rate that the Federal Reserve Bank charges its members for overnight deposits.

Financial Advisor:

Generally, an independent consulting firm that advises an issuer on financial matters ranging from the comprehensive financial health of an issuer to specific financings. Financial Advisors are generally not part of the underwriting syndicate that markets financings for an issuer.

Float Contracts:

A contract that gives an investment provider the right to invest, for certain time periods, certain uninvested moneys. Generally, a float period is a period of time in which moneys of an escrow or similar vehicle are uninvested.

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Port Commission of the City and County of San Francisco
Financial Industry
Glossary of Terms[1]

Good Faith Deposit:

A sum of money or, alternatively, a surety bond provided to an issuer of a new issue of municipal securities by an underwriter or underwriting syndicate (i.e., group of underwriters) as an assurance of performance on its offer to purchase the issue. Good faith deposits generally are required in connection with competitive sales and sometimes in connection with negotiated sales.

Hedging:

A strategy designed to reduce investment risk. A hedge can help reduce the risk and volatility of a portfolio. A common hedging strategy includes matching the amount of short-term assets (cash, investments) with the amount of short-term variable rate debt outstanding. Thus, as short-term interest rates fluctuate, the portfolio's interest earnings on its short-term assets match its interest payments on its short-term obligations.

Institutional Investor:

A term that generally refers to banks, financial institutions, bond funds, insurance companies or other business organizations that possess or control considerable assets for large scale investing.

Investment Agreement:

A contract between an investment provider and its client specifying the rights and responsibilities of each party in the structuring and operation of an investment product.

Letter of Credit:

A letter of credit (L/C) is an independent, documentary and binding payment obligation issued by a bank to a third party beneficiary assuring payment to the beneficiary as long as certain documentary conditions have been met.

Two types of letters of credit are used in bond and other debt financings; standby L/Cs and direct pay L/Cs. They provide credit enhancement for the debt issues by shifting the risk of repayment from the issuer (or entity that receives the debt proceeds) to the bank issuing the L/C. L/Cs are usually required for the issuance of variable rate debt. Letters of credit also are used to provide liquidity.

A standby L/C is an irrevocable agreement issued by a commercial bank that commits the bank to a pay third party beneficiary contingent upon the failure of bank's customer to perform under the terms of a contract or agreement with the beneficiary. Used as a substitute for a performance bond or payment guarantee, standby L/Cs are used mainly in the U.S. For bond or debt holders it serves as a secondary source of payment, in case the issuer fails to meet its payment obligations. As such, it serves as a source of credit enhancement for the debt issuance. Standby L/Cs also provide liquidity for bond holders in cases where bonds tendered cannot be remarketed within the required timeframe.

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A direct pay L/C is an irrevocable agreement issued by a commercial bank that commits the bank to a pay third party beneficiary upon a request presented by the beneficiary to the bank issuing the L/C. In the context of debt issuance, the direct pay L/C bank stands between the debt holders and the debt issuer insuring that the debt holders are paid. The debt holders draw on the direct pay L/C for the payment of principal and interest on their debt. The direct pay L/C bank relies on same day reimbursement from the debt issuer (or entity who received the debt proceeds) for the payment made to the debt holders.

Line of Credit:
An arrangement in which a bank or other financial institution extends a specified amount of credit to a specified borrower for a specified time period. The borrower can access funds for the line of credit at any time as long as they do not exceed the maximum loan amount set by the lender. Lines of credit are often unsecured.

Liquidity Facility:
Variable rate securities are often secured by a liquidity facility, either in the form of a standby letter of credit or a line of credit. Such credit enhancement assures note holders that in the event of a tender and failed remarketing, funds will be available to purchase the notes on the tender date, with the issuer becoming obligated to the letter of credit or line of credit bank on a prearranged basis.

Long Term Debt:
Loans and other financial obligations generally with a maturity of longer than one year; usually accompanied by interest payments.

Material:
A fact is material if there is a substantial likelihood that the fact would be viewed by a reasonable investor as significantly altering the total mix of available information.

Maturity Date:
The date upon which a specified amount of debt principal or bonds matures, or becomes due and payable.

Negotiated Sale:
A method of sale for bonds, notes or other financing vehicles in which an issuer selects in advance, on the basis of proposals received or by other means, one or more underwriters to assist in structuring, marketing and finally offering an issue to investors.

