



The Port of Los Angeles

Debt and Treasury Management
Financial Policies Review

	POLA	LAWA	DWP	POLB
Fiscal Policy				
Budget	<ul style="list-style-type: none"> A cash flow forecast report will be maintained as part of a 10-year projection model on an on-going basis Current appropriations for all funds are limited to the sum of available, unrestricted cash balances and revenues estimated to be received in the current budget year. 	<ul style="list-style-type: none"> Funds appropriated for the Budget are limited to the sum of available, unencumbered cash balances and revenues estimated to be received in the fiscal year 	not provided	<ul style="list-style-type: none"> The Finance division updates its 10-year cash flow forecast at least once a year, which provides the basis for determining the Harbor Department's debt issuance needs
Revenues	<ul style="list-style-type: none"> Each fee is structured to allow for marginal cost pricing and for the recovery of both direct and indirect costs incurred in the operation of the Port. Rates and fees are set consistent with the leasing policy and the required rates of return. For any operating activity the marginal revenue must exceed the marginal cost of the activity. All user charges, rents and fees for the Port shall be monitored to determine that rates are adequate and appropriate. The Board will take action if costs are not recovered. 	<ul style="list-style-type: none"> Aviation Revenues are primarily a function of cost recovery formulas set by the Board consistent with federal regulations and/or specific agreements with airline tenants. Non-aviation revenues (e.g. concessions & non-aviation real estate) are dependant upon passenger activity and other market conditions. All revenues must be used for the Airport system. LAX uses a Compensatory cost allocation. ONT uses a Residual cost (zero profit) formula. Any excess revenues earned over the cost of operation and expected debt service will be used to fund capital needs, pay down debt, or be deposited to reserves. Restricted revenues include passenger and customer facility charges as well as federal grants 	not provided	not provided
Leasing	separate policy	separate policy, not provided	not provided	not provided
CIP Funding	<ul style="list-style-type: none"> Amounts budgeted for Capital Improvements are taken from the Port's Capital Improvement Plan (CIP) and must be Board approved. The CIP is a planning document only. A Capital Project either creates a new asset or significantly extends the life of an existing asset. Ensure compliance with the City Charter, Section 610, by submitting a Debt Accountability and major Capital Improvement Plan to the Mayor, City Council and Controller every two years. Economic Benefits: A description of how each project contribute to maximizing job creation in the 5-county region will be presented. Recreation: A description is required if a particular project promotes recreation, which is one of the 	<ul style="list-style-type: none"> Amounts budgeted for Capital Improvements are taken from the Port's Capital Improvement Plan (CIP) and must be Board approved. The CIP is a planning document only. A capital project either creates a new asset or significantly extends the life of an existing asset, and has a "Total Project Cost" in excess of \$100,000. CIP may be funded by the Airport Revenue Fund, Commercial Paper Notes, Bond proceeds, etc. Ensure compliance with the City Charter, Section 610, by submitting a Debt Accountability and major Capital Improvement Plan to the Mayor, City Council and Controller every two years. 	not provided	not provided



The Port of Los Angeles

Debt and Treasury Management
Financial Policies Review

	POLA	LAWA	DWP	POLB
Financial Reserve	<p>Debt Service Reserve Fund</p> <ul style="list-style-type: none"> Maximum Aggregate Annual Debt Service for Reserve Requirement for all Series of Bonds participating in the Reserve Fund; 10% of the principal amount of Bonds that have been issued and are participating in the Reserve Fund less the amount of original issue discount with respect to any Bond if such original issue discount exceeded 2%; 125% of the average Aggregate Annual Debt Service for Reserve Requirement for all Series of Bonds participating in the Reserve Fund <p>Emergency/ACTA Fund – This account holds funds for unanticipated expenditures, disaster related recovery and Alameda Corridor Transportation Authority revenue shortfalls. The approved minimum amount to be held in this account is \$47 million.</p> <p>Special Operating Fund – The target balance in this fund shall be considered in combination with the Emergency/ACTA Fund. The target balance in this Fund will be the difference between the average of the Port’s operating expenses over a five year period and the Emergency/ACTA Fund.</p>	<p>Debt Service Reserve Fund</p> <ul style="list-style-type: none"> Maximum Aggregate Annual Debt Service for Reserve Requirement for all Series of Bonds participating in the Reserve Fund; 10% of the principal amount of Bonds that have been issued and are participating in the Reserve Fund less the amount of original issue discount with respect to any Bond if such original issue discount exceeded 2%; 125% of the average Aggregate Annual Debt Service for Reserve Requirement for all Series of Bonds participating in the Reserve Fund <p>LAX Maintenance and Operations Reserve Fund - Pursuant to City Charter, M&O Reserve fund shall be equivalent to at least 25% but not greater than 50% of budgeted maintenance and operations expenses at LAX.</p> <p>LAX Additional Maintenance and Operations Reserve Fund - LAWA will maintain an additional M&O Reserve fund, such that, when combined with the LAX M&O Reserve Fund, the total reserve will be equivalent to at least 12 months of budgeted M&O expenses at LAX</p> <p>Insurance Reserve Fund - Pursuant to Board policy, LAWA has established a reserve to handle uninsured and under-insured catastrophic losses with respect to all of the LAWA airports.</p>	<p>Debt Service Resrve Fund</p> <ul style="list-style-type: none"> Department covenants in its Master Bond Resolution that it shall raise rates sufficient to meet debt service and other obligations in lieu of a cash funded debt service reserve fund or surety policy <p>Debt Reduction Trust Fund</p> <ul style="list-style-type: none"> Monies accumulated in the DRTF can only be used for payment of debt service of the Power System and joint power agencies such as the IPA and SCPPA The DRTF may only be used to generate investment earnings, hedge a variable program and defease obligations <p>Expense Stabilization Fund - provides sufficient funding to Department to meet debt service coverage to meet the additional bond test of 1.25x. Deposits into fund are treated as expenses to reduce net revenues; withdrawals are treated as revenue</p> <p>Construction Fund - shall be expended to pay for CIP and is managed by the City Treasurer</p> <p>Reimbursement Resolution - Pursuant to Treasury Regulation Section 1.150-2, the Board has adopted a reimbursement resolution to reimburse the Department for prior capital expenditures; this resolution allows DWP flexibility in timing and sizing future issues and is in compliance with the 18 & 24-month spend-down rules</p>	<p>not provided</p>
Risk Management	<ul style="list-style-type: none"> The Port is to be protected to a prudent extent against liability or loss Techniques include: <ul style="list-style-type: none"> A. Assumption of loss B. Use of available government programs C. Purchase of insurance D. Transfer options and any other program Purchase of insurance is to be considered when: <ul style="list-style-type: none"> A. The estimate of the cost of potential loss exceeds an amount considered as an allowable retention of risk and there are no other techniques available at a lesser cost C. Legal or contractual obligations require insurance 	<ul style="list-style-type: none"> LAWA is to be protected to the maximum extent feasible against liability or loss LAWA Risk Management Division oversees a self-administered Risk and Claims Management program. Claims are administered in-house who will manage and direct a claim/ lawsuit until resolved. LAWA is responsible for placing General Liability insurance policies (including a War & Terrorism policy). Additional lines of insurance include General Property Insurance, Boiler and Machinery coverage and Earthquake insurance. LAWA also continues to maintain a catastrophic loss fund in the form of an insurance trust account that is restricted to fund claims or losses that may exceed insurance policy limits Commercial insurance is used when it is either legally or contractually required, or judged to be the most 	<p>not provided</p>	<p>not provided</p>



