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

Dated as of July 1, 2009

I. Introduction & Legal Authority

The purpose of this Municipal Debt Policy (the "Municipal Debt Policy") of the Port Commission (the "Commission") of the City and County of San Francisco (the "City") is to establish comprehensive guidelines for the issuance and management of the Commission's debt.

The Commission has authority to borrow money and issue debt payable from its revenues for Port-related purposes pursuant to Sections 9.111, 9.112, B6.406 and B7.305 of the City Charter. Port revenue bonds may be issued without voter approval pursuant to Section 9.107.4 of the City Charter.

This Municipal Debt Policy confirms the commitment of the Commission, the Port Executive Director (the "Executive Director"), other Port management and staff, and advisors 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 prudent level of risk; and iii) obtain unfettered access to the capital markets through preserving and enhancing of the quality of the Port's bonds and other debt.

II. Municipal Debt Policy Scope

This Municipal Debt Policy shall govern the issuance and management of all of the debt and capital lease financings of the Commission funded from the capital markets, together with all obligations and facilities related to those debt and equipment lease financings, including, but not limited to, investment of bond proceeds. While adherence to this Municipal Debt Policy is required under normal 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 Municipal Debt Policy, or require modification in order to achieve the Port's Municipal Debt Policy goals. Thus, the Commission may, upon recommendation of the Executive Director, approve financing and other related agreements with terms and/or provisions that deviate from this Municipal Debt Policy. The failure of the Commission to comply with any provision of this Municipal Debt Policy shall not affect the validity of any debt that is otherwise duly authorized and executed.

III. Municipal Debt Policy Objectives

The objectives of this Municipal Debt Policy are as follows:

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

b. Provide financial support for the Port's strategic and capital plan objectives through debt and equipment lease financing.
c. Provide guidelines for the overall management of the Port's debt.
d. Achieve the highest practical credit ratings and the lowest possible costs.

IV. Compliance with Law and Commission Agreements

All Commission debt shall be issued in accordance with the City Charter, and all Federal and State laws (including laws relating to State lands) rules and regulations including the Internal Revenue Code of 1986, the Securities Act of 1934, and the Securities Exchange Act of 1933; in each case as supplemented and amended, and regulations established pursuant to such laws. Debt of the Commission shall also be issued in compliance with other agreements of the Commission including those with credit or liquidity providers, and those of the City.

V. Appropriate Use of Debt

Port debt shall only be used for the following purposes: i) to finance capital improvement projects undertaken by the Port including the construction, major repair, or enhancement of Port facilities; ii) to finance the acquisition of capital assets; iii) to finance the purchase of capital equipment; iv) to refinance previously issued Commission debt; and v) to finance other large and extraordinary costs as determined by the Commission such as legal judgments or settlements.

Long term debt shall never be used to fund operating costs.

The Commission shall use proceeds of debt issues in a manner that is consistent with the then applicable Federal tax laws with respect to such debt. More specifically, the Commission shall use proceeds from governmental purpose bonds for public use projects. Proceeds from private activity (which are usually subject to alternative minimum tax) bonds shall be used for qualified exempt facility private activity projects, and proceeds from taxable bonds shall be used for other authorized uses that are not otherwise permitted for financing from government use or private activity bonds.

VI. Debt Approval Procedures

a. <u>Staff Level Review and Approval</u>
   The Port's Capital Project Budget Committee, consisting of the Port's five deputy directors and the Chief Harbor Engineer, must review and recommend for funding all capital projects and capital equipment purchases being considered for debt financing. All proposed debt issuances by the Commission, including refinancings, shall be submitted to and approved by the Port's Deputy Director of Finance and Administration and Executive Director prior to submission to the Commission for approval.

b. Commission Approval
Commission authorization and approval is required for all projects financed by debt issued by the Commission. All proposed debt issuances will be submitted to the Commission for its approval and authorization. The Commission by majority vote shall approve a resolution authorizing each such issuance.

VII. Types of Borrowing

The following categories of debt refer to the form of revenue source, type of debt (new money vs. refunding), lien, and mode (fixed rate vs. variable rate).

