San Mateo County Harbor District

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Other Revisions:	Prepared By: Julie van Hoff	

1. POLICY

The District borrows primarily to fund long-term capital improvement projects. While the issuance of long-term debt may not be utilized to fund operating expenses, short-term public borrowing and interfund loans may be used for operations. The District has been debt free since Fiscal Year 2014/15.

This Debt Policy sets forth debt management objectives for the District and establishes general parameters for issuing and administering the District's debt. It primarily addresses debt securities issued by the District in public or private capital markets. This Debt Policy is intended to comply with Government Code Section 8855(i), effective January 1, 2017, and shall govern all debt incurred by the District. The Harbors and Navigation Code Section 6090-6094 also provides regulations specific to Harbor Districts.

For purposes of this Debt Policy, "debt" shall be interpreted broadly to mean bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such term in this Debt Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any statutory or constitutional debt limitation where the substance and terms of the obligation comport with exceptions thereto.

While this policy provides guidelines for general use, it allows for exceptions in extraordinary conditions. In the event there are proposed exceptions to Debt Policy guidelines when a debt issue is structured, those exceptions will be discussed in the applicable staff reports at the time the debt issue is docketed for District Harbor Commission consideration. Any approval of debt by the District Harbor Commission that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy.

The template used to prepare this policy received the Association of Public Treasurers of the United States and Canada's Debt Policy Certificate of Excellence Award in 2014. The policy should be resubmitted periodically for peer review and certification to confirm compliance with best practices and industry standards. While a certification does not serve as a substitute for adoption by District Harbor Commission, it does demonstrate staff's due diligence in the preparation and updating of the policy.

1.1. Purpose

This Debt Policy establishes guidelines for the issuance and management of the District's debt and borrowing. This Debt Policy confirms the commitment of the District Harbor Commission, management, and staff to adhere to sound financial management practices.

1.2. Objectives

The policy assists the District in the pursuit of the following equally important objectives, while providing full and complete financial disclosure and ensuring compliance with applicable state and federal laws:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest possible credit rating while maintaining operational flexibility and reasonable tax and rate burdens;
- Achieve full and timely repayment of debt;
- Ensure compliance with applicable State and Federal laws.

1.3. Budget Integration
The District funds a significant portion of capital improvements on a cash or "pay-as-you-go" basis. While the "pay-as-you-go" method is often considered the preferred means of financing because it avoids interest payments, it may not be entirely equitable. "Pay-as-you-go" requires current users to pay taxes over long periods of time in order to accumulate reserves sufficient to pay for future capital improvements. Prudent use of debt financing rather than "pay-as-you-go" funding better allocates costs of the capital improvement to those who benefit from it.

The decision to incur new indebtedness is integrated into the Capital Improvement Program (CIP) Budget adopted by District Harbor Commission on an annual basis. The CIP is a plan for the community's long-term capital improvement needs and incorporates District Harbor Commission adopted goals and priorities. As the District's infrastructure ages, the CIP also helps to identify the long-term maintenance and asset management funding needs of the District. The Director of Administrative Services works directly with the various District Departments to ensure necessary capital improvements are included in the CIP. Since many capital improvement projects take more than one year to design and construct, the CIP is a five-year plan. This allows District Harbor Commission to better forecast and anticipate upcoming capital improvements.

1.4. Financing Priorities
The Director of Administrative Services shall be responsible for analyzing a financing proposal to determine if it is beneficial to the District and conforms to the District's long-term financial planning objectives. An analysis of proposed debt may include:

- Confirmation that the capital project is eligible for debt financing;
- Review of all available financing instruments for the project, consideration of alternative debt structures, and determination of the most cost-effective option;
- Determination of total cost of the capital project including its design, construction cost, cost of furnishings, fixtures and equipment;
- Identification of the revenue source(s) to fund the annual debt service;
- Analysis of the municipal bond market, including economic and interest rate trends;
- Cost analysis of debt service reserve fund requirements, debt insurance and debt ratings;
- Evaluation of timing of when the District should enter the capital markets.

1.5. Biennial Review
Recognizing that cost-effective access to the capital market depends on prudent management of the District's debt program, a biennial review of the debt policy should be performed. The debt policy will be included in the fiscal policy section of the annual Operating Budget and Five-Year CIP adopted by District Harbor Commission. Any substantive changes to the policy shall be brought to District Harbor Commission for consideration and approval.

2. METHODS OF FINANCING
The Director of Administrative Services will investigate all possible project financing alternatives including, but not limited to, bonds, loans, state bond pools, and grants.

2.1. Cash Funding
Beginning in Fiscal Year 2015/16 the District has funded all of its capital improvements on a "pay-as-you-go" basis. As part of a "pay as you go" strategy, the District will first look for grant funding for capital projects.

2.2. Bank Loans/Lines of Credit and Leases
Although the District does not typically utilize bank loans or 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. These "loans and lines of credit" are often structured as leases or installment payment obligations in order to comply with the California Constitution.

2.3. Other Debt

The District will evaluate other financing programs, including but not limited to State financing such as the California Parks Department Division of Boating and Waterways (DBW) Boating Facilities Development and Financing Programs.

