



**SAN DIEGO COUNTY
REGIONAL AIRPORT AUTHORITY
FINANCE COMMITTEE**

**Item No.
5**

Meeting Date: MAY 29, 2012

Subject:

Review And Approval Of Amendments To Authority Policy 4.40 – Debt Issuance And Management

Recommendation:

Forward to the Board for approval.

Background/Justification:

The debt policy (Attachment A) was developed in conjunction with the Authority's financial advisors and bond counsel and serves as the foundation of the Authority's debt issuance and management goals and priorities. The stated objectives are:

- Manage and monitor existing debt to optimize financial structure, control costs and ensure compliance with bond financing covenants;
- Oversee the issuance of new debt in order to maintain access to capital markets and other sources of capital financing at a reasonable cost;
- Obtain and maintain the highest possible credit ratings on debt consistent with the overall objectives of the Authority;
- Explore and implement prudent debt structuring ideas when consistent with the debt issuance and management goals described herein;
- Provide the required secondary market disclosure to the rating agencies and investors;
- Comply with all federal and state laws and regulations, as well as bond indenture, federal tax law compliance, and reimbursement agreement covenants; and
- Protect the assets and funds entrusted to the Authority

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The recommended changes to the policy include:

- Providing for the appointment of an officer to be in charge of federal tax law post-issuance compliance with respect to all tax exempt debt obligation
- Appointing the Vice President, Finance / Treasurer as this officer
- Adding clarification of Subordinate Obligations
- Allowing the use of Floating Rate Notes (FRNs)
- Requiring the Vice President, Finance / Treasurer to evaluate whether or not to issue taxable bonds in lieu of bonds subject to the Alternative Minimum Tax (AMT)
- Clarifying compliance with disclosure obligations
- Various minor technical clarifications

The existence of an approved and current debt policy, and adherence thereto, demonstrates that the Authority Board and staff are fiducially responsible, thereby promoting trust and confidence from the public that it serves.

Fiscal Impact:

None.

Authority Strategies:

This item supports one or more of the Authority Strategies, as follows:

- ☐ Community Strategy ☐ Customer Strategy ☐ Employee Strategy ☒ Financial Strategy ☐ Operations Strategy

Environmental Review:

- A. This Board action is not a project that would have a significant effect on the environment as defined by the California Environmental Quality Act (CEQA), as amended. 14 Cal. Code Regs. §15378. This Board action is not a "project" subject to CEQA. Pub. Res. Code §21065.
- B. California Coastal Act Review: This Board action is not a "development" as defined by the California Coastal Act. Pub. Res. Code §30106.

Equal Opportunity Program:

Not Applicable.

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San Diego County Regional Airport Authority

Policies

ARTICLE 4 - FINANCE AND ACCOUNTING

PART 4.4 - DEBT

SECTION 4.40 - DEBT ISSUANCE AND MANAGEMENT POLICY

PURPOSE: To establish a policy governing the debt issuance and management policies and practices of the San Diego County Regional Airport Authority (the “**Authority**”).

POLICY STATEMENT:

SECTION I. INTRODUCTION & EXECUTIVE SUMMARY

This comprehensive Debt Issuance and Management Policy (the “**Policy**”) contains the policies that govern existing and anticipated debt obligations. In addition, the Policy sets forth certain financial management practices in capital budgeting that will enhance the Authority’s ability to manage its projected debt issuance. It is expected that the Policy will be updated from time to time to reflect changes in law and market practices.

Debt plays an important role in meeting the financial needs of the Authority since it enables provides the funding for the Authority to build projects today which will subsequently be repaid from future revenues. While the issuance of debt is frequently an appropriate method of financing capital projects, prudent financial management requires careful monitoring of debt issuance to ensure there is not an excessive reliance on debt and to preserve the Authority’s access to borrowed capital at competitive borrowing rates, while always maintaining sufficient liquidity. The term “debt” is used in this Policy to describe numerous types of financial obligations of the Authority which may include Bonds, Subordinate Obligations, Special Facility Obligations and other financings of the Authority.

The Authority’s debt issuance and management objectives are to:

- Manage and monitor existing debt to optimize financial structure, control costs and ensure compliance with bond financing covenants;
- Oversee the issuance of new debt in order to maintain access to capital markets and other sources of capital financing at a reasonable cost;
- Obtain and maintain the highest possible credit ratings on debt consistent with the overall objectives of the Authority;
- Explore and implement prudent debt structuring ideas when consistent with the debt issuance and management goals described herein;

- Provide the required secondary market disclosure to the rating agencies, ~~institutional and retail~~ and investors via appropriate repositories;
- Comply with all Federal and State laws and regulations, as well as bond indenture, federal tax law compliance, and reimbursement agreement covenants; and
- Protect the assets and funds entrusted to the Authority.

SECTION II. ROLES AND RESPONSIBILITIES

The roles and responsibilities of key parties in administering, monitoring, and ensuring on-going compliance with this Policy include:

- 1) Board: The Authority is governed by an appointed board of nine members who represent all areas of San Diego County and three *ex-officio* members. The Board approves all bond issuances as well as the policies and guidelines pursuant to which debt is incurred and issued.
- 2) President/CEO and Vice President, Finance/Treasurer: The Vice President, Finance/Treasurer, under the direction of the President/CEO, is (i) responsible for developing, evaluating, implementing and monitoring the financing plan and debt strategies for the Authority in compliance with this policy, subject to Board approvals; and (ii) is in charge of federal tax law post-issuance compliance with respect to all tax-exempt debt obligations.
- 3) Financial Professionals: All financial professionals performing services for the Authority's debt programs, such as its financial advisor, bond counsel, disclosure counsel, investment advisor and underwriters, must comply with the policies and procedures set forth herein.

SECTION III. CAPITAL IMPROVEMENTS AND FINANCIAL PLANNING

The Authority maintains a financing plan and model which projects the available sources and uses of funds and verifies the Authority's financial ability to deliver current and planned programs and services. The impact of the funding sources, particularly debt, on future commitments is a relevant consideration of this Policy. The financing plan is based on a set of assumptions developed through detailed collection and analysis of historical and forecasted data concerning revenues and expenses, economic forecasts and trend projections. The main sources of revenues include airline rates and charges, parking and concession revenues, lease revenues, and other revenues. Additionally, ~~p~~Passenger ~~f~~Facilities ~~e~~Charges (PFCs), Customer Facility Charges (CFCs), and federal grants-in-aid are included as a funding source for certain eligible projects.

The Authority's annual operating budget will ensure that sufficient resources are provided from current revenues to: 1) finance the current fiscal year's requirements for ongoing maintenance needs; 2) provide reserves for periodic replacement and renewal; 3) fund the annual requirements of the maintenance, operating and other reserves; and 4) meet any debt service coverage requirements.

Both the capital plan and the financing plan shall be updated periodically as part of the budget process. It is the goal of the Authority to adopt its capital plan on a rolling five year forward basis.

Both plans will comply with the Policy, paying particular attention to all relevant target debt affordability indicators.