The Port of Los Angeles

Debt and Treasury Management
Financial Policies Review

	POLA	LAWA	DWP	POLB
Debt Policy	<p>The Board, management, staff, advisors and other decision makers will adhere to sound financial management practices. The Debt & Treasury Section shall have the day-to-day responsibility and authority for structuring, implementing, and managing the Port's debt. The Debt Policy requires that each debt or lease financing, including synthetic, hybrid, or derivative products, be specifically authorized by the Port's Board</p> <p>Capital Budgeting</p> <ul style="list-style-type: none"> The Capital Improvement Plan. A Capital Improvement Plan (CIP) shall be developed for consideration and adoption by the Board. The CIP shall include <ol style="list-style-type: none"> timing of capital projects; effect of capital projects on debt, and; debt service requirements Any debt issuance to fund capital project expenditures must be authorized by the Board. The CIP report to the Board shall discuss the impact of the proposed modifications on the Annual Budget and the CIP. The ten-year CIP is to be reviewed and presented to the Board at least annually. 	<p>The CFO, Director of Finance or other such qualified person determines the appropriate financial structure of LAWA and oversees and manages all phases of debt issuance to ensure consistency with the strategic plan of LAWA and with the direction of the BOAC</p> <p>Capital Planning</p> <ul style="list-style-type: none"> LAWA has a biennial capital planning process. Capital Programming and Planning Group confirms the requirement, which the CFO reviews. CFO projects the available sources and uses of funds and verifies LAWA's financial ability. The financing plan is based on a set of assumptions developed through the detailed collection and analysis of historical revenue and expense data, forecasts of traffic and economic statistics and trend projections. 	<p>The Debt Management Policy formalizes practices enacted by the LADWP to issue and manage debt in the most effective and efficient manner. This Policy affirms the commitment of the Board and the Department to adhere to practices of sound financial management, which include the timely repayment of all debt, borrowing at the lowest possible net cost of capital. The CFO and the Director of Finance and Risk Control are the designated administrators of the Policy. The Director of Finance shall have the day-to-day responsibility and authority for structuring, implementing, and managing the debt and finance program.</p> <p>Debt Management Section shall submit periodic debt management reports to the CFO and the Director of Finance that include, but are not limited to, debt profile summary, variable rate marketing performance, and other debt related activities for evaluation</p> <p>Capital Budgeting & Borrowing</p> <ul style="list-style-type: none"> The Department uses a rolling five-year budget and a long-range financial plan to manage its CIP and any funding requirements The Board simultaneously approves an annual budget and financial plan identifying capital requirements and the funding resources available on both an annual and five-year basis The financial plan includes impact on revenue requirements, the Department's net cash position, its debt burden, its debt coverage ratios, and the City General Reserve Fund Transfer CFO shall submit to the Board an initial borrowing authority resolution which authorizes the issuance of debt <ul style="list-style-type: none"> LADWP shall try to maintain a minimum of one-year borrowing authority LADWP shall also maintain sufficient refunding authority in order to take advantage of timely refunding opportunities 	<p>The objectives of the Debt Management policy are to:</p> <ul style="list-style-type: none"> Develop comprehensive guidelines for issuance and maintenance of Harbor Dept. debt Minimize the cost of capital while meeting financing needs consistent with the strategic plan Sustain a high credit rating from the three major credit rating agencies Abide by all reporting requirements <p>Approval from the Board of Harbor Commissioners (Board) will be necessary for any exceptions to this Policy</p>