Net Revenue:
Gross revenues less operating and maintenance expenses.

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Port Commission of the City and County of San Francisco
Financial Industry
Glossary of Terms[1]

Nationally Recognized Statistical Rating Organization (NRSRO):

A "Nationally Recognized Statistical Rating Organization", or NRSRO, is a credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. NRSROs are nationally recognized by the predominant users of securities ratings as issuers of credible and reliable ratings.

In 2006 the U.S. Congress passed the Credit Rating Agency Reform Act. The law required the SEC to developed clear guidelines for determining whether credit rating agencies qualify as NRSRO. The legislation also granted the SEC power to regulate certain aspects of the NRSROs' operations, primarily in the areas of record-keeping and conflict of interest. The SEC, however, is specifically prohibited from regulating a NRSRO's rating methodology.

As of March 2015, ten organizations were registered with the SEC as NRSROs. The three largest NRSROs, in alphabetical order) are Fitch Ratings, Inc. Moody's Investors Service, and S&P Global Ratings (formerly Standard and Poor's Ratings Services).

Official Statement:

A statement that complies with Rule 15c2-12 and is issued by a governmental entity prior to the sale of bonds, notes or other financing vehicles that contains all material facts concerning the issuer, the issuer's financial condition, the security pledged for the securities being offered, the projected use of the proceeds of the sale In some respects, an official statement is comparable to a prospectus for a corporate equity or debt offering. Also known as the disclosure statement.

Par Amount:

100 percent of the face value of a security.

Present Value Analysis:

An analysis used to determine the value today of a future payment, or to a stream of payments, discounted at some appropriate compound interest – or discount rate.

Private Placement:

A private placement is a variation of a negotiated sale in which an issuer, usually with the help of a financial advisor or placement agent, will attempt to place the entire issue directly with an investor. The investor will negotiate the specific terms and conditions of the financing before agreeing to purchase the issue.

Redemption:

Depending on an issue's call provisions, an issuer may on certain dates and at certain premiums, redeem or call specific outstanding maturities. When a bond or certificate is redeemed, the issuer is required to pay the maturities' par amount, the accrued interest to the call date, plus any premium required by the issue's call provisions.

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Port Commission of the City and County of San Francisco
Financial Industry
Glossary of Terms[1]

Remarketing Agent:

A broker-dealer responsible for reselling to new investors securities (such as variable rate demand obligations and other tender option bonds) that have been tendered for purchase by their owner. The remarketing agent also typically is responsible for resetting the interest rate for a variable rate issue and also may act as tender agent.

Retail Investor:

Any customer other than an institutional customer. Retail customers generally include individual investors and small organizations.

Rule 15c2-12:

A Securities and Exchange Commission rule promulgated under the Securities Exchange Act of 1934 that describes the initial and continuing disclosure regime applicable to municipal securities in a public offering.

Rule 15c2-12 Enumerated Event:

Certain events affecting a municipal debt issuance are required to be disclosed to debt holders and investors under a continuing disclosure agreement meeting the requirements of Rule 15c2-12. These events include the following: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security; (7) modifications to rights of security holders, if material; (8) bond calls, if material, and tender offers; (9) Defeasances; (10) release, substitution, or sale of property securing repayment of the securities, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the obligated person; (13) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Securities:

Instruments of debt or ownership sold.

Senior Lien Debt:

Debt with terms requiring it to be repaid with a priority claim on pledged revenues.

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Port Commission of the City and County of San Francisco
Financial Industry
Glossary of Terms[1]

Short-Term Debt:

Generally, debt that matures in one year or less. However, certain securities that mature in less than five years may be considered short-term debt.

Subordinate Lien Debt:

Debt with terms requiring it to be repaid with pledged revenues net of the amount necessary to make debt service payments on senior lien debt.

Surety Bond:

An alternative to a fully funded debt service reserve fund. A surety bond can be purchased from a bond insurance provider, deposited into a debt service reserve fund, and can be drawn upon in the event an issuer cannot make a regularly scheduled debt service payment. A surety bond must be purchased from and is subject to credit approval by a bond insurance provider. The term "surety bond" often refers to a reserve fund insurance policy.