SECTION IV. DEBT TARGETS

The President/CEO and the Vice President, Finance/Treasurer will recommend to the Board the amount, term and type of debt needed to meet the Authority's short-term and long-term financing requirements. In such determinations, issues of debt capacity, amortization period and affordability will be considered, guided by the use of target debt affordability indicators for measuring the affordability of additional borrowing.

The following are the target debt affordability indicators for the Authority.

1) **Rate Covenants**

2) The Authority has covenanted in the Master Indenture to comply with the senior lien Rate Covenant, as summarized below:

Bonds – Under the Master Indenture, the Authority has covenanted that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System so that Net Revenues, which are generally defined as Revenues less Operation and Maintenance Expenses for a given period, in each Fiscal Year will be at least equal to 125% of the ~~a~~Aggregate ~~a~~Annual ~~d~~Debt ~~s~~Service for all Bonds.

“Bonds” are generally defined by the Master Indenture to mean any debt obligation of the Authority including bonds, notes, bond anticipation notes, commercial paper notes and other instruments creating an indebtedness of the Authority, and obligations incurred through lease or installment purchase agreements, other agreements, certificates of participation, and bank rRepayment oObligations. The term “Bonds” does not include Subordinate Obligations (which is defined hereinafter).

The Authority has covenanted in the Master Subordinate Indenture to comply with the subordinate lien Rate Covenant, as summarized below:

Subordinate Obligations – Under the Master Subordinate Indenture, the Authority has covenanted that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport System so that Subordinate Net Revenues (which are generally defined as Revenues less Operation and Maintenance Expenses less senior lien Bond debt service for a given period) in each Fiscal Year will be at least equal to 110% of the ~~Aggregate a~~Annual ~~d~~Debt ~~s~~Service for all Subordinate Obligations for such Fiscal Year (excluding the principal amount of Commercial Paper reissued during the Fiscal Year).

“Subordinate Obligations” shall mean any debt obligation of the Authority issued under the Master Subordinate Indenture and are generally defined to mean a subordinate lien debt obligation including bonds, notes, bond anticipation notes, commercial paper notes and other instruments creating an indebtedness of the Authority, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and bank repayment obligations.

2) ~~2)~~ Additional Bonds Test and Additional Subordinate Obligations Test

In order to issue additional parity debt under the Master Indenture, the Authority must comply with one of the two prongs of the Additional Bonds Test, as summarized below:

(A) The Net Revenues for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Bonds were at least equal to 125% of the sum of the Maximum Aggregate Annual Debt Service due and payable with respect to all Outstanding Bonds and the proposed Bonds to be issued for such applicable period; or

(B) Obtain a certificate prepared by a Consultant showing that the forecasted Net Revenues are expected to be at least 125% of the Aggregate Annual Debt Service due and payable with respect to all Outstanding Bonds and the proposed Bonds to be issued for each year of the forecast period.

In order to issue additional parity debt under the Master Subordinate Indenture, the Authority must comply with one of the two prongs of the Additional Subordinate Obligations Test, as summarized below:

(A) The Subordinate Net Revenues for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Subordinate Obligations were at least equal to 110% of the sum of the Maximum Aggregate Annual Debt Service due and payable with respect to all Outstanding Subordinate Obligations and the proposed Subordinate Obligations to be issued for such applicable period; or

~~(A)~~(B) Obtain a certificate prepared by a Consultant showing that the forecasted Subordinate Net Revenues are expected to be at least 110% of the Aggregate Annual Debt Service due and payable with respect to all Outstanding Subordinate Obligations and the proposed Subordinate Obligations to be issued for each year of the forecast period.

~~3)~~

3) ~~3)~~ Annual Debt Service Coverage Targets

The Authority has established debt service coverage targets for its Bonds and Subordinate Obligations in order to maintain adequate financial margins to accommodate unexpected events given the volatile nature of the aviation industry, preserve financial capacity for future funding needs, and maintain strong credit ratings.

The current minimum Debt Service Coverage targets are:

Bonds: 1.75x (for only senior lien bonds)

Aggregate Debt Service:

- 1.50x, based upon Net Revenues divided by Aggregate Annual Debt Service on Bonds and Subordinate Obligations (for total debt service)

- 1.20x, based upon an alternative “revenue method” calculation utilized by rating agencies where PFCs are added to Net Revenues (rather than deducted from Debt Service) with the sum divided by Aggregate Annual Debt Service for Bonds and Subordinate Obligations

These debt service coverage targets will be reviewed at least annually by the Authority and its financial advisor to determine appropriate adjustments that may be necessary.

4) Airline Costs Per Enplaned Passenger

The Authority will compare its airline costs per enplaned passenger (“CPE”) with available sources of data, including the rating agencies’ median reports and a selected peer group of airports. Due to the different ways that airports set airline rates and charges, it is recognized that comparisons between airports can be misleading.

For The Green Build/TDP program, the Authority has established a CPE goal of \$12 per enplaned passenger.

The Authority will regularly review and update this metric from time to time as may be necessary.

5) Debt Per O&D Enplaned Passenger

The Authority will compare its debt per O&D enplaned passenger with available sources of data, including the rating agencies’ median reports. Due to the different ways that airports finance their capital facilities, this measure is only one indicator of debt affordability.

For The Green Build/TDP program, the Authority has established a debt per O&D enplaned passenger goal of no more than \$150 per enplaned passenger.

The Authority will regularly review and update this metric from time to time as may be necessary.

6) Liquidity

Recognizing the inherently volatile nature of the aviation industry, the Authority will maintain prudent unrestricted reserves as a backstop to be able to fund its obligations if unforeseen events occur. The level of unrestricted reserves will be evaluated at least annually, as part of the Authority’s budgeting and capital planning process.

The Authority’s unrestricted reserves target (defined as the sum of unrestricted cash and investments, unrestricted cash designated for capital projects, unrestricted long-term investments, the O&M Reserve, and O&M Subaccount Reserve and the Renewal and Replacement Reserve) shall be at least 365 days of budgeted operating and maintenance expenses for the current fiscal year.

7) Credit Ratings

Credit ratings are assigned to the Authority's Senior Lien Airport Revenue Bonds. The Authority will seek to obtain the highest possible credit ratings on its debt, consistent with meeting the operational and long-term development needs of the Airport. At a minimum, the Authority seeks to maintain ratings in the category of "A1/A+/A+" from all three rating agencies for its Senior Lien Airport Revenue Bonds.

SECTION V. TYPES OF FINANCING – DESCRIPTION AND APPROACH

1) Bonds and Subordinate Obligations of the Authority

2) In general, issuing senior lien debt under the Authority's Master Indenture will achieve the lowest borrowing costs compared to other forms of borrowing. Under the Master Indenture, senior lien debt is defined as "Bonds". Under the Master Subordinate Indenture, subordinate lien debt is defined as "Subordinate Obligations".

Bonds issued for the Airport are limited obligations of the Authority payable solely from and secured by a pledge of Net Revenues generated by the Airport. Subordinate Obligations issued for the Airport are limited obligations of the Authority payable solely from and secured by a pledge of Subordinate Net Revenues generated by the Airport.