The Port of Los Angeles

Debt and Treasury Management
Financial Policies Review

POLA

Types of Debt Financing

- Long Term Debt - to finance essential capital facilities, projects, and certain equipment where it is cost effective and fiscally prudent
- Lease Financing - may be considered for equipment and assets that are not financed under a revenue-based financing program
- LOC - LOC's may be used for working capital &/or bridge financing for projects subject to AMT
- Commercial Paper - When appropriate but no later than when these facilities are constructed and operational, it is the Port's intention to retire this debt
- Variable - The amount of unhedged, long-term variable rate debt will generally not exceed 20% of all outstanding debt

LAWA

Types of Financing

- General Airport Revenue Bonds (GARB) - LAX GARBs may take the form of senior lien Revenue Bonds, or subordinate lien Revenue Bonds (including Commercial Paper or other short-term borrowing instruments)
- Conduit Financings - provides a private corporation, such as an airline, with access to the tax-exempt market for the financing of a facility which it leases but does not own; available through RAIC and CSCDA. Neither LAWA nor the conduit issuer is directly or contingently obligated pay such Debt Service; such financings may not exceed 40 years or 80% of the useful life of the underlying asset; LAWA reserves the right to defease the debt and acquire the facility at its amortized cost
- Special Facility Bonds - limited obligations of LAWA to be repaid solely from the revenues derived from or relating to a discrete facility repaid by the users of the facility and/or from project revenues; such financings may not exceed 40 years or 80% of the useful life of the underlying asset; LAWA reserves the right to defease the debt and acquire the facility at its amortized cost
- Bond or Grant Anticipation Notes (BANS/GANs) - may be issued pending receipt of letters of intent from grantors; ancillary source of repayment must be available
- Other - Passenger Facility Charge ("PFC"), Customer Facility Charge ("CFC") and other debt instruments to be repaid from a discrete category of revenues. PFC and CFC revenues are excluded from the definition of Pledged Revenues for GARBs

Variable Rate Debt

- At no time shall any fixed rate or Variable Rate Debt obligation bear interest at a rate in excess of 12% per annum
- Variable rate serves as a balance sheet management tool to offset investment gains on losses
- Variable rate debt can reduce cost of funds, diversify investor base, minimize negative arbitrage and serve as interim financing. LAWA may refinance, refund or purchase CP by issuing new Commercial Paper, by issuing GARBs, or by using available LAWA funds
- Variable rate debt can comprise 20%-25% of outstanding debt without creating undue risk; risk will be measured on a net basis net of swaps or other tools
- CFO will manage and evaluate interest rate risk, basis risk and liquidity risk when assuming variable rate debt
- CFO will appropriately budget for the interest rate cost of VRD's and will report VRD in accordance with GAAP

DWP

Debt Financing

- Fixed-Rate Revenue Bonds - long-term fixed rate debt is provide funds to acquite, construct, reconstruct, replace, extend, and/ or improve capital works for the the Water and Power Systems when it is cost effectiv and fiscally prudent; customers will implicitly pay a share of the costs
- Variable Rate Debt - used to diversify debt exposure and the investor base, reduce interest costs, increase flexibility in the debt structure and principal repayment schedule, serve as an interim funding, and improve asset / liability matching
 - variable rate debt exposure shall be limited to no more than 33% of total debt; this limit can be increased subject to equivalent and offsetting derivative instruments
- Commercial Paper - interim construction financing for CIP that ultimately will be funded from another source such as long-term debt. CP has a maximum maturity term of 270 and will be periodically issued and retired without Board approval
 - CFO and the Director of Finance are responsible for managing the CP program; they shall work with DWP's dealers to develop a marketing strategy for the initial sale and subsequent roll-over of CP
- State Revolving Fund Loans for the Water System - State Revolving Fund Loans for the Water System typically at low rates (<3%) amortized over 20 yrs
- Taxable Debt - DWP shall consider taxable alternatives where CIP do not qualify for tax-exempt status
- Joint Power Agencies-Issued Debt (Off Balance Sheet) - Department will only use the off-balance sheet financing (through Southern California Public Power Authority ("SCPPA") and the Intermountain Power Agency ("IPA")) after a thorough evaluation of economic benefits, risks, timeliness, and impact on debt capacity and credit quality have been analyzed.

POLB

Types of Debt

- Revenue Bonds - bonds in which repayment is made with revenue collected from the use of facilities built
- Fixed vs. Variable Rate Debt - Debt carrying a fixed interest rate until maturity is typically preferred to. However, variable rate debt can be utilized on a limited basis when advantageous. VRD shall not exceed 15% of the total outstanding debt, exclusive of commercial paper
- Variable Rate Debt Obligation (VRDO) - Using predetermined rate reset intervals, VRDOs with a long term maturity can be priced as rolling short-term instruments making it potentially a less costly option in a normal upward sloping yield curve environment
- Commercial Paper - short-term debt instrument (generally, no more than 270 days) issued to provide interim financing for capital projects



The Port of Los Angeles

Debt and Treasury Management
Financial Policies Review

POLA

LAWA

DWP

POLB

Interest Rate Derivative Products

- CFO will recommend Derivative products including Swaps, Caps, Floors, and Collars to hedge against interest rate risk, lower the cost of funds, or synthesize an advanced refunding on LAWA's private activity, or AMT debt, which cannot traditionally be advance refunded
- LAWA will only use derivative products to: 1) To hedge exposure to changes in interest rate; 2) To achieve a lower net cost of borrowing, and; 3) To realize the financial benefits of an Advance Refunding on AMT debt, which cannot traditionally be advance refunded
- Interest Rate Derivative Products will not be used for speculative purposes
- CFO will evaluate and report to the ED and Board risks including Amortization Risk, Basis Risk, credit risk, Counterparty Risk, Rollover Risk, Tax Risk and Termination Risk
- CFO will issue a quarterly report to the Board and ED each quarter in which LAWA enters into or continues to have an Interest Rate Swap agreement
- CFO will appropriately budget for the interest rate cost of derivatives and will report derivatives in accordance with GAAP