Tender:

With variable rate debt, a bond or note holder has the option of tendering or putting the bonds or notes back to the remarketing agent on specific dates (monthly, weekly) for par. The remarketing agent then re-offers the tendered notes to investors. The proceeds received by the remarketing agent from the sale of the tendered notes are paid to the tendering note holder in full satisfaction of the obligation to purchase the notes on the tender date. A new interest rate is set at the lowest rate necessary to remarket the tendered notes at par. In some cases the tender may be mandatory, such as upon a substitution of a credit enhancement or liquidity facility.

Tender Agent:

In the case of tender option bonds, an agent of the issuer to which bondholders tender their bonds upon a mandatory or optional tender. In many cases, the tender agent will also act as the remarketing agent for the bonds.

Tender Option:

A provision in a bond contract under which the investor has the right, on specified dates after required notification, to surrender (or sell) the securities to the issuer (or someone acting on the issuer's behalf, such as a tender agent) at the predetermined price (usually par). This is sometimes referred to as an "optional tender" or a "put option." The liquidity required to honor an exercise of a tender option is generally provided by a bank standby letter of credit or line of credit

Trading Differential:

The interest rate spread between similar bond or note maturities based upon differences in credit quality, state tax issues and tax-exempt status of various bond issues.

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Underwriter:

A securities dealer who purchases a bond or note issue from an issuer and resells it to investors. If a syndicate or selling group is formed, the underwriter who coordinates the financing and runs the group is called the senior or lead manager.

Variable Rate Demand Bonds (or Notes):

Variable rate demand bonds, which are often referred to as floating rate debt, are instruments that provide the purchaser with an option to tender or "put" the bonds back to the issuer, at par, at the end of each tender or "re-set" period. For example, an issue with a term of 30 years could have a tender period that is daily, weekly, monthly, quarterly or semi-annually. Since the variable rate bonds give the purchaser the option of a put at par at the end of each tender period, the yield on each bond approximates the yield on comparably rated securities having a final maturity equal to the selected tender period. In other words, a holder of an issue with a weekly tender period is only entitled to a seven-day interest rate. Variable rate issues can be viewed as short-term instruments containing a built-in refinancing mechanism.

Weighted Average Maturity:

With respect to an issue of bonds, the weighted period of time required to repay half of the issue through scheduled principal payments (*e.g.*, maturity, sinking fund redemption, etc.). The weighted average maturity, also referred to as the "weighted average life" or "average life" reflects how rapidly the principal of an issue is expected to be paid. Under one commonly used calculation method, average life is equal to the total bond years divided by the total number of bonds (one bond equals $1,000 par amount, regardless of actual denomination). Note that this computation method does not take into account the time value of the principal amounts. The formula for this computation is:

$$\text{Weighted average maturity} = \frac{\text{Total Bond Years}}{\text{Number of Bonds}}$$

Example:

For each specific maturity, bond years = the amount of principal maturing in that year X the number of years from the closing date of the bond issue to the specific maturity.

Period	Principal Maturing	Bond Years
1	2,000,000	2,000,000
2	4,000,000	8,000,000
3	6,000,000	18,000,000
Totals	12,000,000	28,000,000

Weighted average maturity (or average life) = 28,000,000/12,000,000 = 2.333 years.

[1] In the event of any inconsistency between the provisions of this Glossary and the Municipal Debt Policy, the provisions in the Debt Policy shall prevail.

Yield:

The net rate of return, as a percentage, received by an investor on an investment. Yield calculations on a fixed income investment, such as a bond issue, take purchase price and coupon into account when calculating yield to maturity.

[1] In the event of any inconsistency between the provisions of this Glossary and the Municipal Debt Policy, the provisions in the Debt Policy shall prevail.

Port Commission of the City and County of San Francisco
Municipal Debt Policy

Guide to the Ratings of the Major Nationally Recognized Statistical Rating Organizations