Revenues generally include all revenues, income, receipts, and money derived from the ownership and operation of the Airport and all gifts, grants, reimbursements, or payments received from governmental units or public agencies, which are not restricted by law or the payor to application for a particular purpose other than payment of bonds. Among other things, Revenues specifically exclude:

- (A) Passenger Facility Charges (PFCs)
- (B) Released Revenues, which are an identifiable portion of Revenues that have been excluded from Revenues after meeting certain requirements defined in the Master Indenture
- (C) State and/or federal Grants
- (D) Rental car Customer Facility Charges (CFCs)

3)2) PFC-Supported Bonds and Subordinate Obligations

The Authority intends to leverage PFCs to support investment in Airport infrastructure and facilities. In order to do this, the Authority may make an irrevocable pledge of PFCs to pay eligible debt service. The Authority will not include PFCs in estimates of future revenues pledged to support Annual Debt Service unless approval for their imposition has been obtained or is expected to be obtained from the FAA.

4)3) Special Facility Financings

Special Facilities Obligations may be issued by the Authority to finance capital projects and must be secured by a defined revenue stream derived from or relating to discrete facilities such as cargo terminals or maintenance facilities. Such facilities may be leased to one or more tenants.

The Authority may designate facilities at the Airport as Special Facilities and the revenues therefrom as Special Facilities Revenue if such facilities or revenues meet the following tests from the Master Indenture:

(A) The estimated Special Facilities Revenue pledged to the payment of Special Facilities Obligations relating to the Special Facility will be at least sufficient to pay the principal of and interest on such Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such Special Facility not paid for by the operator thereof or by a party other than the Authority and all sinking fund, reserve or other payments required by the resolution authorizing the Special Facility Obligations as the same become due; and

(B) With respect to the designation of any separately identifiable existing Airport Facilities or Airport Facility as a "Special Facility" or "Special Facilities," the estimated Net Revenues, calculated without including the new Special Facilities Revenue and without including any operation and maintenance expenses of the Special Facility as Operation and Maintenance Expenses of the Airport System, will be sufficient so that the Authority will be in compliance with the Rate Covenant; and

(C) No Event of Default then exists under the Indenture

5) If a facility meets these tests, the Special Facilities Revenues will not be Revenues for the period during which any Special Facilities Bonds are outstanding.

Special Facilities Obligations are limited obligations of the Authority to be repaid solely by Special Facilities Revenues derived from or relating to a discrete facility and are not secured by a lien on Revenues or PFC Revenues. Bonds and Subordinate Obligations are not secured by Special Facilities Revenues.

Special Facilities Obligations may be used in lieu of issuance of Bonds or Subordinate Obligations for financing of discrete airport facilities or airport projects that have an independent revenue stream.

The Authority may permit tenants to undertake Special Facilities Bonds under the following specified terms and conditions:

~~(B)~~(A) The financing must comply with the Master Indenture limitations on this type of financing;

~~(C)~~(B) A pledge of leasehold mortgage or security interest in the underlying asset may be granted to the trustee or Bondholders in certain circumstances, taking into account any value the Airport receives from the tenant in return;

~~(D)~~(C) Terms of bonds will be consistent with the standard terms and the provisions of the Airport's leasing policies;

~~(E)~~(D) The Airport will not enhance the creditworthiness of Special Facilities Obligations (for example, through the granting of a re-letting provision),

unless the Authority determines it is in the best interests of the Airport, taking into account any value the Airport receives from the tenant in return;

~~(F)~~(E) The Special Facilities Obligations are amortized over a period that does not exceed the lesser of: (a) 40 years; or (b) the useful life of the facility (80% of the useful life of the facility for projects that are considered to be "private activities" under Federal tax regulations, if tax-exempt financing is used). "Bullet" maturities may be considered if they do not exceed the lesser of: (a) the useful life of the facility; or (b) 25 years, and are amortized on a straight line basis for purposes of calculating amortized cost (see below);

~~(G)~~(F) The Authority reserves the right to acquire the facility at its amortized cost and the right to require notices exercising early call redemption provisions for the Special Facilities Obligations;

~~(H)~~(G) Any refinancing of assets financed with Special Facilities Obligations will not be permitted without the consent of the Board;

~~(I)~~(H) The tenant will reimburse the Authority for all of its costs associated with the Special Facilities Obligations;

~~(J)~~(I) The Authority may assess an annual fee for Special Facilities Obligations;

~~(K)~~(J) Bond Counsel(s) for the Authority will review all Disclosure documents and prepare the financing documents;

~~(L)~~(K) The tenant will satisfy Continuing Disclosure and arbitrage rebate requirements and will provide the Authority with indemnities covering any exposure the Authority may have arising from the financing;

~~(M)~~(L) The proposed facility must be compatible with Airport System land and capital use plans; and

~~(N)~~(M) The Authority may establish minimum threshold Credit Ratings for airlines and other parties wishing to participate in Special Facilities Obligation financed projects. These threshold Credit Ratings will be reviewed by the Authority from time to time.

6)4) Bond Anticipation Notes ("BANs") and Grant Anticipation Notes ("GANs")

Bond Anticipation Notes ("BANs") are short-term debt instruments that will be repaid with proceeds of an upcoming bond issue.

Grant Anticipation Notes ("GANs") are short-term instruments that will be repaid from expected future Federal AIP and TSA grants or other Federal or State grants accepted by the Authority. The FAA and TSA may issue Letters of Intent ("LOI") to the Authority indicating their intent, although not their commitment, to fund "long term, high priority capacity projects" on a multi-year basis as appropriations become available. Once an LOI is in hand, notes may be issued that are secured by the grants

anticipated to be received from the FAA and/or TSA. However, there typically must be an ancillary source of repayment for the notes in the event grant funding is ultimately not received.

Notes may be considered Balloon Indebtedness under the Master Indenture, which specifies that, for purposes of calculating the Aggregate Annual Debt Service of Balloon Indebtedness, such Bonds shall be assumed to be amortized in substantially equal annual amounts for principal and interest over a period of 30 years at an interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, or if that index is no longer published, another similar index selected by the Authority. If the Authority fails to select a replacement index, the rate shall be the rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under the Master Indenture. Issuance of BANs and GANs should not occur in amounts or result in amortization that would result in the failure by the Authority of its ability to satisfy its rate covenants and the debt coverage goals contained in this Policy.

7)5) Capital Appreciation Bonds and Zero Coupon Bonds

The Authority will not issue capital appreciation bonds or zero coupon bonds unless the Authority has determined, quantified and demonstrated that there is a significant benefit over traditional structures.

8)6) Commercial Paper

Commercial Paper is a short-term obligation with maturities ranging from 1 to 270 days. The payment when due of principal and interest on each series of the Notes also is secured by separate irrevocable, direct-pay letters of credit.

The Authority may refinance, refund or purchase outstanding Commercial Paper by issuing new Commercial Paper, by issuing Bonds, or by using available Authority funds.