A. Port Revenue Bonds
Port Revenue Bonds are long term debt obligations that are repayable solely from the general revenues of the Port and, if applicable, grant or other third party funds. The Commission may issue Port Revenue Bonds to fund capital improvement projects, purchases of large scale capital equipment, and other costs of the Port. Neither the credit nor the taxing power of the City, the State of California or any political subdivision of the State shall be pledged or made available to pay or secure Revenue Bonds of the Commission, unless specifically authorized.

B. Special Facility Bonds
Special Facility Bonds are long term debt obligations used to finance a specific Port project or facility. A distinguishing characteristic of Special Facility Bonds is that they are repayable solely from revenues generated by the facility or stand alone project to be financed by the bonds, rather than from general Port revenues.

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 the general Port revenues, ii) projected revenues from the facility will be sufficient to fully pay debt service during the entire term of the bonds, and pay all facility operating and maintenance costs, and iii) projected Port revenues, excluding the Special Facility revenues, will be sufficient for the Commission to comply will all covenants with respect to its other outstanding debt. Port staff shall use its outside financial advisors ("Financial Advisors") to assist it in verifying that the above conditions are met prior to 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 for the acquisition of capital assets such as equipment. Under a capital lease, the title (or ownership) of the assets purchased remains with the lessor during the lease period. At the end of the lease the lessee has the option to acquire ownership of the assets by paying a small pre-determined amount to the lessor.

The Commission may enter in a capital lease and/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 5 years or greater will be capital lease financed. Lease finance contracts or programs will be at least $300,000 in size, and the term of lease will not exceed the average useful life of the equipment being financed. Equipment with a useful life of less than 5 years will be funded on a pay-as-you-go basis. Short term operating leases for equipment are not covered by this policy.

D. New Money Bonds

New Money bonds are bonds issued to finance the cost of capital improvement projects or any other purpose outlined in Section V of this Municipal Debt Policy. The issuance of new money bonds will generally result in an increase in the amount of Port debt outstanding, in contrast to refunding bonds, which simply refinance previously issued debt.

E. Refunding Bonds

Refunding bonds are bonds issued to refinance (or refund) previously issued and currently outstanding debt. The Commission may issue refunding bonds to refinance the principal of and interest on outstanding bonds or other debt of the Commission in order 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 upon the Commission. Refunding Bonds may be issued either on a current or advance basis, as permitted by applicable Federal tax laws. The Commission may also utilize a tender offer process to refund 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 the estimated net present value savings, as determined by the Port's Financial Advisors, are either (i) equal to at least 3% of the principal amount of the refunded Bonds; or (ii) equal to at least 1% of such principal amount, and it is unlikely, in the judgment of the Financial Advisors, that a future refunding would realize greater savings

F. Senior Lien Debt

Senior Lien Debt is the most senior debt issued by the Commission in terms of lien and order of repayment. The Commission may issue senior lien debt in order to achieve the most advantageous borrowing costs.

G. Subordinate Lien Debt

Subordinated lien debt is debt that is subordinate (junior in terms of priority of lien and repayment) relative to some or all of the then outstanding debt of the Commission. Such debt would be issued in instances where the Commission

has determined that it is necessary or desirable to accommodate the particular structure or terms of a given issue, or in circumstances where the issuance of senior lien Bonds would be limited or restricted.

An example of a Port subordinated lien debt was the $12 million bank loan that the Port secured in 1998 to fund the move of the Port's maintenance facility to Pier 50, and the purchase a land parcel in connection with the construction of the SF Giants baseball stadium at China Basin. The loan was secured by Port revenues, however, because the Port Revenue bonds had a senior lien on those revenues, the bank loan was subordinated to the outstanding revenue bonds.

H. Long Term Debt

For purposes of this municipal debt policy, long term debt is defined as bonds or other debt with a final maturity of 5 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 financed from such bonds.

I. Short Term Debt

For purposes of this municipal debt policy, short-term debt is defined as any debt with a final maturity of less than 5 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 bond or other debt and/or the receipt of grant or other third party moneys.

J. Fixed Rate Borrowings

Fixed rate borrowings are debt issuances that pay a fixed rate of interest. Fixed rate borrowing may utilize one or more series of bonds with differing maturities, all of which 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.