2.4. Public Market Financing
The District may issue any debt which is allowed under federal and state law including but not limited to general obligation bonds, certificates of participation, revenue bonds, assessment district bonds, special tax bonds, tax increment bonds, revenue anticipation notes, and conduit financings. While conduit financings constitute a limited obligation of the issuer, the same level of due diligence prior to issuance is required. The District will consider requests for special district formation on a case-by-case basis.

Although short-term borrowing such as (i) revenue anticipation notes and (ii) equipment financings has not been part of the District's past practice it may be undertaken by the District in appropriate circumstances.

2.5. Joint Powers Authority (JPA)
In addition to some of the long-term and short-term financing instruments described in Sections 2.1 through 2.4, the District may also consider joint arrangements with other governmental agencies.

3. FINANCING TEAM – ROLES AND SELECTION PROCESS

3.1. Financing Team
The Financing Team is the working group of District staff and outside consultants necessary to complete a debt issuance including but not limited to bond counsel, disclosure counsel, underwriter, municipal advisor, trustee, pricing consultant, and/or arbitrage analyst.

Typically, the Director of Administrative Services, the Accounting Manager, the District's Legal Counsel, and the District General Manager, and appropriate Department Head(s) form the District staff portion of the Financing Team. Other staff members or designees may be appointed to the Financing Team.

3.2. Consultant Selection
The District will consider the professional qualifications and experience of consultants as they relate to the particular debt issue or other financing under consideration. In certain instances, the District will conduct a request for proposal/qualification process to select such consultants. Other professionals may be selected by the General Manager on an as-needed basis if the cost is within his/her authority.

If the District contemplates the possibility of selling bonds through a negotiated sale from the initial analysis phase, the Director of Administrative Services shall first retain the municipal advisor in order to have professional advice on the appropriate method of sale. If a negotiated sale is selected, Director of Administrative Services shall then select an underwriter or private placement lender, as applicable.

3.3. Roles of Consultants
While each financing may require different consultants, bond counsel, disclosure counsel, and municipal advisor are required. Bond Counsel prepares the necessary resolutions, ordinances, agreements and other legal documents necessary to execute a bond financing and provides an opinion on the validity of the debt and the tax-exempt nature of interest on the debt, if applicable. Disclosure counsel prepares the offering documents, such as the official statement and continuing disclosure undertaking. While bond counsel can act as disclosure counsel, the District typically retains separate counsel. The municipal advisor assists with bond document negotiations, transaction structuring including call provisions, timing of issuance, cash flow, debt insurance and savings analysis, and obtaining ratings on the proposed debt issuance.

3.4. Roles of Staff

Staff not only plays an important role in the issuance of debt, but their roles continue through the life of the debt. The Director of Administrative Services is responsible for analyzing financial proposals (including structure, credit enhancements, reserve funds, call options, and derivatives products), selecting consultants, and submitting new or refunding debt options to District Harbor Commission for approval. The Director of Administrative Services maintains relationships with rating agencies, invests proceeds and ensures proceeds are spent for their intended purposes. In regard to disclosure, the Director of Administrative Services approves all disclosure documents, including offering documents, annual continuing disclosure filings (including audited financial statements), event filings and voluntary disclosures whether posted on the Electronic Municipal Market Access (EMMA) or submitted directly to a bond owner in a private placement.

The District's Legal Counsel reviews all documents including offering documents to ensure all material litigation, settlements, and court orders are presented. The District's Legal Counsel is also a member of the Disclosure Review Group (see Section 7.5), using his or her knowledge of the District to comment on disclosure documents.

The Director of Administrative Services identifies departments and staff to contribute information for the offering documents. In addition, the Director of Administrative Services is responsible for organizing the Disclosure Review Group, scheduling meetings, distributing disclosure documents, and soliciting comments from the group. After any disclosure document has been approved by the Disclosure Review Group, the Director of Administrative Services is responsible for filing the documents on EMMA or submitting the documents to a bond owner representative. In addition, the Director of Administrative Services is responsible for ensuring compliance with other bond covenants, legal requirements, and the retention of relevant bond documents.

4. STRUCTURE AND TERM

4.1. Term of Debt

Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future users. The standard term of long-term debt borrowing is typically 15-30 years. Consistent with its philosophy of keeping its capital facilities and infrastructure systems in good condition and maximizing a capital asset's useful life, the District will make every effort to set aside sufficient current revenues to finance ongoing maintenance needs and to provide reserves for periodic replacement and renewal. Generally, no debt will be issued for periods exceeding the useful life or average useful lives of projects to be financed.

4.2. Debt Repayment Structure

In structuring a debt issue, the District will manage the amortization of the debt and, to the extent possible, match its cash flow to the anticipated debt service payments. In addition, the District will seek to structure debt with aggregate level debt service payments over the life of the debt. Structures with unlevel debt service will be considered when one or more of the following exist:

- Natural disasters or extraordinary unanticipated external factors make payments on the debt in the early years prohibitive;
- Such structuring is beneficial to the District's aggregate overall debt payment schedule;
- Such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.

4.3. Bond Maturity Options

For each issuance of bonds, the District will select serial bonds or term bonds, or both. On the occasions where circumstances warrant, capital appreciation bonds ("CABs") may be used. The decision to use term, serial or CABs is typically driven by market conditions.