For purposes of calculating Aggregate Annual Debt Service for a Commercial Paper Program, the principal and interest shall be calculated as if the entire Authorized Amount of such Commercial Paper Program were to be amortized over a term of 35 years commencing in the year in which such Commercial Paper Program is implemented and with substantially level Annual Debt Service payments. The interest rate used for such computation shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Authority, or if the Authority fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed rate Subordinate Obligations of a corresponding term issued under the Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes.

Any outstanding Commercial Paper anticipated to be paid off and not reissued within the current fiscal year shall be excluded from any calculations of variable rate exposure for internal debt management purposes.

The Authority may issue Commercial Paper as sources of interim construction financing for capital projects. Before issuing such Commercial Paper notes, the take out of such Commercial Paper replacement—must be anticipated in the financing plan and determined to be feasible and advantageous by the Authority.

7) Floating Rate Notes

Floating Rate Notes (FRNs) are notes that have a variable coupon, equal to a money market reference rate, such as SIFMA (Securities Industry and Financial Markets Association) or LIBOR (the London Interbank Offered Rate), plus a spread. The spread is a rate that remains constant. At the beginning of each coupon period, the coupon is calculated by taking the fixing of the reference rate for that day and adding the spread. Because the coupon resets based on a short-term index, the issuer is exposed to rising interest rates unless it has swapped the debt to a fixed rate. However, unlike variable rate demand obligations or Commercial Paper, FRNs are not supported by a bank liquidity facility, and therefore do not pose short-range liquidity/refinancing risk to the issuer.

The Authority may issue FRNs as a source of interim financing for capital projects.

9)8) Equipment Leases

Equipment leases are basically loans pursuant to which the lender buys and owns certain equipment (e.g., jet bridges, baggage systems, flight and baggage information display systems) and then "rents" it to the Authority at a flat monthly rate for a specified number of months. At the end of the lease, the Authority may purchase the equipment for its fair market value (or a fixed or predetermined amount), continue leasing, lease new equipment or return the equipment. The Authority may explore equipment leases as a financing vehicle and alternative to debt if the terms and conditions of the lease (including the interest rate charged) are more favorable.

8)9) Installment Payment Agreement

The Authority may also finance certain facilities under an agreement with a third-party whereby the third-party funds the investment in the facility and the Authority agrees to pay the third party as rental/payment -for the use and occupancy of the facility specific installment payments. The installment payments would be made from the Authority's available funds after payment of all Operation and Maintenance Expenses, all funds necessary to pay debt service on and to fund the reserves for the Authority's

Outstanding Senior and Subordinate Debt Obligations and amounts necessary to fund the Authority's Operation and Maintenance Reserve Subaccount and Renewal and Replacement Subaccount in accordance with the Master Trust Indenture.

SECTION VI. FEATURES OF LONG-TERM DEBT

The Vice President, Finance/Treasurer will recommend to the Board the structure and term of long-term debt according to the general policies described below.

1) Selection of Final Maturity and Amortization of Principal

2) The final maturity of borrowings should not exceed, and preferably be less than, the projected economic life of the improvements that are financed or such shorter period as required by Federal tax law, if tax-exempt debt has been used.

3) Use of Capitalized Interest

The Vice President, Finance/Treasurer will evaluate whether or not to capitalize the early years' interest cost in a bond issue by taking into account the impact this action would have on the size of the bond issue, future Annual Debt Service requirements, accounting treatments and budgetary impacts.

3) Tax Status

The Vice President, Finance/Treasurer will evaluate whether or not to issue taxable bonds in lieu of bonds that are subject to the Alternative Minimum Tax (AMT) for certain maturities for private activity financing needs. In some market conditions, the cost for taxable debt may be less than the cost for AMT bonds for certain maturities.

4) Sizing of Debt Service Reserve Funds

Except in limited circumstances, the Master Indenture and the Master Subordinate Indenture require either the funding of a common Debt Service Reserve Fund in an amount sufficient to satisfy the reserve requirement for all existing and proposed Bonds under the respective Indenture participating in such master reserve fund,

or the funding of a Debt Service Reserve Fund in an amount sufficient to satisfy the reserve requirement for only the proposed issue. With each issuance of Bonds or Subordinate Obligations, the Vice President, Finance/Treasurer will compare the costs of funding required increases to the reserve requirement from bond proceeds with the costs of satisfying the reserve requirement through the use of a reserve fund surety. The potential effect on credit ratings will also be considered when comparing reserve requirement funding alternatives.

5) Selection of Redemption Provisions

Redemption provisions will be established on a case-by-case basis, taking into consideration market conditions and the results of a call option analysis prior to the time of sale.

The issuance of non-callable Bonds or Subordinate Obligations should be considered only in special circumstances based upon the specific transaction. Because the issuance of non-callable debt may restrict future financial flexibility, cost will not be the sole determinant in the decision to issue non-callable bonds. The preference of the Authority is to issue debt with standard redemption provisions.

6) Use of Discount Bonds

Prior to issuing Bonds or Subordinate Obligations at a dollar price less than 97.0% of par, the Vice President, Finance/Treasurer will request from the financial advisor an analysis of the reduced option value resulting from the assignment of a lower interest coupon. The Authority will consider issuing the discount debt, where permissible under tax law, if the present value debt service savings provided by the lower interest coupon is greater than the reduction in Call Option value. Other benefits such as the participation of new investors will be an additional consideration.

7) Use of Premium Bonds

Prior to issuing Bonds at a dollar price greater than par, the Vice President, Finance/Treasurer will request from the Authority's financial advisor a brief cost/benefit analysis of the interest saved using premium debt versus other possible pricing structures.

8) Minimum Criteria for Debt Financing Equipment Items

The Authority will not issue long-term debt to finance individual items of equipment with a useful life less than five (5) years, except under a master lease program.

SECTION VII. REFUNDING OPPORTUNITIES

The Vice President, Finance/Treasurer and the Authority's financial advisor will monitor refunding opportunities for all outstanding debt obligations on a periodic basis applying established criteria in determining when to issue refunding bonds for debt service savings.

(It is acknowledged that refunding issues may be executed for reasons beyond economic purposes, such as to restructure debt service, to change the type of debt instruments being used, or to retire a bond issue and indenture in order to remove undesirable covenants.) The refunding criteria will include a comparison of expected present value savings with the option value of the existing callable bonds. Generally, the Authority will pursue refunding opportunities if the expected net present value savings provide sufficient compensation for the exercise of the optional redemption provision. Recommendations as to the sufficiency of the net present value savings will be provided by the Authority's financial advisor.

An Advance Refunding involves refunding tax-exempt bonds more than 90 days in advance of the bond's first optional redemption date. Currently, only Governmental Purpose tax-exempt bonds (as that term is defined in the Internal Revenue Code) may be advance refunded. An Advance Refunding is an important debt management tool for the Authority. Advance Refundings are commonly used to achieve interest cost savings, to remove or change burdensome bond covenants or to restructure future debt service payments. For bonds issued after December 31, 1985, only one Advance Refunding of Governmental Purpose tax-exempt bonds may occur under Federal tax law and thus the Authority must carefully evaluate the appropriateness of Advance Refunding when an opportunity arises. A current refunding involves issuing refunding bonds no earlier than ninety (90) days prior to the bond's optional redemption date. Federal tax law does not limit the number of current refundings of any bond.