K. Variable Rate Borrowings

Variable rate borrowings are debt issuances whose interest rate vary from day to day, week to week, or some other period, based on pre-determined market indices and conditions. Variable rate bonds are typically issued using a letter of credit, which assures the liquidity needed for such debt, and also typically enhances the credit quality of the debt. Variable rate debt can be issued to reduce an issuer's overall bowing costs, because, over the long term, variable rate debt has been historically cheaper than fixed rate debt. However, this must be balanced with a consideration of how the issuer will manage the risk associated with the variability of the cost of variable rate debt.

The Commission may from time to time issue variable rate debt when such issuance is considered desirable. 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 as of the date of issuance or execution of the variable rate debt.

L. Additional Types of Borrowings
Assessment district bonds such as Mello Roos and special assessment bonds may be issued by creating a district in which the land-owners and others within the district agree to tax themselves, through the ad valorem property tax, at a higher rate in order to repay debt issued to finance capital improvements. These financing methods are widely used in the State of California, most typically to pay for infrastructure costs for limited areas that need public improvements in order to stimulate private investment.

The Commission may issue Mello-Roos Bonds and special assessment bonds such as Infrastructure Financing District Bonds as appropriate in support of its development and capital improvement programs. The Commission may also incur bank financing (either long or short term), and may enter into memorandum of understanding (MOU) agreements with the City or any of its departments or agencies for the issuance of debt on the Port's behalf if the following conditions are met.

i. Proceeds from the debt issuance are only made available to the Port for Port-related capital improvement projects or other purposes as described in Section V of this Municipal Debt Policy,
ii. Such debt is issued in accordance with the City Charter, and;
iii. Port revenues are to be used to repay the debt issued.

VIII. Debt Affordability Targets and Policy Limits

Unless changed by Commission action, it is the policy of the Port to meet the targets listed below. These limits, in combination with the Port's annual updated 10 year capital plan, and multi-year planning, will ensure that the Port continues to provide essential operational services while planning for replacement, rehabilitation, repair and expansion of its capital investments.

1. The Port will maintain a minimum Debt Service Coverage of 1.15x taking into account all of its outstanding debt. The actual terms and conditions specific to each debt issue will be controlled by the applicable documents.

2. The Port will maintain a minimum unappropriated operating reserve of 15% of its annual operating expenditure budget.

3. So long as the above conditions are met, the Port will seek to minimize the level of debt outstanding consistent with the most recently updated 10 year capital plan.

IX. Structuring Considerations

A. Long-Term Debt

i. *Term:* 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 and/or facilities financed from the proceeds of such debt.

ii. *Maximum Yield:* not to exceed 12%.

iii. *Coupons:* fixed rate or variable.

iv. *Call Provisions:* shortest possible optional call consistent with optimal pricing; no more than 30 days notice.

v. *Structure of Debt:* combined interest and principal payments will be structured to have approximately level debt service payments - unless otherwise dictated by underlying remaining useful lives of the assets financed. Exceptions may occur for refunding debt.

vi. *Debt Service Reserve:* lesser of 10% of the principal amount, 125% of the average annual debt service, 100% of the maximum annual debt service, or a surety bond.

A surety bond avoids unnecessarily increasing the size of the bond issue, however, the surety bond may require an upfront fee payment to the insurer, and it results in the loss of any future interest income as compared to a cash-funded debt service reserve (DSR). The Director of Finance and Administration, with the assistance of the Port's financial advisors, will evaluate and document the DSR funding decision. Factors to be considered include arbitrage yield restrictions, current interest rates, availability and cost of a surety bond, perceived stability of the provider, and opportunities for alternative uses of the DSR funds including funding of additional capital projects.

vii. *Capitalized Interest:* sized through substantial completion of the capital improvements financed plus a minimum of six months unless other assets are available.

viii *Net Funding:* the project and capitalized interest funds may be reduced by the amount of projected interest earnings if investments are secured upon issuance of bonds.

ix. *Reimbursement Resolution:* adopted by the Port Commission to preserve the ability to capture expenditures made (after such date of adoption) by the Port and make them eligible for reimbursement from future bond proceeds in conformance with tax law requirements.

x. *Good faith deposit*: 1% of the par amount.

xi. *Budgeting Debt Service:* The Port's annual budget shall include gross debt service for the outstanding debt.