4.4. Interest Rate Structure

The District will issue securities on a fixed interest rate basis only. Fixed rate securities ensure budget certainty through the life of the issue and avoid the volatility of variable rates.

The District prefers to issue bonds at par. The District will, however, evaluate the use of premiums or discounts on a case-by-case basis as recommended by the municipal advisor at the time of pricing or sale.

4.5. Credit Enhancement
Credit enhancement may be used to improve or establish a credit rating on a District debt obligation. Types of credit enhancement include letters of credit, bond insurance, and debt service reserve fund insurance.

The Director of Administrative Services will recommend the use of a credit enhancement if it reduces the net cost of the proposed financing or if the use of such credit enhancement furthers the District's overall financial objectives.

4.6. Debt Service Reserve Fund
Debt service reserve funds are held by the Trustee to make principal and interest payments to bondholders in the event that pledged revenues are insufficient to do so. The District will fund debt service reserve funds when it is in the District's overall best financial interest.

The size of the reserve fund is generally the lesser of 1) 10 percent of par, 2) 125 percent of average annual debt service and 3) 100 percent of maximum annual debt service.

In lieu of holding a cash funded reserve, the District may substitute a debt service reserve fund insurance policy or other credit instrument in its place. The decision to cash fund a reserve fund rather than to use a credit facility is dependent upon the cost of the credit instrument and the investment opportunities.

Additionally, the District may decide not to utilize a reserve fund if the Director of Administrative Services, in consultation with the underwriter and municipal advisor, determines there would be no adverse impact to the District's credit rating or interest rates.

4.7. Call Options/Redemption Provisions
A call option or optional redemption provision gives the District the right to prepay or retire debt prior to its stated maturity date. This option may permit the District to achieve interest savings in the future through the refunding of the bonds. Often the District will pay a higher interest rate as compensation to the buyer for the buyer assuming the risk of having the bond called in the future. In addition, if a bond is called, the holder may be entitled to a premium payment ("call premium").

Because the cost of call options can vary depending on market conditions, an evaluation of factors will be conducted in connection with each issuance. The Director of Administrative Services shall evaluate and recommend the use of a call option on a case-by-case basis.

4.8. Debt Limits
Establishing debt limits and performing periodic review of debt capacity provides assurances that debt will be affordable. Debt capacity should be analyzed in conjunction with the preparation of the annual CIP Budget.

California Government Code Section 43605 states the District shall not incur bonded indebtedness payable from the proceeds of property tax which exceeds 15 percent of the assessed value of all real and personal property within the District. This provision, however, was enacted when assessed valuation was based upon 25 percent of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100 percent of market value (as of the most recent change in ownership for that parcel). In order to reflect the intent of the debt limit stipulation in Section 43605, the 15 percent has been adjusted to one-fourth of that level, or 3.75 percent of the assessed value of all real and personal property within the District.

The cumulative annual debt service of all debt issues supported by the District is restricted to no more than 25% percent of annual Revenue.

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4.9. Derivatives

Derivative products may have application to certain District borrowing programs. In certain circumstances these products can reduce borrowing costs and assist in managing interest rate risk. However, these products carry with them certain risks and introduce complexity not faced in standard debt instruments.

The Director of Administrative Services shall evaluate the use of derivative products on a case-by-case basis to determine whether the potential benefits are sufficient to offset any potential costs.

4.10. Refundings

The District shall refinance debt to achieve savings as market opportunities arise. The Director of Administrative Services shall remain cognizant of fluctuations in interest rates for the purpose of identifying refunding opportunities and prepare a present value analysis identifying the economic effects of a refunding to determine the value of refunding.
Refundings may be undertaken in order to:

- Take advantage of lower interest rates and achieve debt service costs savings;
- Eliminate restrictive or burdensome debt covenants;
- Restructure debt to either lengthen the duration of debt or free up reserve funds.

Generally, the District shall strive to achieve a minimum of three percent net present value savings for a current refunding and a minimum of five percent net present value savings for an advance refunding, in each case as a percentage of outstanding principal amount. Upon the advice of the Director of Administrative Services and with the assistance of the municipal advisor and bond counsel, the District will consider undertaking refundings for other than economic purposes upon a finding that such a restructuring is in the District's overall best financial interest.

5. METHOD OF ISSUANCE AND SALE

5.1. Method of Sale

Debt issues in public capital markets are sold to a single underwriter or to an underwriting syndicate, either through a competitive sale or a negotiated sale. Debt may also be privately placed with one or a handful of institutional or sophisticated investors in a private placement. The selected method of sale will be that which is most beneficial to the District in terms of lowest net interest rate, most favorable terms in financial structure, and market conditions.

The District will use competitive sales as the primary means of selling debt. The District, however, reserves the option of pursuing a negotiated sale or private placement if there is evidence of volatile market conditions, complex security features, or other overriding factors. If the negotiated sale option is utilized, the Director of Administrative Services, with the approval of District Harbor Commission, will negotiate the best possible interest rates for the District. The overall objective is to obtain the lowest possible interest cost and provide pricing transparency.

5.2. Initial Disclosure Requirements

The District acknowledges its disclosure responsibilities. Under the guidance of Disclosure Counsel, the District will distribute or cause an underwriter to distribute its Preliminary Official Statement and final Official Statement (neither is typically required in a private placement, although in some cases a "private placement memorandum" may be required by the investor).