The Authority will anticipate the potential for Advance Refundings when issuing new debt. Careful attention will be given to pricing considerations that will affect future Advance Refunding flexibility such as optional redemption provisions and interest characteristics.

The following considerations apply when the Authority considers refunding opportunities:

1) Monitor Potential Savings

2) The Vice President, Finance/Treasurer, with the assistance of the Authority's financial advisor, will monitor on an ongoing basis potential savings available by refinancing outstanding debt of the Authority. Savings will be analyzed on a present value basis by using either a percent of maximum call option value or a percentage of the refunded par amount. All costs and benefits of the refinancing will be taken into account.

3) 2) Target Savings Amounts:

A present value analysis must be prepared to identify the economic effect of any proposed refunding. To proceed with a refinancing, either of two methodologies may be used to analyze the targeted savings. The first is that a minimum of ninety percent (90%) of the maximum call option value, as calculated by the Authority's financial advisor, should generally be achieved. Alternatively, the second method that may be used is the more traditional methodology of measuring the net present value savings as a percentage of the refunded par amount with a minimum average savings of three percent (3%) for any one refunding transaction.

4) 3) Other Considerations:

Some refundings may be executed for other than economic purposes, such as to restructure debt, to change the type of debt instrument, or to retire a bond issue and indenture for more desirable covenants. In addition, if the benefits outweigh the costs and the refunding opportunity would otherwise be lost, the Authority may proceed with a refunding that has economic benefit but does not meet the criteria stated above in the "Target Savings Amount" paragraph above.

5)4) Non-Traditional Refundings:

Refundings executed with non-traditional structures such as swaps, require a full analysis of the benefits and risks, and may require higher economic benefits.

SECTION VIII. ISSUANCE OF VARIABLE RATE DEBT

Variable Rate Debt typically is issued for a term of up to 30 years, although the interest rate on this debt instrument is reset daily, weekly, monthly or less commonly, periodically.

The Authority recognizes that variable rate securities are a useful debt management tool that traditionally has had lower interest rate costs than fixed rate debt. The Authority's current goal is to maintain a debt program which may include both fixed and variable rate debt, as well as Commercial Paper.

1) Purposes of Variable Rate Debt

2) The Vice President, Finance/Treasurer may recommend that variable rate securities be issued for the following purposes:

(A) Interim Financing Tool

The Authority may consider issuing Variable Rate Indebtedness or Commercial Paper (whose stated maturity cannot exceed 270 days) in connection with its major debt-financed capital projects, especially when interest rates associated with a fixed rate, long term borrowing far exceed the interest rates that can be earned on the construction and capitalized interest funds (resulting in a significant amount of negative arbitrage). Because Variable Rate Debt or Commercial Paper can be retired or redeemed without penalty, these instruments may better suit circumstances where a refunding or restructuring of a potential debt issue is likely for any reason, (for example, if a change in use of the facility to be funded may reasonably be anticipated, or if grant or another source of funds may be obtained to substitute for bond funding).

Certain variable rate products—most notably, Commercial Paper—can be issued incrementally as funds are needed to finance current construction, and can reduce the long-term cost of construction financing.

(B) Balance Sheet Management Tool

3) The maintenance of Variable Rate Indebtedness and Commercial Paper liabilities at a level that takes into consideration the amount of short-term assets maintained by the Authority prudently reduces the Authority's risk of exposure to changes in interest rates. Since the Authority invests its free cash balances in short term instruments, it is exposed to interest rate fluctuations at the short end of the yield curve. Conversely, a large portion of its liabilities are in the form of long term, fixed-rated debt. When interest

rates fall, the Authority's assets earn less, while its liabilities are fixed. . Offsetting this exposure by better matching the variability of earnings on its assets with variable, rather than fixed, rate liabilities serve as a hedge against interest rate risk and reduces the overall cost of funds.

(C) **Diversify Investor Base to Lower Costs**

Typically, variable rate debt is sold to a different segment of investors than long-term fixed rate bonds. By tapping short-term investors, an issuer broadens and diversifies its investor base. By becoming a familiar and respected credit among short-term investors, the Authority will be in a better position to gain access to these buyers at those times when it is less advantageous to borrow in the fixed-rate market.

(D) **Management of Negative Arbitrage**

Issuing debt in a variable rate mode reduces or at times may even eliminate negative arbitrage in Construction, Capitalized Interest and Debt Service Reserve Funds. (See "A" above)

4)2) Criteria for Use of Variable Rate Debt

The Authority's debt composition will not exceed 25% in variable rate instruments.

Balance Sheet Risk Mitigation - In determining the appropriate amount of variable rate debt to be issued for risk mitigation purposes, the following factors should be taken into account, and analyzed on the basis of the funds that will be repaying the debt:

- (i) The historic average of cash balances analyzed over the course of several prior fiscal years.
- (ii) Projected cash balances based on known demands on the given fund.
- (iii) Any basis risk, such as differences in the performance or average life of the Authority's investment vehicle (e.g., swaps, as discussed in Section IX) and the variable rate debt instrument.

5)3) Diversification of Remarketing Agents and Counterparties

In selecting remarketing agents for variable rate debt, the Authority will seek to choose a diversity of remarketing agents to better foster competition. For similar reasons, the Authority will seek to diversify its counterparties when selecting institutions to provide liquidity or credit enhancement for Airport variable rate debt.

6)4) Budgeting

The Vice President, Finance/Treasurer will determine the appropriate method for budgeting the interest cost of variable rate debt by considering historic interest rates, projected interest rates and the effect of risk mitigation products such as interest rate swaps or caps.

7)5) Monitoring and Reporting

The Vice President, Finance/Treasurer will monitor the performance of actual interest rates on variable rate debt and periodically report the results. Reports will be prepared in accordance with Generally Accepted Accounting Principles (GAAP) and with rules promulgated by the General Accounting Standards Board (GASB). With the assistance of its financial advisor, the Vice President, Finance/Treasurer will regularly review the performance of the individual remarketing agents in relation to other remarketing agents, similar programs and market indices.

SECTION IX. DERIVATIVES

The Authority has adopted and will maintain a separate policy for derivatives (Policy 4.21 "Policy Regarding the Use and Management of Derivative Products").

SECTION X – METHOD FOR SALE OF DEBT

There are two methods of issuing debt obligations: a Competitive Sale and a Negotiated Sale. In a Competitive Sale, Underwriters submit sealed bids, and the Underwriter or Underwriting Syndicate with the lowest True Interest Cost (TIC) is awarded the sale. In a Negotiated Sale, the Underwriter or Underwriting Syndicate is selected through a Request for Proposal (RFP) process. The interest rate and Underwriter's fee are negotiated prior to the sale, based on market conditions.