B. Variable Rate Debt

i. *Purpose:* reduction of net borrowing cost; match of assets and liabilities

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

iii. *Term:* consistent with policies for underlying debt types.

iv. *Maximum Yield:* not to 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 and/or replace a remarketing agent.

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

vii. *Call/Conversion Provisions:* 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 as defined in Section XII (A) of this Municipal Debt Policy.

ix. *Disclosure:* the Port shall covenant to provide continuing disclosure in accordance with its customary practices for any short-term debt with a final, stated maturity exceeding 3 years.

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

X. Methods of Sale for Port Bonds

There are three principal methods for the sale of Bonds: (i) competitive, (ii) negotiated, and (iii) private placement. The Commission shall utilize 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 such sale and of the related Bonds.

A. Competitive Sale

The competitive sale of the Commission's Bonds will be appropriate under the following circumstances:

1. The Bonds are traditional long-term fixed-rate new money revenue bonds;
2. The Bonds are senior lien obligations of the Commission;
3. The Bonds do not include any unusual call provisions or other terms;

4. The Bonds are or will be rated no lower than an “A” category or equivalent by at least two of the three major credit rating agencies, or the Bonds will or can be insured by a Bond Insurer which is rated “AAA” or equivalent by at least two of the three major credit rating agencies;
5. Prices in the municipal bond market are relatively stable;
6. Market timing is not critical to the pricing of the Bonds; and
7. 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.

Competitive sales may be conducted in such manner as the Commission shall approve, including through internet-based or other electronic bidding systems.

B. Negotiated Sales

The negotiated sale of the Commission's Bonds will be appropriate under the following circumstances:

1. The Bonds are not traditional long-term fixed-rate new money revenue bonds;
2. The Bonds are not senior lien obligations of the Commission;
3. The Bonds include unusual call provisions or other terms;
4. The Bonds are or will be rated below an “A” category or equivalent by at least two of the three major credit rating agencies;
5. Prices in the municipal bond market are relatively volatile;
6. Market timing is important to the pricing of the Bonds;
7. Volume in the municipal bond market is unusually heavy or unusually light;
8. The structure of the financing is complex or unusual, and is expected to require additional pre-marketing and marketing efforts and activities;
9. Demand for the Bonds is expected to be weak, as a result of credit issues, market perceptions, unusual structures or other factors;
10. 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; and/or
11. The expected demand for the Bonds is from retail rather than institutional investors; and/or
12. The impetus for the transaction has been the result of significant innovation and efforts provided by one or more underwriter(s).

The underwriter or underwriters for a negotiated sale of Bonds (the "Underwriters") 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.

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 Underwriters. 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 following the closing with respect to the Bonds.

The senior managing underwriter and/or the Port's Financial Advisors shall also provide Port staff with a pricing analysis promptly following the closing, including without limitation 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 (as opposed to the public offering of Bonds through a competitive or negotiated sale) will be appropriate only in circumstances where: (i) a public offering would require the registration of the Bonds under applicable Federal securities laws, or (ii) the Bonds are or will be either unrated or rated in a category below investment grade. In the event such circumstances arise, the Bonds of the Commission may be sold pursuant to a private placement only under such terms and conditions and in such manner as the Commission shall determine, in consultation with its Financial Advisors.

XI. Pricing of Port Debt

A. Bonds

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 (collectively and individually, "Credit Facilities"), 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 require a stand-by letter of credit, direct pay letter of credit, or line of credit (a credit facility) from a commercial bank or other qualified financial institution. The purpose of these facilities is to provide liquidity and/or 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:

1. Long-term credit ratings of "A1/A+" or better from at least two of the following credit rating agencies: Standard and Poor's, Moody's Investor Services and Fitch Ratings;
2. Short term rating from at least two of the three rating agencies mentioned in XII (A)1 above, of at least "P-1/A-1/F-1" or equivalent;
3. Experience in providing such facilities to state and local government issuers;
4. Pricing of the facility, including without limitation initial and on-going costs of the credit facility; draw, transfer, and related fees; legal counsel fees; termination fees and any trading differential; and
5. Willingness to agree to the terms and conditions proposed or required by the Commission.