The Financing Team shall be responsible for soliciting "material" information (as defined in Securities and Exchange Commission Rule 10b-5) from District departments and identifying contributors who may have information necessary to prepare portions of the Official Statement or who should review portions of the Official Statement. In doing so, the Financing Team shall confirm that the Official Statement accurately states all "material" information relating to the decision to buy or sell the subject debt and that all information in the Official Statement has been critically reviewed by an appropriate person. "Material information" is any information that a reasonable investor would consider in making the decision to purchase or sell the debt. In connection with an initial offering of securities, the District and other members of the Financing Team will:

- Identify material information that should be disclosed in the Official Statement;
- Identify other persons that may have material information (contributors);
- Review and approve the Official Statement;
- Ensure the District's compliance, and that of its related entities, with federal and state securities laws.

The District's Director of Administrative Services shall contact the individuals and departments identified as contributors as soon as possible in order to provide adequate time for them to perform their assigned tasks. Contributors shall assist in reviewing and preparing the Official Statement using their knowledge of the District and, if appropriate, by discussing the Official Statement with other members of the contributors' department to ensure accuracy.

The Director of Administrative Services shall review the Official Statement, identify any material differences in the presentation of financial information from the financial statements and ensure there are no misstatements or omissions of material information in any sections that contain information prepared by the Accounting Manager or of relevance to the finances of the District. The District's Legal Counsel (or designee) shall review the Official Statement descriptions of (i) any material current, pending or threatened litigation, (ii) any material settlements or court orders and (iii) any other legal issues that are material information for purposes of the Official Statement.

After the Financing Team completes the Official Statement, it shall critically evaluate the Official Statement for accuracy and compliance with federal and state securities laws, and shall, if appropriate, ask questions of any contributor or other person who reviewed or drafted any section of the Official Statement. The Financing Team may solicit information or review from additional contributors before approving the Official Statement. Once the Financing Team has completed its evaluation and members of the Disclosure Review Group (see Section 7.5), the Official Statement must be presented to the District Harbor Commission for approval.

The approval of an Official Statement shall be placed on the Discussion portion of the District Harbor Commission agenda and shall not be considered as a Consent Calendar item. The staff report will summarize the steps followed to complete the Official Statement and review the District Harbor Commission's responsibilities with respect to the Official Statement, providing the District Harbor Commission the opportunity to review a substantially final Official Statement. The District Harbor Commission shall undertake such review as deemed necessary by the District Harbor Commission to fulfill the District Harbor Commission's securities law responsibilities.

For any privately placed debt with no Official Statement, the Director of Administrative Services shall provide the Financing Team a draft staff report describing the issue and such other documents. The Financing Team and Disclosure Review Group (see Section 7.5) shall review and approve the staff report before the transaction is approved by the District Harbor Commission.

6. CREDITWORTHINESS OBJECTIVES

Ratings reflect the general fiscal soundness of the District or the applicable District credit and the capabilities of its management. Typically, the higher the credit ratings are, the lower the interest cost is on the District's debt issues. To enhance creditworthiness, the District is committed to prudent financial management, systematic capital planning, and long-term financial planning. The District recognizes that external economic, natural, or other events may, from time to time, affect the creditworthiness of its debt.

The most familiar nationally recognized bond rating agencies are Standard and Poor's, Moody's Investors Service, and Fitch Ratings. When issuing a credit rating, rating agencies consider various factors including but not limited to:

- District's fiscal status;
- District's general management capabilities;
- Economic conditions that may impact the stability and reliability of debt repayment sources;

- District's reserve levels;
- District's debt history and current debt structure, if any;
- Project being financed;
- Covenants and conditions in the governing legal documents.

6.1. Bond Ratings

Not all financings are eligible for a bond rating. The Financing Team will assess whether a credit rating should be obtained for an issuance sold in the public capital markets. The District typically seeks a rating from at least one nationally recognized rating agency on new and refunded issues being sold in the public market. The Director of Administrative Services, working with the Financing Team, shall be responsible for determining which of the major rating agencies the District shall request provide a rating. When applying for a rating on an issue, the District shall prepare a formal presentation of the relevant credit criteria that will be reviewed by the Financing Team and Disclosure Review Group before its presentation to a rating agency.

6.2. Rating Agency Communications

The Director of Administrative Services is responsible for maintaining relationships with the rating agencies that assign ratings to the District's various debt obligations. This effort shall include providing the rating agencies with the District's financial statements, if applicable, as well as any additional information requested.

7. POST ISSUANCE ADMINISTRATION

7.1. Investment of Proceeds

The Director of Administrative Services shall invest debt proceeds and debt service reserve funds in accordance with each issue's indenture or trust agreement, utilizing competitive bidding when possible. All investments will be made in compliance with the District's Investment Policy objectives of safety, liquidity and then yield. Unexpended debt proceeds shall be held by the bank trustee whenever possible. The trustee will be responsible for recording all investments and transactions relating to the proceeds and providing monthly statements regarding the investments and transactions. Investment of proceeds shall be in compliance with applicable federal tax law rules. See Arbitrage Compliance and Post-Issuance Compliance.