It is usually not feasible to issue bonds through a Competitive Sale for certain types of financings, such as Variable Rate Debt, Commercial Paper and specialized financings like Special Facility Revenue Bonds. Further, there are factors (e.g., flexibility as to timing and the mix of the underwriting syndicate) that support the use of a Negotiated Sale. Still, a competitive process should be used to choose the appropriate Underwriter and financing team to ensure the most qualified firms are used for a specific financing. The current policy of the Authority establishes a preference for Negotiated Sales of its Bonds.

Role of Underwriters in Negotiated Sale

The Authority expects its underwriters to: 1) participate in a valuable and significant way with respect to the structuring and pricing of each debt issue and sales performance; 2) cooperate fully with other financing team members in a way that provides the maximum benefit to the Authority; and 3) attend meetings, when requested, related to the issuance of debt.

The book running senior manager, in conjunction with the financial advisor, is responsible for developing a time and responsibility schedule that will allow for the timely and successful completion of the financing. The book running senior manager is responsible for communicating the Authority's plan of finance and timing to the other managing underwriters in the syndicate.

Underwriter Selection in Negotiated Sale

The Authority may select underwriters for an individual financing or to serve as part of a pre-qualified pool of underwriters available for appointment for anticipated financings. In either case, the Authority would conduct a competitive selection process, which should include:

- Developing an RFP that meets the financial and policy goals of the Authority.
- Meeting the Authority procurement requirements.
- Circulating the RFP to a wide range of large and small capably funded Underwriters.
- Diligently evaluating the Underwriters' proposals received in response to the RFP.
- Conducting follow-up interviews with any or all of the proposing firms (optional).
- Selecting candidates to be recommended for appointment to an individual financing or to an Underwriter pool.

Should the Board appoint underwriters to a pre-qualified pool after an RFP process, the Vice President, Finance/Treasurer may recommend such firms for appointment to specific financings, without a subsequent RFP process.

SECTION XI. INVESTMENT OF BOND PROCEEDS

The Authority shall invest proceeds generated through the issuance of debt in compliance with the terms of eligible investments under the relevant bond indenture and related bond documents; its Investment Policy; and applicable state laws.

SECTION XII. COMPLIANCE WITH FEDERAL TAX LAW AND MARKET DISCLOSURE OBLIGATIONS

1) Compliance with Federal Tax Law

~~2) Should the Vice President, Finance/Treasurer be directed to perform this function,~~
The Vice President, Finance/Treasurer shall establish a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the Federal tax code and ensure compliance with other Federal tax regulations as required by Bond Counsel at the time of issuance of the debt. This effort shall include tracking expenditures of bond proceeds to ensure such expenditures comply with federal tax law requirements, tracking investment earnings on proceeds, retention of a rebate consultant to prepare and calculate rebate payments in compliance with tax law and remitting any earnings subject to rebate to the Federal government in a timely manner in order to preserve the tax-exempt status of the Authority's outstanding debt issues that have been issued on a tax-exempt basis.

The Authority will comply with all covenants contained in tax certificates.

Trustee banks have been appointed for the Authority's outstanding debt. The trustees shall perform all functions and duties required under the terms and conditions set forth in the respective bond indentures and trust agreements, including maintaining records of fund balances and investments.

3)2) Initial Disclosure

The Authority acknowledges its responsibilities under the securities laws to avoid material misstatements and omissions in offering documents used in the marketing of Authority debt. The Authority shall coordinate the preparation of appropriate disclosure documentation when required, with assistance from the Authority's General Counsel and the Authority's Bond and/or Disclosure Counsel.

4)3) Continuing Disclosure

To assist Underwriters to comply with Securities and Exchange Commission ("SEC") Rule 15c2-12, except where exceptions apply, the Authority has entered into and expects in the future to enter into additional continuing Disclosure undertakings. Pursuant to current~~these~~ undertakings, the Authority is required to provide 1) Annual Reports, containing the Authority's audited financial statements as well as updates of operating and financial data included in the Authority's offering documents, and/or 2) notices of certain events, if material. The events that are required to be reported, if material, are:

- (A) Principal and interest payment delinquencies;
- (B) Non-payment related defaults;
- (C) Unscheduled draws on the Debt Service Reserve Funds reflecting financial difficulties;
- (D) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (E) Substitution of credit or liquidity providers, or their failure to perform;
- (F) Adverse tax opinions or events adversely affecting the tax-exempt status of any bonds;
- (G) Modifications to rights of securities holders;
- (H) Bond calls;
- (I) Defeasances;
- (J) Rating changes;
- (K) Failure to provide annual financial information as required; and
- (L) Other material event notices

(L) For debt obligations incurred after January 1, 2011, the Authority will be required to enter into continuing Disclosure undertakings that will require some of the events described above to be reported even if not material and would further expand the list of events, if material, to be reported.

SECTION XIII. RATINGS AGENCIES AND INVESTOR RELATIONS

The Vice President, Finance/Treasurer shall be responsible for implementing and managing the Authority's Credit Rating agency relationship. The Authority recognizes the importance of immediate and timely Disclosure of relevant financial and program information concerning its debt programs to the rating agencies and pursuant to its continuing disclosure undertakings. This effort shall include periodic meetings with the rating agencies and shall provide the rating agencies with the Authority's annual budget projections, financial statements and other relevant information.

The Vice President, Finance/Treasurer shall be responsible for implementing and managing the Authority's investor relations program. The Authority shall attempt to promptly respond to any reasonable inquiry from an institutional or retail investor.

SECTION XIV. AMENDMENTS TO DEBT ISSUANCE AND MANAGEMENT POLICY

The Policy codifies and explains the guidelines and the policies that govern existing and anticipated debt obligations of the Authority. In addition, the Policy sets forth certain financial management practices in capital budgeting that will enhance the Authority's ability to manage its projected debt issuance. The Policy will require changes and modifications over time. The Vice President, Finance/Treasurer shall be responsible for ensuring the policy is current and will review the Policy annually, at a minimum. In the event that changes to the Policy are necessary, the Vice President, Finance/Treasurer shall propose such changes to the CEO. Upon CEO approval, the proposed amended Policy will be submitted to the Board requesting approval.

GLOSSARY

Additional Bonds Test: The earnings test which must be satisfied under the provisions of a revenue bond contract before bonds of an additional issue having the same lien on a pledged revenue source can be issued. Typically, the test required that historical or future estimated pledged revenues exceed total debt service (existing and proposed) by a certain ratio. The test provides protection to investors that the bond issuer will not issue additional parity bonds without providing ample security to the investors in the previous financing(s).

Advance Refunding: A refunding that occurs more than 90 days in advance of the first optional redemption date. Under current IRS regulations, Governmental Purpose tax-exempt bonds issued after December 31, 1985 are permitted only one advance refunding. Additionally, certain private activity bonds may not be advanced refunded.