B. Bond Insurance

All or any portion of a 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 of "AA-" or equivalent from at least two of the three major credit rating agencies. 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 such time as Port staff has developed, and the Commission has adopted, a financial derivatives policy.

XIV. Investment of Bond Proceeds and Permitted Investments

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 investments 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, but not limited to: 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 investments of some bond proceeds.

C. Diversification
The Commission shall diversify invested proceeds in order to reduce risk exposure to providers, types of investment products, and types of securities held.

D. Disclosure
The Commission shall require that all fees resulting from providing investment services or the sale of products to the Port be fully disclosed to ensure that there are no conflicts of interest, and that investments are being purchased at a fair market price.

E. Structure of the Investment Agreements
The Commission may enter into investment agreements for the following purposes: a) to maximize interest earnings thereby reducing net borrowing costs, b) to match assets and liabilities, or c) for hedging. All investment agreements entered into by the Commission shall be structured as follows:

1. Investment Provider: Minimum ratings of AA- from at least two of the three major credit rating agencies.

2. Mandatory Termination: Limited to non-payment and credit-related events.
3. Cure Provisions: Timelines on Commission's obligations to cure must provide for appropriate approvals and legislative action, if applicable.
4. Priority of Payment: Termination payments to be subordinate to related debt payments.
5. Award: Based on best bid as defined in the bid form after limited negotiation of terms.
6. Term: Not to exceed the term of the related debt.

XV. Professional Services

The Commission may retain professional services providers as necessary or desirable in connection with (i) the structuring, issuance and sale of its bonded debt; (ii) monitoring of and advice regarding its outstanding bonds; and (iii) the negotiation, execution and monitoring of related agreements, including without limitation bond insurance, credit facilities, investment agreements; and (iv) other similar or related matters. Professional service providers may include financial advisors, bond counsel, disclosure counsel, Port consultants, bond 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.

Professional service providers shall be selected pursuant to a competitive selection process. The criteria for selection of professional services providers shall include, among other things, their relative experience with and expertise regarding the Port, comparable port issuers, and the Commission's various types of outstanding and proposed bonds

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. Financial Advisors
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 without limitation Credit Facilities, investment agreements and other similar matters.

B. Bond Counsel, Disclosure Counsel and Other Legal Counsel
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 without limitation 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 (i) the validity and binding effect of the bonds, and (ii) 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 issuance of Bonds by the Commission shall require a written opinion from the Commission's disclosure counsel, as appropriate, 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 utilize 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 (i) the validity and binding effect of the debt, and (ii) the exemption of interest from Federal and State income taxes, if applicable.

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, and the execution of related agreements that are approved by the Commission.

C. Bond Trustees and Fiscal Agents

The Commission may engage bond trustees and/or 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, programs, facilities or activities 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 non-compliance, the Commission may retain an arbitrage rebate services provider in connection with its outstanding and proposed Bonds, and may also solicit related legal and tax advice from the City Attorney and/or the Commission's bond counsel. The responsibilities of the arbitrage rebate services provider shall include: (i) the 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) the preparation and filing of periodic forms and information required to be submitted to the Internal Revenue Service; (iv) the preparation and filing of 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 proceeds of Bonds, including the individual projects and facilities financed and the amounts expended thereon, and (ii) investment earnings on such Bond proceeds. The Commission shall maintain such records for such period of time as shall be required by the Internal Revenue Code.

G. Other Professional Services
The Commission may retain such other professional services providers, including without limitation verification agents, escrow agents, auction agents, as may be necessary or appropriate in connection with its Bonds or other debt.

XVI. Market Relationships

A. Rating Agencies
The Deputy Director of Finance and Administration will be responsible for maintaining the Port's relationships with Moody's Investors Service, Standard & Poor's and Fitch Ratings. The Port may, from time-to-time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the Deputy Director of Finance and Administration will meet with credit analysts from the rating agencies: i) at least once each fiscal year to update the agencies on the Port's business operations and financial condition, and ii) prior to each competitive or negotiated sale.