7.2. Use of Debt Proceeds and Internal Controls

The Director of Administrative Services is responsible for ensuring debt proceeds are spent for the intended purposes identified in the debt documents and that the proceeds are spent in the time frames identified in the tax certificate prepared by the District's bond counsel. The District typically completes the infrastructure projects financed with debt proceeds itself. Therefore, the District's internal controls related to District Harbor Commission award of contracts, purchase orders and accounts payable are utilized. The Director of Administrative Services will authorize the use of debt proceeds to reimburse expenditures and review unspent debt proceeds remaining after each draw.

The Accounting Manager will maintain records setting forth the date and amount of each disbursement of proceeds together with evidence with respect to each disbursement (e.g. name of payee, invoices, purchase orders, contracts, checks), and confirm each expense is consistent with the legal documents. The Accounting Manager is responsible for reconciling trustee and fiscal agent bank statements on a monthly basis.

Although the District is an infrequent issuer, it recognizes each debt issue may be different and that there may be circumstances that require deviation from the standard practice of the District contracting and managing construction. In these situations, the Director of Administrative Services, working with the Accounting Manager, will develop debt specific procedures, maintaining as many of the District's internal controls as possible.

7.3. Arbitrage Compliance

The District shall follow a policy of full compliance with all the arbitrage and rebate requirements of the federal tax code and Internal Revenue Service regulations. The District shall engage qualified third parties for the preparation of arbitrage and rebate calculations. All necessary rebates will be filed and paid when due.

7.4. Ongoing Disclosure and EMMA

The District shall comply with the requirements of the Continuing Disclosure Undertaking(s) entered into at the time of each debt issue. The Director of Administrative Services shall be responsible for providing ongoing disclosure information. Disclosure for publicly issued debt is filed with the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) system, the central depository designated by the Securities and Exchange Commission for ongoing disclosure by municipal issuers. Private placement disclosure is delivered to the appropriate bondholders by email or other agreed-upon procedures.

In order to comply with 2018 amendments to Rule 15c2-12, the District will maintain an inventory of "financial obligations" (as defined in Section 8).

The Director of Administrative Services will prepare the annual disclosure reports in accordance with the Continuing Disclosure Undertakings. The Director of Administrative Services will identify material information that should be disclosed and identify other persons that may have knowledge of material information.

Once the annual disclosure reports are in final draft form, the Director of Administrative Services will submit them for review by the Disclosure Review Group described in Section 7.5 of this policy. After review and approval by the Disclosure Review Group, the Director of Administrative Services will post the disclosure on EMMA using the user name and password issued by the Municipal Securities Rulemaking Board.

In addition to annual reports, Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) obligates the District to enter into a written undertaking to disclose, in a timely manner to the MSRB, notice of certain specified events with respect to the District's securities. The list of applicable events is set forth in each continuing disclosure undertaking.

The Director of Administrative Services may file notice with the MSRB of specified events listed in the Continuing Disclosure Undertakings without prior review and approval of the Disclosure Review Group if the District is contractually obligated to file and the disclosure document contains no discretionary content.

If any member of the Disclosure Review Group concludes that an event may have occurred, the Director of Administrative Services shall be contacted, and shall notify the Disclosure Review Group to discuss the potential event.

7.5. Disclosure Review Group

The District will establish a Disclosure Review Group to ensure the accuracy of its initial and continuing disclosure information and the District's compliance with all applicable federal and state securities laws. The Disclosure Review Group shall review and approve, to the best of its ability, the District's disclosure documents listed in this policy.

Members - The members of the group shall include the following:

- Director of Administrative Services;
- District Legal Counsel or designee;
- District General Manager or designee;
- Department Heads (applicable to specific issue);
- Accounting Manager;
- Communications Analyst (press releases and other communication);

The Disclosure Review Group is an internal working group of District staff and not a decision-making or advisory body subject to the provisions of the Ralph M. Brown Act (Government Code Sections 54950 et seq.).

Meetings - The Disclosure Review Group shall meet as often as necessary to fulfill its obligations, but not less than once per calendar year when the District has debt. The Director of Administrative Services shall be responsible for convening meetings of the Disclosure Review Group, although any member of the Disclosure Review Group may instruct the Director of Administrative Services to convene a meeting.

Review and Approval - The Disclosure Review Group shall critically evaluate a disclosure document for accuracy and compliance with federal and state securities laws, and shall, if appropriate, ask questions. The Disclosure Review Group may send the disclosure document back for revisions.

Disclosure Documents - Disclosure documents shall include, but are not limited to, the following:

A. Preliminary and final official statements;
B. Private placement memoranda and remarketing memoranda;
C. Any filing made by the District with the MSRB, whether made pursuant to a continuing disclosure undertaking to which the District is a party or made voluntarily;
D. Rating agency presentations;
E. Management's discussion and analysis and transmittal letter portions of the District's audited financial statement;
F. Press releases and other communications that are reasonably likely, in the determination of the Disclosure Review Group, to reach investors or the securities market.

Any person preparing a document for release to the public that may be considered a disclosure document shall notify the Director of Administrative Services of such information and its proposed or mandatory dissemination date. If the document is not on the list of disclosure documents and the Director of Administrative Services determines it is reasonably likely to reach investors or the securities market, the Director of Administrative Services shall inform the Disclosure Review Group. Disclosure Counsel may be consulted for advice.