Airline Costs per Enplaned Passenger ("CPE"): A comparative statistic used to demonstrate the affordability of airline operations at an airport. CPE is often used in the process of determining the credit quality of an issue. It is typically calculated as total passenger airline revenue divided by the number of enplaned passengers in any fiscal year.

Airport Revenue Bonds: Airport Revenue Bonds (also known as General Airport Revenue Bonds, or "GARBs") are bonds issued pursuant to the terms of a trust indenture or ordinance which are secured either by a pledge of gross or net airport revenues.

Alternative Minimum Tax: Other than for certain private activity bonds issued during the AMT "waiver" period authorized by the American Recovery and Reinvestment Act of 2009 ("ARRA"), interest on tax-exempt private activity bonds issued after August 7, 1986 (other than bonds for 501(c)(3) organizations and refundings of pre-August 8, 1986 bonds) is generally subject to the Alternative Minimum Tax ("AMT") as a specific item of tax preference. ARRA exempted new money and certain refundings of private activity bonds issued in 2009 and 2010 from the AMT penalty.

Amortization: The process of paying the principal amount of an issue of securities by periodic payments either directly to holders of the securities or to a sinking fund for the benefit of security holders.

Arbitrage: With respect to the issuance of municipal securities, arbitrage usually refers to the difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds of the bonds in higher-yielding taxable securities. Federal income tax laws generally restrict the ability to earn arbitrage in connection with tax-exempt bonds.

Arbitrage Rebate: A payment made by an issuer to the federal government in connection with an issue of tax-exempt bonds. The payment represents the amount, if any, of arbitrage earnings on bond proceeds and certain other related funds, except for earnings that are not required to be rebated under limited exemptions provided under the Internal Revenue Code. An issuer generally is required to calculate, once every five years during the life of its bonds, whether or not an arbitrage rebate payment must be made.

Balloon Maturity: A bond structure wherein the principal amount becomes due and payable on one date, generally at the end of the bond term.

- | **Basis Point:** Yields on bonds are usually quoted in increments of basis points. One basis point is equal to 1/100 of one (1%) percent. For example, the difference between 6.00% and 6.50% is 50 basis points.
- | **Bond Counsel:** A law firm retained by the bond issuer to give a legal opinion that the bond issuer is authorized to issue proposed securities, the bond issuer has met all legal requirements necessary for issuance, and interest on the proposed securities will be exempt from federal income taxation and, where applicable, from state and local taxation. Usually, bond counsel will prepare authorizing resolutions and ordinances, trust indentures and other bond documents with the exception of the Official Statement.
- | **Bondholder:** The owner of a municipal bond. The owner of a bearer bond is the person having possession of it, while the owner of a registered bond is the person whose name is noted on the bond register.
- | **Bond Insurance:** Insurance which guarantees the timely payment of principal and interest of either an entire bond issue or specified maturities. In exchange for payment of the bond insurance premium, a higher credit rating (historically, AAA) is assigned to the insured bonds and a lower cost of funds is attained. With a competitive sale, generally the bidding dealer bears the cost of insurance to the benefit of the firm's bid. The bond issuer pays the cost of bond insurance from bond proceeds with a negotiated sale.
- | **Bond Purchase Agreement:** The contract between the Syndicate and the bond issuer setting forth the final terms, prices and conditions upon which the Syndicate will purchase a new issue.
- | **Book Running Senior Manager:** The managing underwriter that controls the book of orders for the transaction and is primarily responsible for the successful execution of the transaction.
- | **Broker-Dealer:** A securities firm engaged in both buying and selling securities on behalf of customers and also buying and selling securities on behalf of its own account.
- | **Build ~~American~~-America Bonds ("BABs"):** Taxable municipal bonds that carry special tax credits and federal subsidies for either the bond issuer or the bondholder. The most widely used version was authorized under the American Recovery and Reinvestment Act ("ARRA") that allowed BABs to be issued in 2009 and 2010 with a 35% of interest subsidy to the issuer received as direct payments from the federal government. The proceeds of BABs authorized under ARRA could only be used to fund non-private activity, governmental purposes.
- | **Bullet Maturity:** See Balloon Maturity.
- | **Callable Bond:** A bond where the bond issuer is permitted to redeem it before the stated maturity date at a specified price by giving notice of redemption in the manner specified in the bond document.

- | **Capital Appreciation Bond:** A municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity, at which time the investor receives a single payment (the “maturity value”) representing both the initial principal amount and the total investment return. It differs from a Zero Coupon Bond in that only the initial principal amount is counted against an issuer’s statutory debt limit, rather than the total par value at maturity.
- | **Capitalized Interest:** A portion of the proceeds of an issue which is set-aside to pay interest on the bonds for a specified period of time. Interest is commonly capitalized during the construction period of a revenue-producing project.
- | **Commercial Paper:** Short-term (1 to 270 days) promissory notes usually issued to provide for interim financing of projects through the construction period and backed by a letter or line of credit from a commercial bank. Following the completion of the projects, principal and interest due on commercial paper is often redeemed through the issuance of long-term refunding bonds.
- | **Competitive Sale:** The sale of a new issue of bonds by an issuer through a bidding process where underwriters are awarded the bonds on the basis of offering the lowest cost of funds for the issuer usually as measured on a true interest cost (TIC) basis. The bid parameters for the public sale are established in the notice of sale or notice inviting bids.
- | **Credit Enhancement:** The use of the credit of an entity other than the issuer to provide additional security in a bond or note financing. This term typically is used in the context of bond insurance, letters of credit and other similar facilities.
- | **Credit Ratings:** Evaluations of the credit quality of bonds made by independent ratings services such as Moody’s Investors Service, Standard & Poor’s Ratings Group and Fitch. Credit ratings are intended to measure the probability of timely repayment of principal and interest on municipal securities. Credit ratings are assigned before issuance of the bonds and are periodically reviewed or may be amended to reflect changes in the issuer’s credit position. Bonds with investment grade ratings are assigned credit ratings between Baa3/BBB- and Aaa/AAA.
- | **Current Refunding:** A current refunding involves refunding bonds within 90 days of the bond’s first optional redemption. Federal tax law does not limit the number of current refundings of any tax-exempt bond.
- | **Customer Facility Charge (CFC):** A fee imposed by a car rental company upon a car rental customer arriving at the airport and renting a vehicle from an on-airport or off-airport car rental company serving the airport. The CFC is collected by the car rental company generally for use by the airport in funding rental car facility-related projects or debt associated with such projects.
- | **Debt Ratios:** Comparative statistics showing the relationship between a bond issuer’s outstanding debt and factors affecting repayment. Such ratios are often used in the process of determining the credit quality of an issue. Examples of debt ratios applied to airport bonds include: debt/revenues/costs per enplaned passenger, debt service coverage ratio, utilization per gate, operating ratio and net takedown.

Debt Service: The amount due for repayment of interest and principal on outstanding debt, including required contributions to a sinking fund for term bonds. Debt service may be computed on a bond year, fiscal year or calendar year basis.