Debt Affordability & Policy Limits

- The Port will maintain a minimum Debt Service Coverage of 2.0x
- So long as the Port's minimum reserves are maintained, the Port will seek to minimize the level of debt. Any prepayment or payment of debt will consider cost and term

Debt Capacity - information related to the following should be presented to the BOAC and Executive Director:

- For LAX and ONT Senior Lien GARBs, Net Pledged Revenues, must be equal to at least 1.25x annual Debt Service payments at all times
- For LAX Subordinate Lien GARBs, the Subordinate Master Indenture requires that Net Subordinate Pledged Revenues, are equal to at least 1.15x annual Debt Service payments at all times
- Projected levels of airline costs and debt per enplaned

Debt Affordability Targets (Water)

- 1.7x Debt Service Coverage
- Operating Cash - 150 days

Debt Affordability Targets (Power)

- 2.25x Debt Service Coverage
- 1.70x Full Obligation Coverage
- Operating Cash - 170 days

- The Harbor Department shall maintain a minimum Debt Service Coverage Ratio (DSCR) of 2.0: 1. Covenants to require a minimum DSCR of 1.25:1.
- The Harbor Department shall maintain a minimum unrestricted cash balance equivalent to 1.64 times the prior fiscal year's operating expenses before depreciation and amortization. 1.64 times the number of days in a year equals 600 days.

Financing Purposes

- New Money - may be used for acquisition, construction, and major rehabilitation of capital assets and not for working capital. The Port may utilize its commercial paper programs to provide interim new money funding
- Refunding Bonds - refundings may be undertaken that provide a minimum of 3% of present value savings of refunded par amount; target savings of 80% of the expected value of a call option may also be used
- Certain circumstances may require the Port to deviate from use of these refunding targets such as for other than economic purposes

Refunding

- CFO will monitor refunding opportunities for all outstanding debt obligations for economic and non-economic reasons (e.g. to change or update covenants). Refundings criteria will involve calculation of expected net present value savings against the Call Option value of the existing Callable Bonds
- LAWA will anticipate the potential for Advance Refundings when issuing new debt, including:
 - minimum of 90% of the maximum Call Option value or minimum average savings of 3% of refunded par amount
- CFO must inform the Board and the ED of any refunding that does not meet the Target Savings criteria and non-economic reasons for doing so

Purposes of Financing

- New Money - may be used for acquiring, constructing, reconstructing, replacing, extending, and improving Water and Power works; proceeds shall not be used to fund operations
- Refunding Bonds - issued to retire all or a portion of an outstanding bond issue to effectuate debt service savings. An issuer may conduct a refunding for reasons other than costs savings. Department may target refundings that produce net present value savings of at least 3% of the refunded par amount of each maturity. Department may pursue refundings if the expected NPV savings exceed costs of redemption
- If interest rate swap or other derivative product is to be used, then the target savings shall be 7% to compensate for additional risk and administrative cost
- DWP may consider refundings that fail to meet the above criteria for non-economic reasons

Purposes & Uses of Debt

- New Money - may be used to fund long term capital projects and major equipment acquisition at the Harbor Department. Short term new money financing such as commercial paper programs may be used in conjunction with , or until, long-term revenue bonds are issued. Life of long term debt shall not exceed useful life of assets financed
- Refunding - issued to lower debt service through refinancing at a lower interest rate, restructure debt service, remove undesirable covenants, or change the type of debt instrument being used. minimum savings from refunding should be at least 3% of the refunded par amount or at least \$500,000 in present value savings net costs of issuance



POLA

Types of Debt Products

- Current Coupon Bonds - Current coupon bonds pay interest periodically and principal at maturity
- Zero and Capital Appreciation Bonds - Principal amortization occurs at a much slower rate, or strictly at maturity; shall only be recommended in limited situations
- Derivatives - may be considered where appropriate in the issuance or management of debt only in instances where the hedge reduces risk; an analysis will be provided assessing risks and benefits. Derivatives can only be issued upon Board approval. Port will only enter into contracts with financial institutions that have a long-term credit rating equal to or higher than the Port's long-term credit rating

Debt Structural Features

- Maturity - shall be equal to or less than the useful life of the assets being financed; should not exceed 120% of the average life of the assets being financed unless tax law dictates otherwise. Final maturity shall not exceed 30 years
- Debt Service Structure - bonds shall be structured to provide level debt service over the life of each bond, with service trailing off as bonds mature; exceptions may be considered by the Board
- Lien Levels - The Port's long-term and short-term debts are generally issued on a senior lien, parity basis, issued against cost or capacity constraints, secured by Net Revenues; subordinate debt may be considered when appropriate
- Capitalized Interest - Port will seek to avoid capitalized interest
- Discount Bonds - should be only recommended in limited situations
- Debt Service Reserve Fund - outlined in the Financial Reserve Policy. The CFO and the Director of Debt & Treasury will evaluate and document the DSRF funding decisions including arbitrage yield restrictions, current interest rates, cost of a surety policy, and opportunities for the use of the funds withdrawn from the DSRF
- Financial & Risk Analysis - NPV, structural and liquidity risks will be documented when selecting structures and bond types. WACC or marginal rate on long term debt, whichever is higher, may be used as a discount rate when evaluating alternatives