Training - The Director of Administrative Services shall arrange for periodic disclosure training sessions for the Disclosure Review Group. Such training sessions shall include the District's disclosure obligations under applicable federal and state laws and the disclosure responsibilities and potential liabilities of members of District staff and members of the District Harbor Commission. Such training sessions may be conducted using a recorded presentation. District Harbor Commission members, at a minimum, will be informed of the disclosure responsibilities at his or her new member orientation and prior to approving a debt issue.

7.6. Post-Issuance Compliance

The District must maintain compliance with all undertakings, covenants, and agreements of each debt issuance on an ongoing basis. This typically includes ensuring:

- Revenues are annually appropriated to meet debt service payments;
- Taxes/fees are levied and collected where applicable;
- Debt service payments are transferred timely to the trustee;
- Insurance requirements are met;
- Rate covenants are satisfied.

There are other periodic reporting requirements associated with debt issues such as the CDIAC Proposed Issuance and Post-Sale report.

The District shall comply with all covenants agreed to in the legal documents (including tax certificates) entered into at the time of the debt offering as well as conditions contained in governing law. The Director of Administrative Services will coordinate verification and monitoring of compliance.

Section 9 of this document will be updated when the District issues debt and will include important compliance dates. The District will utilize EMMA's email reminder system to calendar these reporting requirements and notify the Director of Administrative Services as well as other staff members of upcoming obligations. Section 9 will also include an inventory of the District's financial obligations for purposes of Rule 15c2-12.

7.7. Retention

A copy of all relevant documents and records will be maintained by the Financing Team for the term of the debt (including refunding debt, if any) plus ten years. Relevant documents and records will include sufficient documentation to support the requirements relating to the tax-exempt status, including the following:

- Bond transcripts, official statement and other offering documents.
- All documents relating to capital expenditures financed by debt proceeds. Such documents will include construction contracts, purchase orders, invoices and payment records. Such documents will include documents relating to costs reimbursed with debt proceeds.
- Records will be maintained identifying the assets or portion of assets that are financed with debt proceeds.
- All contracts and arrangements involving private use (including private management) of the debt financed assets.
- All reports relating to the allocation of debt proceeds and private use of debt financed assets.
- All records of investments, investment agreements, arbitrage reports, return filings with the IRS and underlying documents, trustee statements, rating correspondence, and continuing disclosure.

7.8. Investor Relations

While the District shall post its annual financial report as well as other financial reports on the District's website, this information is intended for the citizens of San Mateo County. Information with the intention of reaching the investing public, including bondholders, rating analysts, investment advisors, or any other members of the investment community shall be filed on the EMMA system.

7.9. Additional Requirements for Financial Statements

It is the District's policy to hire an auditing firm that has the technical skills and resources to properly perform an annual audit of the District's financial statements. More specifically, the firm shall be a recognized expert in the accounting rules applicable to the District and shall have the resources necessary to review the District's financial statements on a timely basis.

8. GLOSSARY AND MUNICIPAL SECURITIES TERMINOLOGY

Ad Valorem Tax: A tax calculated "according to the value" of property. Such a tax is based on the assessed valuation of real property and a valuation of tangible personal property.

Advance Refunding: Refunding bonds that are issued more than 90 days prior to the date upon which the refunded bonds will be redeemed. Proceeds of the advance refunding bonds are placed into an escrow account with a fiduciary and used to pay interest and principal on the refunded bonds and then used to redeem the refunded bonds at their maturity or call date. Under current federal tax law, advance refundings cannot be accomplished with tax-exempt bonds.

Arbitrage: The gain that may be obtained by borrowing funds at a lower (often tax-exempt) rate and investing the proceeds at higher (often taxable) rates. The ability to earn arbitrage by issuing tax-exempt securities has been severely curtailed by the Tax Reform Act of 1986, as amended.

Assessed Valuation: The appraised worth of property as set by a taxing authority through assessments for purposes of ad valorem taxation.

Assessment District Bonds: Bonds issued for public improvements benefiting property within assessment districts created pursuant to the Improvement Act of 1911 and the Municipal Improvement Act of 1913.

Bond: A security that represents an obligation to pay a specified amount of money on a specific date in the future, typically with periodic interest payments.

Bond Anticipation Notes (BANS): Short-term notes issued usually for capital projects and paid from the proceeds of the issuance of long-term bonds. Provide interim financing in anticipation of bond issuance.

Bond Counsel: An attorney retained by the issuer to give a legal opinion concerning the validity of securities. The bond counsel's opinion usually addresses the subject of tax exemption. Bond counsel may prepare or review and advise the issuer regarding authorizing resolutions, trust indentures and litigation.

Bond Insurance: A type of credit enhancement whereby an insurance company indemnifies an investor against default by the issuer. In the event of failure by the issuer to pay principal and interest in full and on time, investors may call upon the insurance company to do so. Once issued, the municipal bond insurance policy is generally irrevocable. The insurance company generally receives its premium when the policy is issued.

