



BPC Policy No. 118

SUBJECT: DEBT MANAGEMENT POLICY

PURPOSE: To establish comprehensive guidelines for the issuance and management of the San Diego Unified Port District's Debt Obligations

POLICY STATEMENT:

The purpose of this Debt Management Policy is to establish guidelines and parameters for the issuance and administration of debt by the San Diego Unified Port District ("District"). Recognizing that cost-effective access to the capital markets depends on prudent management of the District's debt program, the Board of Port Commissioners ("Board") has adopted this Debt Policy by resolution. Debt Management Policy shall provide guidance for the issuance and management of all of debt financing and debt refinancing (collectively, "Debt"), together with credit, liquidity, and other ancillary instruments and agreement secured or executed in connection with such Debt. This Management Debt Policy is intended to comply with California Government Code Section 8855(i) and SB 1029 (2016).

I. OBJECTIVES

The primary objectives of the District's debt and financing related activities are to:

- (A) Provide guidelines for the overall management of District debt.
- (B) Maintain the District's sound financial position.
- (C) Protect the District's credit worthiness.
- (D) Maintain adequate financial flexibility and liquidity; and
- (E) Ensure the District is in compliance with all relevant State and Federal securities laws and other applicable laws and regulations.

There may be times where it is not possible or not in the best interest of the District to adhere to this Debt Management Policy. If the District's Executive Director and Chief Financial Officer/Treasurer ("CFO/Treasurer") has determined that a waiver of one or more provisions of this Debt Management Policy should be considered by the Board, it will prepare an analysis for the Board describing the rationale for the waiver and the impact of the waiver on the proposed Debt issuance.

Upon a majority vote of the Board, one or more provisions of this Debt Management Policy may be waived for a Debt financing. The failure of a Debt financing to comply with one or more provisions of this Debt Management Policy shall in no way affect the validity of any Debt issued by the District in accordance with applicable laws.

II. PURPOSES FOR DEBT; APPLICATION OF PROCEEDS

District may issue Debt for any of the purposes permissible under the San Diego Unified Port Act, Stats. 1962, 1st Ex. Sess., c. 67 (as the same has been amended and/or modified and as may be amended and/or modified in the future, the "Port Act") and other applicable law.

III. TYPES OF DEBT

The District may issue the following types of Debt, which in all cases shall be in accordance with and subject to any limitations (including, but not limited to, with respect to form, amount, maturity, and /or term) set forth in the Port Act and other applicable law:

- a. *General Obligation ("GO") Bonds.* The District is authorized to issue general obligation bonds secured by the District's taxing power. GO Bonds must be authorized by the requisite number of voters as set forth in the California Constitution.
- b. *Revenue Bonds.* The District is authorized to issue general revenue bonds payable from operating revenues pledged by the District. Revenue bonds are limited-liability obligations tied to a specific enterprise or special fund revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the special revenue. Generally, no voter approval is required to issue this type of obligation.
- c. *Refunding Bonds.* The District is authorized to issue, sell, or exchange refunding bonds to redeem or retire District issued bonds. Refunding bonds may be issued in a principal amount sufficient to pay all or any part of the principal of outstanding bonds, the interest thereon, and the premiums, if any, due upon call and redemption thereof, as well as expenses of the refunding and other amounts permitted by the Port Act.
- d. *Promissory Notes or Conditional Sales Contract to Purchase Personal Property.* The District may incur Debt by the issuance of a promissory note or execution of a condition sales contract to purchase personal property.
- e. *Certificates of Participation /Joint Powers Authority Lease Revenue Bonds.* These are lease obligations secured by an installment sale or lease-back arrangement between the District and another public entity. The District may obtain financing payable from the general fund through the issuance of debt by a public benefit corporation or joint exercise of powers agency with such debt payable from amounts paid by the District under a lease, installment sale agreement, or contract of indebtedness. Lease-back debt does not constitute indebtedness under the State or District's constitutional debt limit and does not require voter approval.