All efforts will be made to accommodate reasonable requests for information from 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 Deputy Director of Finance and Administration will be responsible for maintaining the Port's relationships and reputation with institutions which credit enhance or may credit enhance the Commission's debt, current and prospective investors in the Commission's 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. On-Going Debt Administration

A. Continuing Disclosure
The Port will remain in compliance with the Securities and Exchange Commission Rule 15c2-12 by filing its annual financial statements and other financial and operating data 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 Port's annual continuing disclosure report, the Deputy Director of Finance and Administration will ensure the Port's timely filing of the following items on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board (MSRB):

i. The Port's annual disclosure report and associated materials, filed no later than 270 days following the end of the Port'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 Municipal Debt Policy; and
iii. Material or other events for which notification to bondholders and investors is required in accordance with Rule 15c2-12.

The Deputy Director of Finance and Administration will also ensure that the Port's annual financial statements, annual disclosure report, and associated materials are posted on the Port web site.

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

Arbitrage rebate liability shall be calculated annually in each year that a bond construction fund (or equivalent) has had an outstanding balance. Thereafter,

the Port shall calculate arbitrage rebate liability on the fifth anniversary of the bond issue in accordance with IRS recommended practices.

C. Insurance Certificates
The Port, through the City's Risk Manager, will provide annual insurance certification to Bond Trustees, and holders of other Port debt as and when required.

D. Reporting
   i. *Ratings:* The Deputy Director of Finance and Administration 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. *Material Event:* The Deputy Director of Finance and Administration will promptly report any Rule 15c2-12 Material Event to : i) the Commission, ii) the Executive Director, iii) the City's Office of Public Finance, and iv) Electronic Municipal Market Access (EMMA).

E. Financial Modeling
The Deputy Director of Finance and Administration 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 without limitation debt service, revenues, operation and maintenance expense, and other related effects.

F. Outstanding Bonds Database
The Deputy Director of Finance and Administration shall maintain detailed information regarding the Commission's outstanding Bonds; including, without limitation, the following information with respect to each issue:

1. Name;
2. Initial principal amount, and principal amount for each maturity;
3. Dated date;
4. Purpose or purposes;
5. Type of issue, including new money or refunding, fixed rate or variable rate, and other features;
6. Method of sale;
7. True interest cost, arbitrage yield, and weighted average maturity;
8. Principal amount currently outstanding, in the aggregate and by maturity;
9. Debt Service Reserve Fund balance;
10. Underwriters and underwriters' discount;
11. Interest rates by maturity;

12. Call provisions, including any mandatory sinking fund provisions; and
13. Bond insurance or Credit Facilities, if any.

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

The Deputy Director of Finance and Administration 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 Deputy Director of Finance and Administration 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 material events in connection with the Commission's Bonds.

XIX. Periodic Review

The Deputy Director of Finance and Administration shall review this Municipal Debt Policy on a periodic basis, and recommend any changes to the Executive Director and the Commission for consideration. This Municipal Debt Policy, including any proposed changes or additions hereto, 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 & Administration section of the Port's website at www.sfport.com.

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
MUNICIPAL DEBT POLICY
GLOSSARY OF TERMS

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, authenticity 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 allow or require 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 which 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.

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. A competitive sale is most frequently used when the credit structure of the issue is relatively simple, market conditions are stable and the issue is highly rated or insured.

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. The three major credit rating agencies are Moody's Investor Service, Standard and Poor's and Fitch Ratings, Inc.

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.

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
MUNICIPAL DEBT POLICY
GLOSSARY OF TERMS

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.

Debt Service Reserve Fund:

Traditional bond issues are 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, 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 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 which 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.

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 their client specifying the rights and responsibilities of each party in the structuring and operation of an investment product.

Letter of Credit:

Two types of letters of credit are used in bond and other debt financings; standby letters of credit and direct pay letters of credit. They provide credit enhancement

for the debt issues by shifting the risk of repayment from the issuer (or entity who receives the debt proceeds) to the bank issuing the letter of credit. Letters of credit are usually required for the issuance of variable rate debt. Letters of credit also are used to provide liquidity.