Call Option: The right to redeem a bond prior to its stated maturity, either on a given date or continuously. The call option is also referred to as the optional redemption provision. Often a "call premium" is added to the call option as compensation to the holders of the earliest bonds called.

Capital Appreciation Bond: A municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity, at which time the investor receives a single payment representing both the initial principal amount and the total investment return.

Capital Improvement Program Budget: A forecast of the District's capital needs over a five-year period based on various long-range plans, goals, and policies. Capital projects are typically large-scale endeavors in terms of cost, size and benefit to the community.

Certificates of Participation: A security representing a proportionate interest in payments such as lease payments by one party (such as a District acting as a lessee) to another party (often a trustee).

Competitive Sale: A sale of bonds in which an underwriter or syndicate of underwriters submit sealed bids to purchase the bonds. Bids are awarded on a true interest cost basis ("TIC"), providing that other bidding requirements are satisfied. Competitive sales are recommended for simple financings with a strong underlying credit rating. This type of sale is in contrast to a Negotiated Sale.

Comprehensive Annual Financial Report: Government's annual financial statement.

Conduit Financing: The issuance of securities by a governmental entity to finance a project that will primarily benefit a third party. The security for this type of financing is the credit of the third party. Usually such securities do not constitute general obligations of the issuer since the private entity is liable for generating the pledged revenues for repayment. Industrial development bonds and multifamily housing revenue bonds are a common type of conduit refinancing.

Continuing Disclosure: The requirement established by the Securities and Exchange Commission pursuant to Rule 15c2-12 that requires underwriters of most publicly-sold debt to ensure that issuers enter into a written undertaking to provide annual financial and operating data and event notices to the Municipal Securities Rulemaking Board for access by the general marketplace.

Credit Rating Agency: A company that rates the relative credit quality of a bond issue and assigns a letter rating. These rating agencies include Moody's Investors Service, Standard & Poor's, and Fitch Ratings.

Current Refunding: Refunding bonds that are issued 90 days or less before the date upon which the refunded bonds will be redeemed.

Debt Limit: The maximum amount of debt that is legally permitted by a jurisdiction's charter, constitution, or statutes.

Debt Service: The amount necessary to pay principal and interest requirements on outstanding bonds for a given year or series of years.

Default: The failure to pay principal or interest in full or on time and, in some cases, the failure to comply with non-payment obligations after notice and the opportunity to cure.

Derivative: A financial instrument which derives its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate index.

Disclosure Counsel: An attorney retained to provide advice on issuer disclosure obligations, to prepare the official statement and to prepare the continuing disclosure undertaking.

Discount: The difference between a bond's par value and the price for which it is sold when the latter is less than par.

Electronic Municipal Market Access (**EMMA):** A system operated by the Municipal Securities Rulemaking Board that serves as the official clearinghouse for municipal securities disclosures (both initial and continuing) and related market data (https://emma.msrb.org/)

Financial Obligation: Defined in Rule 15c2-12 as a (A) debt obligation, (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (C) guarantee of a debt obligation or derivative instrument. The term financial obligation does not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with Rule 15c2-12.

Financing Team: The working group of District staff and outside consultants necessary to complete a debt issuance.

General Obligation Bond: In California, a bond secured by an unlimited ad valorem property tax pledge. For local agencies, a general obligation bond requires a favorable two-thirds vote by the electorate. GO bonds usually achieve lower rates of interest than other financing instruments since they are considered to be a lower risk.

Indenture: A contract between the issuer and the trustee stipulating the characteristics of the financial instrument, the issuer's obligation to pay debt service, and the remedies available to the trustee in the event of default.

Industrial Development Bonds: Securities issued to finance the construction or purchase of industrial, commercial or manufacturing facilities to be purchased by or leased to a private user. These securities are backed by the credit of the private user and generally are not considered liabilities of the governmental issuer.

Issuance Costs: The costs incurred by the bond issuer during the planning and sale of securities. These costs include but are not limited to fees and expenses of municipal advisors, bond counsel and disclosure counsel, District staff costs, printing and advertising costs, rating agencies fees, and other expenses incurred in the marketing of an issue.

Lease: An obligation wherein a lessee agrees to make payments to a lessor in exchange for the use of certain property. The term may refer to a capital lease or to an operating lease.

Lease Revenue Bonds: Bonds that are secured by an obligation of one party to make annual lease payments to another.

Municipal Advisor: A consultant who provides the issuer with advice on the structure of the bond issue, timing, terms and related matters for a new bond issue.

Municipal Securities Rulemaking Board (MSRB): A self-regulating organization established on September 5, 1975 upon the appointment of a 15-member board by the Securities and Exchange Agreement. The MSRB, comprised of representatives from investment banking firms, dealer bank representatives, and public representatives, is entrusted with the responsibility of writing rules of conduct for the municipal securities market.

Negotiated Sale: A sale of securities in which the terms of the sale are determined through negotiation between the issuer and the purchaser, typically an underwriter, without competitive bidding. Negotiated sales can also occur on a private placement basis. See Private Placement. The negotiated sales process provides the issuer with control over the financing structure and issuance timing. Negotiated sales are recommended for unusual financing terms, periods of market volatility and weaker credit quality. A thorough evaluation of market conditions will be performed to ensure reasonable final pricing and underwriting spread.