- f. *Assessment Bonds*: The Improvement Bond Act of 1915 (Streets and Highways Code Section 8500 et seq.) and other State laws, subject to Article XIID of the California Constitution, allow the District to issue bonds to finance improvements that provide “specific benefit” to the assessed real property. Installments are collected on the secured property tax roll of the County. The District may also adopt assessment laws that are applicable within its boundaries. This type of financing is secured by the lien upon, and assessments paid by the real property owners and does not obligate the District’s general fund or other funds.
- g. *Special Tax Bonds*: Under the Mello-Roos Community Facilities Act of 1982, the District may issue bonds on behalf of a Community Facilities District (“CFD”) to finance capital facilities, most commonly in connection with new development. These bonds must be approved by a two-thirds vote of the qualified electors in the CFD, which the Mello-Roos Act defines to mean registered voters if there are 12 or more registered voters in the CFD and, if there are fewer than 12 registered voters, the landowners in the CFD. Bonds issued by the District under the Mello-Roos Act are secured by a special tax on the real property within the CFD. The financed facilities do not need to be physically located within the CFD. The District may also adopt special tax financing laws that are applicable within its boundaries. As this type of financing is secured by the special tax lien upon the real property it does not obligate the District’s general fund or other funds.
- h. *Cash Funding*: The District funds a significant portion of capital improvements from reserves accumulated from revenues.
- i. *Bank Loans / Lines of Credit*: Although the District does not typically utilize lines of credit for the financing of capital projects, financial institution credit is an option for municipal issuers and may be evaluated as a financing option.
- j. *Other Loans*: The District will evaluate other loan programs, including but not limited to State loans.
- k. *Other Permissible Debt*. The District may incur other Debt permissible under the Port Act and applicable law.

IV. RELATIONSHIP OF DEBT TO INFRASTRUCTURE AND OTHER PROJECTS

The District intends to issue debt for the purposes stated in this Debt Management Policy and the decision to incur new indebtedness should be integrated with the Board-adopted annual Operating Budget. Prior to the issuance of revenue bonds, a reliable revenue source shall be identified to secure repayment of the Debt and the annual debt service payments shall be included in the Operating Budget. The District shall integrate its Debt issuances with its goals by timing the issuance of Debt to ensure that projects are available when needed in furtherance of the District’s public purposes.

V. POLICY GOALS RELATED TO DISTRICT PLANNING GOALS AND OBJECTIVES

Pursuant to the Port Act, the District was established to manage granted tidelands in trust for the benefit of all Californians, specifically to support the development and operation of the tidelands and the lands lying beneath the navigable waters of San Diego Bay, as well as to promote commerce, navigation, fisheries, and recreation in the Bay. Further, the Port Act empowers the District to protect, preserve, and enhance public access to San Diego Bay, the Bay's natural resources, including plant and animal life, and the quality of the Bay's waters.

This Debt Management Policy aims to ensure that sound financial management enables District property to be properly developed, maintained, and operated in accordance with the Port Act. The infrastructure and projects for which Debt is issued must be in-line with the Port's mission as set forth in the Port Act and should be consistent with this Debt Management Policy's goals and objectives.

VI. INTERNAL CONTROL PROCEDURES

The District's Executive Director and CFO/Treasurer are designated administrators of the Debt Management Policy. The CFO/Treasurer shall have the day-to-day responsibility and authority for structuring, implementing, and managing issuances of Debt by the District.

The District's Executive Director and CFO/Treasurer shall implement internal control procedures, consistent with the requirements of State law, to ensure that the proceeds of any Debt issuance are directed to the intended use. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the District will submit written requisitions for such proceeds. The District will submit a requisition only after obtaining the signature of the Executive Director or the CFO/Treasurer or such other designee as appropriate. The District will use Government Finance Officers Association ("GFOA") best practices to periodically review this Debt Management Policy and incorporate changes highlighted by GFOA. The CFO/Treasurer with the assistance of the General Counsel's Office shall periodically review federal securities laws, federal tax compliance requirements, District's investment policies, and annual reporting requirements.