LAWA

Features of Long Term Debt

- Maturity - final maturity of borrowings should not exceed, and preferably be less than, the projected economic life of the improvements that are financed
- Debt Service Structure - Principal amortization and resulting debt service should be structured with a preference toward achieving stable levels of future debt service
- Capitalized Interest - Will be evaluated based on size of bond issue, coverage and budget
- Debt Service Reserve Fund - For each GARB, the CFO will compare the costs of (1) participating in a common Debt Service Reserve Fund, (2) funding a stand-alone Debt Service Reserve Fund or (3) doing neither per the LAX Master Trust Indentures' may be funded with surety, bond proceeds, or other available funds
- Redemption / Call Provisions - established on a case by case basis, based on a comparison between the cost of a Call Option and the present value debt service savings of redemption
- Discount Bonds - for bonds issued at less than 97% of par, CFO will request an analysis of present value savings of lower interest coupon vs. reduction in Call Option value
- Equipment - LAWA will not issue long term debt to finance individual items of equipment with a useful life less than five years except under a master lease program

DWP

- Current Coupon Bonds - bonds that pay interest periodically and pay principal at maturity
- Zero Coupon and Capital Appreciation Bonds - offer principal amortization that is slower than current coupon bonds resulting in increased interest expenditure; shall only be utilized in limited situations

Debt Structure

- Debt service payments shall be structured so that they achieve approximately level debt service payments over the life of the issue
- Exceptions are permissible for refundings bonds that have varying principal repayments structured to fill in the gaps created by refunding specific maturities
- Deferred amortization (e.g. bullets, wrap and balloons) should be avoided unless to accommodate minimum debt service coverage or to achieve level debt service
- Amortization & Term - amortization should reflect the useful life of the assets being financed generally not more than 45 years. The average life of a tax-exempt financing shall not exceed 120% of the remaining average life of the financed assets
- Lien Structure - Department shall not issue any obligation secured by Water or Power Revenue funds senior to current obligations; Master Bond Resolutions allow for issuance of junior or subordinate debt with consideration paid to overall cost of borrowing and debt capacity
- Capitalized Interest - Department has traditionally not capitalized interest, but may choose to pay interest from a bond funded capitalized interest account until operating revenues are sufficient to pay debt service
- Call Provisions - preference is to issue bonds which may be redeemed within no more than 11 years of issuance. Non-callable bonds may be considered premiums exceed the value of the call option, or if the bond's final maturity is less than ten years, and the

POLB

Debt Issuance & Structuring

- Level Payments - bonds mature at periodic intervals will allow for level debt service
- Debt Service Reserve Fund (DSRF) - required as part of a bond issuance and will be funded with cash or additional debt issuance and maintained by a trustee bank; DSRF may also be satisfied with a surety, if financially advantageous
- Debt Service Fund - shall be maintained to set aside sufficient money for the payment of debt service due. Each debt issuance is captured by a separate project number under the debt service fund in order to capture interest accrued by the City's cash pool



The Port of Los Angeles

Debt and Treasury Management
Financial Policies Review

POLA

- Credit Enhancement
 - Bond insurance: insurance premiums shall be compared to interest cost savings due to insurance; CFO or Director of Debt & Treasury will solicit at least three quotes. CFO can purchase insurance in a negotiated sale
 - LOC: can issue a direct pay LOC or stand-by LOC. Liquidity facilities are required in the issuance of VRDB and commercial paper; Debt & Treasury will select liquidity providers with appropriate ratings, experience, clients and fees and charges

Documentation - a post pricing book deal file will document all aspects of the transaction, including product, structuring and vendor selection

Credit Objectives - the Port will actively maintain the credit ratings of its bonds by maintaining debt ratios and affordability targets and providing monthly volume statistics, quarterly financial updates to credit ratings agencies

LAWA

DWP

- Credit Enhancement - Credit enhancement will only be used when net debt service is reduced by more than the cost of the enhancement, or when is necessary to increase marketability. . Director of Finance or financial advisor(s) shall conduct a competitive process to select a letter of credit provider
- Liquidity providers must carry long term credit ratings at least equal to the Department's; short term liquidity, providers must carry ratings of at least VMIG-1/P-1, A-1 +,and F-1.
 - Bond insurance: shall be used only when it provides an economic advantageous; Insurance may be purchased when the premium cost is less than the present value of the projected interest savings. Director of Finance and financial advisor shall undertake a competitive selection for bond insurance. In a negotiated sale, CFO and Director of Finance shall have the authority to purchase insurance
 - LOC/Liquidity Facility: direct pay LOC, the trustee can draw upon the letter of credit to make debt service; stand by LOC provides funds for optional or mandatory tender of an obligation
 - When possible, bond sales shall be timed for the most opportune entry into the financial market, taking into consideration interest rates, pricing, call features, availability of credit enhancement, etc

POLB

Documentation - Finance division will compile and maintain each postpricing book (deal file) for each Harbor Department debt issuance. The deal file will include documentation of the decision processes and features of the debt structure