Net Interest Cost (NIC): A method of computing the interest expense to the issuer of bonds, which may serve as the basis of award in a competitive sale of a new issue of municipal securities. NIC takes into account any premium or discount applicable to the issue, as well as the dollar amount of coupon interest payable over the life of the issue. NIC does not take into account the time value of money (as would be done in other calculation methods, such as the “true interest cost” (TIC) method). The term “net interest cost” refers to the overall rate of interest to be paid by the issuer over the life of the bonds.

Official Statement (Prospectus): A document published by the issuer in connection with a primary offering of securities that discloses material information on a new security issue including the purposes of the issue, the terms of the securities, how the securities will be repaid, and the financial, economic and social characteristics of the security for the bonds. Investors may use this information to evaluate the credit quality of the securities.

Original Issue Discount Bonds: Bonds sold at a substantial discount from their par value at the time of the original sale. See Discount.

Par Value: The face value or principal amount of a security.

Preliminary Official Statement: A version of the Official Statement prepared by or for an issuer of municipal securities for potential customers prior to the pricing of the securities. Under SEC Rule 15c2-12, the difference between a Preliminary Official Statement and a final Official Statement is that the final Official Statement includes “pricing information,” i.e., offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, any other terms or provisions required by an issuer of such securities to be specified in a competitive bid, ratings, other terms of the securities depending on such matters, and the identity of the underwriter(s).

Premium: The excess of the price at which a bond is sold over its face value.

Present Value: The value of a future amount or stream of revenues or expenditures.

Pricing Consultant: The Pricing Consultant provides a fairness letter to the District or its agent regarding the pricing of a new issue of municipal securities. Municipal advisors often provide this service to issuers as part of their duties.

Private Activity Bonds: A bond where bond proceeds are used for private purposes. If deemed a private activity bond, the interest is not tax exempt unless the use of the proceeds meets certain requirements of the Internal Revenue Code.

Private Placement: A bond issue that is structured specifically for one or a handful of purchasers. Private placements are typically carried out when a bond's credit characteristics or other structural terms preclude public offerings. A private placement is considered to be a negotiated sale.

Refunding: A procedure whereby an issuer refinances an outstanding debt issue by issuing a new debt issue.

Rule 10b5: Rule adopted by the Securities and Exchange Commission that requires the disclosure of all material facts and prohibits the misstatement of material facts if the omission or misstatement would be misleading.

Rule 15c2-12: Rule adopted by the Securities and Exchange Commission setting forth certain obligations of (i) underwriters to receive, review and disseminate official statements prepared by issuers of most primary offerings of municipal securities, (ii) underwriters to obtain continuing disclosure undertakings from issuers and other obligated persons to provide ongoing annual financial information on a continuing basis, and (iii) broker dealers to have access to such continuing disclosure in order to make recommendations of municipal securities in the secondary market.

Reserve Fund: A fund established by the indenture of a bond issue into which money is deposited for payment of debt service in case of a shortfall in current revenues.

Revenue Bond: A bond which is payable from a specific source of revenue and to which the full faith and credit of an issuer is **not** pledged. Revenue bonds are payable from identified sources of revenue, and do not permit the bondholders to compel a jurisdiction to pay debt service from any other source. Pledged revenues often are derived from the operation of an enterprise.

Secondary Market: The market in which bonds are sold after their initial sale in the new issue market.

Serial Bonds: Bonds of an issue that mature in consecutive years or other intervals and are not subject to mandatory sinking fund provisions.

Tax and Revenue Anticipation Notes (TRANS): Short-term notes issued in anticipation of receiving tax receipts and revenues at a future date. Proceeds allow the municipality to manage the periods of cash shortfalls resulting from a mismatch between timing of revenues and timing of expenditures.

Term Bonds: Bonds that come due in a single maturity whereby the issuer may agree to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity or for payment at maturity.

True Interest Cost (TIC): Under this method of computing the interest expense to the issuer of bonds, true interest cost is defined as the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds. Interest is assumed to be compounded semi-annually. TIC computations produce a figure slightly different from the “net interest cost” (NIC) method because TIC considers the time value of money while NIC does not.

Trustee: A bank retained by the issuer as custodian of bond proceeds and official representative of bondholders. The trustee ensures compliance with the indenture. In many cases, the trustee also acts as paying agent and is responsible for transmitting payments of interest and principal to the bondholders.

Underwriter: A broker-dealer that purchases a new issue of municipal securities from the issuer for resale in a primary offering. The bonds may be purchased either through a negotiated sale with the issuer or through a competitive sale.

9. DEBT SUMMARY

The District does not have any outstanding debt as of the date of the adoption of this Policy.

Note: The Securities and Exchange Commission (the “SEC”), the agency with regulatory authority over the District’s compliance with the federal securities laws, has issued guidance as to the duties of the District Harbor Commission with respect to its approval of the POS. In its “Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors” (Release No. 36761 / January 24, 1996) (the “Release”), the SEC stated that, if a member of the District Harbor Commission has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the bonds, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether such facts are adequately disclosed in the Official Statement. In the Release, the SEC stated that the steps that a member of the District Harbor Commission could take include becoming familiar with the POS and questioning staff and consultants about the disclosure of such facts.