VII. ONGOING DEBT ADMINISTRATION

- a. *Continuing Disclosure.* The District will comply with the Securities and Exchange Commission Rule 15c2-12 by filing its comprehensive annual financial report and any other required annual financial and operating information for the benefit of its bondholders and the investing public in a timely manner. While there is reliance on timely audit and preparation of the District's annual continuing disclosure report, the CFO/Treasurer or their designee will ensure the District's timely filing of the following items on the Electronic Municipal Market Access ("EMMA") website or the Municipal

Securities Rulemaking Board:

- i. The District's annual disclosure report and associated materials, no later than 270 days following the end of the District's fiscal year.
 - ii. Changes in ratings by any of the credit rating agencies described in the Glossary of Terms which is attached to this Debt Management Policy; and
 - iii. Material or other enumerated events for which notification to bondholders and investors is required in accordance with Rule 15c2-12.
- b. *Arbitrage Rebate Compliance and Reporting.* The use and investment of bond proceeds must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate rebate liabilities related to any bond issues, with rebate paid to the Federal Government every five years and as otherwise required by applicable provisions of the Internal Revenue Code and regulations. The CFO/Treasurer or their designee shall ensure that proceeds and investments are tracked in a manner that facilitates accurate, complete calculation; and, if necessary, timely rebate payments.
- c. *Reporting.* The CFO/Treasurer or their designee will promptly report credit agency ratings on new debt issues, and any rating changes on existing debt to: i) the Board, and ii) the Executive Director. Additionally, the CFO/Treasurer or their designee, will promptly report any Rule 15c2-12 Material Event to: i) the Board, ii) the Executive Director, and iii) the EMMA system.

APPENDIX A

GLOSSARY OF TERMS

Arbitrage Rebate: Amount payable to the federal government when investment earnings on bond proceeds exceed permitted limits.

Assessment Bonds: Bonds secured by assessments levied on benefited real property.

Board: Board of Port Commissioners of the San Diego Unified Port District.

Bondholders: Owners of the District's bonds or debt obligations.

Cash Funding: Financing capital improvements using available reserves and revenues.

Certificates of Participation (COPs): Lease financing instruments representing interests in lease revenues.

CFD (Community Facilities District): District formed under the Mello-Roos Act to finance facilities through special taxes.

CFO/Treasurer: District Chief Financial Officer/Treasurer.

Continuing Disclosure: Ongoing reporting required for municipal securities.

Debt: Debt financing and refinancing, including related credit and liquidity instruments.

Debt Service: Principal and interest payments on debt.

District: San Diego Unified Port District.

EMMA: Electronic Municipal Market Access disclosure system.

Executive Director: Chief executive officer of the District.

General Obligation (GO) Bonds: Bonds secured by the District's taxing power.

GFOA: Government Finance Officers Association.

Inter-fund Borrowing: Temporary borrowing between District funds or reserves.

Joint Powers Authority Lease Revenue Bonds: Lease-backed debt issued through a joint powers authority.

Material Event: Event requiring disclosure under SEC Rule 15c2-12.

Mello-Roos Community Facilities Act of 1982: California law authorizing Community Facilities District financing.

Operating Budget: Board-adopted annual financial plan.

Port Act: San Diego Unified Port Act, as amended.

Promissory Note: Written promise to repay borrowed funds.

Refunding Bonds: Bonds issued to refinance outstanding debt.

Revenue Bonds: Bonds repaid from pledged operating revenues.

Rule 15c2-12: SEC rule governing municipal continuing disclosure.

Special Tax Bonds: Bonds secured by special taxes within a CFD.

Trustee: Independent third party holding and administering bond funds.

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