The Port of Los Angeles

Debt and Treasury Management
Financial Policies Review

POLA	LAWA	DWP	POLB
<p>Method of Sale - the Port will generally use a competitive sale, given certain conditions</p> <ul style="list-style-type: none"> • Competitive Sale - should be used when bond prices are strong, issuer is well known, issue is conventional, market timing is unimportant, size is small • Negotiated - should be used when bond prices are volatile, market timing is important, sale & marketing is relatively more complex, structural features are non-standard (e.g. use of forwards, variable rate bonds, other derivatives), early structuring by underwriters desired, large transaction size, high retail demand, etc. • Private placement - to be used if this method provides cost savings 	<p>Method of Sale - Per the City Charter, LAWA shall seek to execute its plan of finance and issue its debt obligations through a Competitive Sale unless the CFO advises the Board and Executive Director that such a method will not produce the best results for LAWA. A competitive process should be used to choose the appropriate Underwriter and financing team. CFO will evaluate:</p> <ul style="list-style-type: none"> • Issuer attributes: Market familiarity, Credit Strength, Public Policy Goals • Financing attributes: Type of debt instrument, Issue size, Market conditions, Story bonds • LAWA will use a competitive process to evaluate proposals from underwriting firms. The Board shall select the underwriting firm(s) for the Negotiated Sale of bonds by resolution or other Board action • CFO is responsible for implementing and managing competitive sale process. CFO will direct Counsel to work with Financial Advisors to deliver a POS, Notice of Sale and bid parameters to prospective Underwriters <p>Negotiated Sales Process</p> <ul style="list-style-type: none"> • CFO is responsible for implementing and managing negotiated debt sale process; CFO will submit written report of reasons on pursuing a negotiated sale to the Board and ED in accordance with Section 11.28.4 of the Ad Code • CFO will notify CAO of intent to sell bonds and transmit Board reso; CAO shall deliver in a timely manner to the Council the report of the CAO required by the City Charter; Council will approve in a period consisting of the longer of 30 days or 5 consecutive Council meetings • LAWA will use a competitive RFP process to select underwriting firms; Board shall select the underwriting firm(s) in the same, or separate, resolution as above <p>The Role of the Underwriter(s)</p> <ul style="list-style-type: none"> • The Book Running Senior Manager will: 1) structure and price each debt issue; 2) develop a financing schedule in cooperation with the FA, and; 3) communicate LAWA's plan of finance with the other members of the Syndicate • Underwriters must provide all disclosures required by the SEC and/or the MSRB to the CFO, including Rule G-17 • Book Runner will recommend Liability assignment for each Underwriter which will be approved by CFO; the Liability assignments will be incorporated into a Agreement Among Underwriters (AAU) and must not exceed the underwriting ability of the Underwriters • AAU will include priority of orders for the purpose of 	<p>Method of Sale -</p> <ul style="list-style-type: none"> • Competitive Sale - bonds shall be awarded to bidders providing the lowest true interest cost; recommended when bond demand/prices are stable & strong, market timing is not critical, public policy goal of inclusion is not achievable, there are no complex stories surrounding the credit, bond structure is conventional, etc. • Negotiated Sale - may pursue a negotiated/private sale pursuant to Section 609(d) of the City Charter and Article 6.5 of the City Administrative Code (such that the Board approves the private sale after reviewing CFO letter explaining the benefits of a private sale, CAO transmits a report to City Council concerning the sale, and City Council has the opportunity to approve both the sale and the underwriting team) <ul style="list-style-type: none"> • Conditions appropriate for a negotiated sale include: prices are volatile, demand is weak, DBE participation is warranted, these are "story" bonds, bond structures are complex (e.g. involving derivatives, variable, forward delivery, etc.), bond size is large 	



The Port of Los Angeles

Debt and Treasury Management
Financial Policies Review

POLA

LAWA

DWP

POLB

- The management fee will be distributed to the Underwriters based upon their relative contribution
- All Takedowns are subject to review and approval by the CFO; CFO reserves the right to review and approve all fees and expenses prior to pricing
- CFO and the Book Running Senior Manager will review the book of orders and discuss the need, if any, for an underwriting risk component in the gross Underwriter's spread for unsold bonds
- Book Running Senior Manager will discuss with the CFO the advantages and/or disadvantages of using a Selling Group
- Book Running Senior Manager may discuss the use of Retention with the CFO at least one week prior to pricing
- Senior Manager must also provide the CFO, at least one week prior to pricing, a proposed priority of orders for the purpose of Allocation and a proposed policy for the designation of the Takedown on Net Designated Orders. LAWA reserves the right to specify whether Selling Group members can be designated
- Upon CFO approval, the priority of orders and the designation policy shall be communicated by the Book Running Senior Manager to the Underwriters
- Prior to the pre-pricing meeting (one business day prior to the day of the pricing) the Book Running Senior Manager must deliver to the CFO the proposed pricing terms
- Any change in the initial pricing terms must be approved by the CFO and promptly communicated to the Underwriters
- Status reports of the pricing, including total orders received for each maturity, amount, type and firm, may also be requested by the CFO at any time during the order period
- A complete set of final cash flows must be provided to the CFO before the CFO signs the bond purchase



POLA

LAWA

DWP

POLB

Post Sale

- Syndicate agrees to comply with any MSRB/AAU Syndicate rules prohibiting the selling of bonds below the public offering price (less the full Takedown)
- Syndicate agree to inform the CFO of any firm significantly lowering the price of the bonds in the secondary market below market levels; Sr. Manager will provide secondary market price levels, unsold balances, and the level of trading activity of the bonds to CFO upon request
- LAWA will conduct post-sale evaluations of the underwriting account to ensure that its policies are adhered to
- Senior Manager must provide CFO with a final pricing book, including discussion of the market conditions leading up to and during the final pricing; the preliminary and final pricing wires; media coverage; rating agency credit reports; a full set of final cash flows; detailed orders; Allotments; and Takedown schedule within 60 days after closing
- Financial Advisors must also provide the CFO with their own final pricing report within 30 days after closing