A standby letter of credit (standby L/C) is an agreement issued by a commercial bank that commits the bank to pay third party (the 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. where banks are legally barred from issuing certain types of guarantees. 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 bond tendered cannot be remarketed within the required timeframe.

A direct pay letter of credit (direct pay L/C) is an agreement issued by a commercial bank that commits the bank to pay third party (the 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 unsecured credit to a specified borrower for a specified time period.

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 with a maturity of longer than one year; usually accompanied by interest payments.

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
MUNICIPAL DEBT POLICY
GLOSSARY OF TERMS

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

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 work with it in structuring, marketing and finally offering an issue to investors. The negotiated sale method is often used when the issue is: a first time sale by a particular issuer (a new credit), a complex security structure, such as a variable rate transaction, an unusually large issue, or in a highly volatile or congested market.

Net Revenue:
Gross revenues less operating and maintenance expenses.

Official Statement:
A comprehensive statement issued by a governmental entity prior to the sale of bonds, notes or other financing vehicles that contains all the salient 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, and other facts deemed necessary to enable the investor to judge the quality of the securities being offered. Also known as the Disclosure Statement.

Par:
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.

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 obligation on public issuers of securities to provide annual updating of financial information and operating data of the type included in the official statement for the primary bond offering. The issuer is obligated to provide a notice of the occurrence of certain material events.

Rule 15c2-12 Material 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, if material: i) principal and interest payment delinquencies; ii) non-payment related defaults; iii) unscheduled draws on debt service reserve funds reflecting financial difficulties; iv) unscheduled draws on credit enhancements reflecting financial difficulties; v) substitution of credit or liquidity providers, or their failure to perform; vi) adverse tax opinions or events affecting the tax-exempt status of the debt; vii) modifications to rights of the debt holders; viii) bond calls; ix) defeasances; x) release, substitution, or sale of property securing repayment of the underlying debt; xi) rating changes; and xii) failure to provide annual financial information as required.

Securities:

Instruments of debt or ownership sold or traded on publicly organized exchanges and/or in over-the-counter markets.

Senior Lien Debt:

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

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
MUNICIPAL DEBT POLICY
GLOSSARY OF TERMS

Short-Term Debt:

Generally, debt which 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 whose terms require 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 to fulfill the role of 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 and is subject to credit approval by a bond insurance provider. The provider charges an upfront fee for the surety bond of approximately 3.00% to 5.00% of the debt service reserve requirement.

Tender:

With variable rate debt, a bond or note holder has the option of tendering or putting his or her bonds or notes back to the remarketing agent upon specific dates (monthly, weekly) for the full par amount held. 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.

Tender Agent:

In the case of tender option bonds, an agent of the issuer to whom 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. In the case of a tender offer, a broker-dealer or bank responsible for coordinating the process of soliciting bondholders.

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." Tender options are generally backed by a bank standby letter of credit or line of credit.

PORT COMMISSION OF THE CITY AND COUNTY OF SAN FRANCISCO
MUNICIPAL DEBT POLICY
GLOSSARY OF TERMS

Trading Differential:

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

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.

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.

Port Commission of the City and County of San Francisco
Municipal Debt Policy
Guide to Credit Agency Ratings

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, are 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 are 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

Port Commission of the City and County of San Francisco
Municipal Debt Policy
Guide to Credit Agency Ratings

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) **Financial Strength/Debt Service Repayment Characteristics**	**S&P***	**Moody's**	**Fitch**
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.			

Port Commission of the City and County of San Francisco
Municipal Debt Policy
Guide to Credit Agency Ratings

#

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.			

Short Term Debt Ratings (debt maturing in one year or less) **Financial Strength/Debt Service Repayment Characteristics**	**S&P****
The issuer has strong capacity for timely payment of its financial commitment. A "+" may be added to those debt issues with exceptionally strong credit protection characteristics.	SP-1
The issuer has good capacity for timely payment of financial commitments, however, the degree of safety regarding timely repayment is not as high as those issues rating in the higher category.	SP-2
The issuer has minimal capacity for timely payment of financial commitments. Timely payment is considered speculative for debt issues with this rating.	SP-3
** ratings are for short term debt other than commercial paper.	