Long Term Debt Ratings **Financial Strength/Debt Service Repayment Characteristics**	**S&P**	**Moody's**	**Fitch**
The highest rating awarded by the respective credit rating agency. Debt carries the lowest degree of investment risk. Obligor's capacity to meet its financial commitments is extremely strong, and this capacity is highly unlikely to be adversely affected by foreseeable events.	AAA	Aaa	AAA
The obligor's capacity to meet its financial commitments is very strong and risk of default is very low. Financial capacity is not significantly vulnerable to foreseeable events. This category is distinguished from the category above in the margin of protection, which is not as large, or the long term risks appear to be greater as that of the higher category. Debt in this category, together with debt in the category above, is generally referred to as high grade obligations.	AA	Aa	AA
The capacity of the obligor for payment of financial commitments is considered to be strong. However, this capacity is more vulnerable to adverse business or economic conditions than is the case for debt in the higher rated categories. Debt in this category is considered to be upper medium grade obligations.	A	A	A
The obligor's risk of default is low, and its capacity to meet its financial commitments is considered to be adequate at present. However, adverse business or economic conditions are more likely to impair its capacity to meet financial obligations. Debt in this category is neither highly protected not poorly secured, and are considered to be medium grade obligations.	BBB	Baa	BBB
Debt in the Above Categories are Considered Investment Grade Obligations *Debt in the Categories Below are Considered to be Speculative Obligations*			
Debt in this category is more susceptible to default, particularly in the event of adverse changes in business or economic conditions. Often the obligor's capacity to meet interest and principal payment is only moderate. Debt in this category, however, is less vulnerable to default than debt in the lower speculative categories.	BB	Ba	BB
There is a material risk of default present for debt in this category, but a limited margin of safety remains. The obligor currently has the capability to meet its financial commitments; however, the capacity for continued payment is vulnerable to deterioration in the business and economic environment.	B	B	B

Guide to the Ratings of the Major Nationally Recognized Statistical Rating Organizations

Long Term Debt Ratings (cont.) **Financial Strength/Debt Service Repayment Characteristics**	**S&P**	**Moody's**	**Fitch**
Debt in this category is currently vulnerable to default. The obligor is dependent upon favorable business, financial, and economic conditions to meet its financial commitment on the obligation.	CCC	Caa	CCC
Debt in this category is highly vulnerable to default.	CC	Ca	CC
Default is imminent or inevitable. This rating category may also be used to cover situations where: (i) the obligor has entered into a grace or cure period following non-payment of a material financial obligation; (ii) the obligor has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation; (iii) the obligor has filed a bankruptcy petition, but payment on the debt are being continued. For Moody's this is the lowest rated class of debt.	C	C	C
Debt is in nonpayment default.	D	-	D
Modifiers			
Long term debt ratings from AA to CCC may be modified by following signs to show the relative strength within a ratings category.	+ or -		+ or -
Long Term ratings from Aa to Caa may be modified to show the relative strength within a ratings category 1 indicates debt at the higher end of the category, and 3 indicates debt at the lower end.		1, 2, 3	
Short Term Debt Ratings (debt maturing in one year or less)	**S&P***	**Moody's**	**Fitch**
Financial Strength/Debt Service Repayment Characteristics			
The issuer has strong capacity for timely payment of financial commitments. In the case of S&P and Fitch a "+" may be added to those debt issues with exceptionally strong credit protection characteristics.	A-1	P-1	F-1
The issuer has good capacity for timely payment of its financial commitments, however, the degree of safety regarding timely repayment is not as high as those issues rating in the higher category.	A-2	P-2	F-2
The issuer has adequate capacity for timely payment of its financial commitments. Variability in earnings and the profitability of the issuer may result in changes in the level of safety regarding timely repayment.	A-3	P-3	F-3
Debt in the Above Categories are Considered Investment Grade Obligations			
* in the case of S&P, ratings are for commercial paper issues only.			

Guide to the Ratings of the Major Nationally Recognized Statistical Rating Organizations

Short Term Debt Ratings (debt maturing one year or less) – cont. **Financial Strength/Debt Service Repayment Characteristics**	**S&P***	**Moody's**	**Fitch**
Debt in the Categories Below are Considered to be Speculative Obligations			
The issuer has minimal capacity for timely payment of financial commitments, and has an increased vulnerability to near term adverse changes in financial and economic conditions. Timely payment is considered speculative for debt issues with this rating.	B	NP	B
Capacity for payment is considered doubtful for debt issues with this rating.	C	NP	C
Debt is in nonpayment default.	D	NP	D
* in the case of S&P, ratings are for commercial paper issues only.			

Municipal Short Term Note Ratings (debt maturing in three years or less) **Financial Strength/Debt Service Repayment Characteristics**	**S&P**
The issuer has strong capacity for timely payment of principal and interest. A "+" may be added to those debt issues with very strong capacity to pay debt service.	SP-1
The issuer has satisfactory capacity for timely payment of principal and interest, with some vulnerability to adverse financial and economic changes over the term of the debt.	SP-2
The issuer has speculative capacity for timely payment of principal and interest.	SP-3