Selling Commercial Paper

- CFO shall work closely with LAWA's CP dealers to develop a marketing strategy for the initial sale and subsequent frequent roll over of CP
- CFO may require CP dealers to provide quarterly and annual reports detailing the average cost, average maturity, and a list of CP investors

Investment of Proceeds
Investments must comply with the terms of eligible investments under the relevant bond indenture and related bond documents, any specific investment policies that may be recommended by the CFO, as well as California State Government Codes 53601 and 53601.6. These investments must be approved by the Board

Investment of Proceeds

- The Port shall competitively bid the purchase of securities and other products in compliance with restrictions on allowable types and yields of investments; bid results will be public and certified in writing that the Port received competitive and fair market price on investments received
- The Port shall diversify its investments

Investment of Bond Proceeds

- CFO or Director of Finance shall competitively bid the purchase of securities, investment agreements, float contracts, forward purchase contracts, and any other investment products used to invest bond proceeds other than those investments executed by the City Treasurer's Office in accordance with the relevant Federal, State and contractual restrictions regarding permitted investments, allowable yield restrictions, etc.

Disclosure

- All fees resulting from investment services or sale of products shall be fully disclosed to ensure that there are no conflicts of interest and investments are being purchased at a fair market price
- Underwriters of the bonds, but not the investment advisor, may bid on the sale of investment products
- The investment advisor shall document the bidding process and results and shall certify in writing that a

Investment of Bond Proceeds

- Proceeds are held in reserve funds and investment of those funds is the responsibility of the City of Long Beach's Treasury group in compliance with all applicable federal, state, and contractual restrictions in regard to the use and investment of bond proceeds
- Arbitrage Rebate - CFO shall ensure compliance with arbitrage rebate requirements of Section 148(t)(2) of the Internal Revenue code of 1986



The Port of Los Angeles

Debt and Treasury Management
Financial Policies Review

POLA

Market Relationships

- Ratings Agencies - CFO and the Director of the Debt & Treasury shall be primarily responsible for maintaining the Port's relationships with Fitch Ratings, Moody's Investors Service, and Standard & Poor's. All efforts will be made to accommodate reasonable requests for information including through conference calls, one-on-one meetings, investor tours, and "virtual" road shows
- Board Communication - information will be provided to the Board as material information develops regarding investor perception in the marketplace

Tax Law Compliance & Market Disclosure

- CFO shall establish a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the Federal tax code.
- Department may hire a rebate consultant to calculate and remit rebate payments to in a timely manner in order to preserve the taxexempt status of the Department's outstanding debt
- Trustees shall perform all functions and duties required under the respective bond indentures and trust agreements, including maintaining records of fund balances and investments
- Initial Disclosure - CFO will coordinate preparation of all required disclosure documentation with City Attorney and Disclosure Counsel to avoid material misstatements and omissions
- Continuing Disclosure - It is Port policy to comply with SEC Rule 15c2-12 by filing with the Municipal Securities MSRB and Electronic Municipal Market Access (EMMA) its Annual Continuing Disclosure Statement and its audited financial statements; and statements of those material events as required.
- Other - The Department will also post its unaudited quarterly financial statements to its website within 60 days after the close of each quarter. Department will also post its Financial Policies to the website.

LAWA

Rating Agencies

- CFO shall be responsible for implementing and managing LAWA's Credit Rating agencies relations program
- Program will include meetings with the rating agencies, providing the rating agencies with the annual budget, financial statements, etc

Compliance With Tax Law & Market Disclosure Obligations

- CFO shall establish a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the Federal tax code and other regulations as required by Bond counsel
- Trustee banks shall perform all functions in bond indentures and trust agreements, including maintaining records of fund balances and investments
- Initial Disclosure: CFO shall coordinate the preparation of any Official Statement, with assistance from the City Attorney and Disclosure Counsel. The Board and Department management will review a draft Official Statement to evaluate the materiality of enclosed information
- Continuing Disclosure: In compliance with SEC rule 15c2-12 LAWA will provide annual financial and operating data within 180 days following the end of the fiscal year, and other information about certain types of events, in a timely manner and within specified time limits, to the MSRB via its electronic portal known as "EMMA". Certain items are required to be reported as soon as within ten business days

Investor Relations

- CFO shall be responsible for implementing and managing an Investor Relations Program
- Program shall provide guidance and securities law training to those Department representatives who are authorized to speak with securities market professionals, security holders and media

DWP

Market Relationships

- Ratings Agencies & Investors - CFO shall be primarily responsible, along with the GM and Assistant GM's of the Water System and Power System, for maintaining DWP's relationships with the rating agencies. CFO shall communicate with each agency at least annually, and prior to each bond sale

Continuing Disclosure

- DWP shall remain in compliance with Rule 15c2-12 by filing its annual financial statements and operating data within 270 days of the close of the fiscal year; Director of Finance shall ensure timely filing
- Rebate Reporting: Department shall assess its arbitrage liability for each issue on an annual basis to comply with the 18-or-24 month spend-down requirements set forth in the Internal Revenue Code and the regulations thereunder

Investor Relations

- CFO shall be responsible for implementing and managing the investor relations program
- CFO, along with GM and Deputy GM's of Water and Power Systems, will maintain relationships with the ratings agencies. CFO, or the Director of Finance, shall communicate each rating agency at least annually, and prior to each bond sale
- Department shall actively maintain or improve its credit

POLB

Bond Tax Status & Disclosure

- The Department will ensure compliance with all tax regulations necessary to maintain a bond's tax-exempt status. In general, private activity bonds (other than ones that benefit 501(c)(3) organizations) issued after August 7, 1986 are subject to AMT. Some bonds may be taxable should the project being funded not be a significant benefit to the general public
- The Department may consider all types of bonds: tax-exempt not subject to AMT, taxexempt subject to AMT, and taxable bonds.
- Department will file financial statements and other required data annually in compliance with the SEC Rule 15c2-12. The continuing disclosure report will be filed with the MSRB on the Electronic Municipal Market Access (EMMA) website no later than 270 days after FY end



The Port of Los Angeles

Debt and Treasury Management
Financial Policies Review

POLA

Consultants - will select financial advisors and counsel by competitive process by best value or lowest cost approach. Department will initiate an RFP, RFQ or sole source process, whichever is most appropriate. City policies, including MBE/WBE/OBE, shall apply.

- Financial Advisors - Dept. may retain financial advisors to provide advice on debt management and structuring, budget options, arbitrage rebate review, and rating agency relations
- Financing Teams - Financing teams will be selected depending on expertise and availability. Department will establish different teams to extend opportunities to participating firms

- Bond Counsel - A nationally recognized bond counsel firm(s) will affirm in writing that: the Port is authorized to issue the proposed debt; the Port has met all statutory requirements necessary for issuance; and a positive determination has been made on the proposed debt's federal and state income tax status
- Disclosure Counsel - A nationally recognize disclosure counsel(s) will prepare official statements in the event of any debt restructuring/refinancing, or new bond issue in accordance with all applicable rules, regulations and guidelines
- Disclosure by Financing Team - All financing team members will be required to provide full and complete disclosure, under penalty of perjury, relative to any and all agreements with other financing team members and outside parties that could compromise any firm's ability to provide independent advice. Firms will be required to certify compliance with prohibition of underwriter gifts and political contributions under Charter section 609(e)

LAWA

Selection of Professional Service Providers

- Financial Advisors - must be registered as a municipal financial advisor with the SEC and the MSRB; duties will include, but are not limited to evaluating proposals submitted to the CFO, reviewing the structuring and pricing of debt issues, assisting in the preparation of Official Statements, evaluating swaps & derivatives, preparing &/or reviewing presentations, advising on budgets, capital plans and revenue enhancement, advising on investment of proceeds, etc.
 - An investment banking firm may act as Financial Advisor on specific bond issues in a competitive sale, but will not be permitted to participate in the Syndicate
 - LAWA may hire an Underwriter to act as Financial Advisor in a negotiated sale but will not be permitted to underwrite, trade or sell bonds
 - LAWA shall not enter into any investments for which the Financial Advisor receives any fee or compensation from the investment provider or any outside party without the written approval of the CFO

- Bond Counsel - all debt issued by LAWA must include a written opinion of Bond Counsel affirming that LAWA is authorized to issue the proposed debt. Duties include: rendering opinions on tax-exempt status of the debt under Federal and State of California laws; assisting the City Attorney's office in preparing all necessary legal documents; assisting City Attorney with tax issues, arbitrage tracking and rebate requirements
- Disclosure Counsel - prepares the Official Statement. Duties include: assisting the City Attorney's office in preparing the Official Statement, CP offering memoranda and other disclosure docs; preparing the continuing disclosure certificate in compliance with SEC Rule 15c2-12; preparing a "negative assurance letter" or a "SEC Rule 10b-5 opinion"

- Providers of Letter and Lines of Credit and Other Bank Products - CFO may seek providers of credit enhancement, letters and lines of credit, direct loans and other banking products based upon objective criteria. CFO shall coordinate with the City Attorney and Bond Counsel to manage the process of negotiating the credit agreement

DWP

Consultants - policy is to provide MBE/WBE/OBE with an equal opportunity to participate in Department contracts

- Financial Advisor - DWP shall retain an external financial advisor(s) through competitive process administered by the CFO every three years. Criteria shall include: experience in structuring complex issues; experience in conducting competitive selection for financial services; past performance; fees
- Bond Counsel - City Attorney's Office, with the approval of the Board, shall select a bond counsel through competitive process every three years; Revenue bonds issued by the Department shall include a written, unqualified opinion by a nationally recognized bond counsel affirming the Board resolution and the debt's state and federal income tax status
- Disclosure Counsel - City Attorney's Office, with the approval of the Board, shall select a disclosure counsel through competitive process every three years; DC shall ensure that the official statement complies with all applicable rules regulations and guidelines. DC may also serve as bond counsel.

- Underwriters - CFO, with the approval of the Board, shall select a bond counsel through competitive process every three years. For negotiated sales, underwriters must have sufficient capital and experience. Criteria includes: quality of ideas; ability to manage complex financial transactions; ability to structure debt efficiently; selling ability to institutions and retail; past performance, reputation and fees

POLB



POLA

LAWA

DWP

POLB

- Appointment of Underwriters: selection criteria include:
 - Demonstrated ability to manage complex financial transactions
 - Demonstrated ability to sell debt to institutional and retail investors;
 - Quality and applicability of financing ideas;
 - Experience and reputation of assigned personnel;
 - Proposed fees and expenses
- Firms must maintain minimum net capital at levels deemed sufficient by the CFO

Professional Conduct

- Professional service providers will be required to disclose all financial contributions to members of the Board, and the City Council