Debt Service Coverage: The ratio of Net Revenues annually available to pay debt service on bonds to the annual debt service requirement. This ratio is one indicator of the credit quality of a bond issue. For example, a coverage ratio of "1.50x" means that for every \$1.00 of annual debt service, the bond issuer has \$1.50 of annual net revenues.

Debt Service Reserve Fund: The fund in which moneys are placed which may be used to pay debt service if Net Revenues are insufficient to satisfy the debt service requirements. The size of this fund is generally established by the reserve requirement, which is generally equal to the lesser of: (i) 10% of new issue par, (ii) maximum annual debt service (debt service is amount due on existing and proposed debt for a common debt service reserve fund), and (iii) 125% of average annual debt service (debt service is amount due on existing and proposed debt for a common debt service reserve fund).

Debt Service Reserve Fund Surety Policy: A debt service reserve fund insurance policy provided by a highly-rated municipal bond insurer or a letter of credit provided by a highly-rated commercial bank which guarantees the funding of the reserve requirement.

Defeasance: Bonds for which the payment of debt service has been assured through the structuring of a portfolio of government securities, the principal and interest on which will be sufficient to pay debt service on the outstanding bonds. The rights and interest of the bondholders and of their lien on pledged revenues is terminated in accordance with the bond documents through a defeasance. Defeasance usually occurs through the issuance of refunding bonds.

Disclosure: From the perspective of the bond issuer, it is taken to mean the dissemination of accurate and complete information material to an existing or proposed bond issuance which an investor is likely to consider important in making an investment decision. The material facts pertinent to a new bond offering are disclosed in the Official Statement.

Disclosure Counsel: A law firm retained by the bond issuer to prepare the Official Statement and provide a 10b-5 opinion.

Discount Bond: A bond sold for less than its face value as a result of the yield exceeding the coupon rate.

Financial Advisor: A consultant who advises the bond issuer on matters such as bond structure, timing, marketing, pricing, documentation and credit ratings. The consultant may also provide non-bond related advice relating to capital planning and investment management.

Fixed Rate Debt: Securities with an interest rate that is established for the life of the securities.

Forward Refunding: A Forward Refunding is an agreement, usually between an issuer and the underwriter, whereby the issuer agrees to issue bonds on a specified future date and an underwriter agrees to purchase such bonds on such date. The proceeds of such bonds, when issued, are generally used to refund the issuer's outstanding bonds.

Group Net Order: An order for bonds submitted by a Syndicate member in which the takedown is distributed to Syndicate members according to their respective liability shares in the issue.

Interest Rate Risk: The risk associated with changes in general interest rate levels or Yield Curves (see Yield Curves below).

Letter of Credit: A commitment usually made by a commercial bank to honor demands for timely payment of debt service upon compliance with pre-established conditions and/or the occurrence of certain events specified in the agreement between the bank and the issuer of the debt. Letters of credit are often issued as additional sources of security for issues of notes, commercial paper or bonds, with the bank issuing the letter of credit committing to pay debt service on the bonds. Debt issued with a letter of credit may be assigned the credit rating (short- and/or long-term) of the letter of credit provider. Letters of credit may also provide liquidity support for such debt issues.

Master Indenture: The Trust Indenture that governs all the senior lien bond obligations of the issuer.

Master Subordinate Indenture: The Trust Indenture that governs all the subordinate lien bond obligations of the issuer.

Negotiated Sale: The sale of a new issue of bonds by an issuer through an agreement with an underwriter or underwriting Syndicate selected by the issuer. Bonds are generally sold on a negotiated basis when market conditions, issue structure or issue credit quality indicate that a competitive sale would result in higher borrowing costs for the issuer.

Official Statement: A document published by the bond issuer, and often prepared by Disclosure Counsel, which discloses material information on a new bond issue including the purpose of the issue, source of repayment, bond covenants as well as financial, economic, demographic and legal characteristics of the bond issuer. The Official Statement is used by investors to determine the credit quality of the bond issue. An Official Statement is deemed preliminary prior to the determination of the interest rates on the bond issue.

Parity Bonds: Two or more subsequent issues of bonds which have the same priority of claim or lien against pledged revenues.

Passenger Facility Charge (PFC): A fee, in amounts up to \$4.50, assessed to enplaned passengers at commercial airports controlled by public agencies. Airports use these fees to fund FAA-approved projects that enhance safety, security, or capacity; reduce noise; or increase air carrier competition. Federal law limits use of PFC funds strictly to the above categories.

Premium Bond: A bond sold for greater than its face value as a result of the coupon rate exceeding the yield.

Redemption Provisions: Terms set out in the bond documents which give the bond issuer the right or requirement to redeem or "call" all or a portion of an outstanding issue of bonds prior to their stated dates of maturity at a specified price.

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 Order: An order for bonds placed by an individual or, as determined by the bond issuer, a retail order may also include an order placed by a bank trust department or an investment advisor for an individual.

Secondary Market Disclosure: Disclosure of information relating to outstanding municipal securities made following the end of the underwriting period by or on behalf of the issuer of the securities.

Securities and Exchange Commission (SEC): The Federal agency responsible for supervising and regulating the securities industry. In general, municipal securities are exempt from the SEC's registration and reporting requirements. Brokers and dealers in municipal securities, however, are subject to SEC regulation and oversight. The SEC also has responsibility for the approval of Municipal Securities Rulemaking Board (MSRB) rules, and has jurisdiction, pursuant to SEC Rule 10b-5, over fraud in the sale of municipal securities.

SEC Rule 15(c)2-12: A regulation of the SEC which requires underwriters participating in primary offerings of municipal securities of \$1,000,000 or more (i) to obtain, review, and distribute to investors copies of the issuer's disclosure documents; (ii) to obtain and review a copy of an Official Statement deemed final by an issuer of the securities, except for the omission of specified information; (iii) to make available upon request, in non-competitively bid offerings, the most recent preliminary official statement, if any; (iv) to contract with an issuer of the securities, or its agent, to receive, within specified time periods, sufficient copies of the issuer's final official statement, both to comply with this rule and any rules of the Municipal Securities Rulemaking Board; and (v) to provide, for a specified period of time, copies of final Official Statements to any potential customer upon request. The rule contains exemptions for underwriters participating in certain offerings of municipal securities issued in large denominations that are sold to no more than 35 sophisticated investors, have short-term maturities, or have short-term tender or put features. The release also modifies, in limited respects, a previously published interpretation of the legal obligations of municipal securities underwriters.

Senior Lien Bonds: Bonds which have a prior claim against pledged revenues.

Serial Bonds: Bonds of an issue in which principal is amortized in successive years without interruption.

Subordinate Lien Bonds: Bonds which have a subordinate, or junior, claim against pledged revenues.

Special Facility Bonds: The issuance of bonds by a governmental entity to finance a project with repayment secured by a defined revenue stream derived from or relating to the use of the completed project.

Syndicate: A group of underwriters formed to purchase and re-offer a bond issuer's bonds for sale to the public. The syndicate is organized for the purposes of sharing the risks of underwriting the issue, obtaining sufficient capital to purchase a bond issue and for broader distribution of the issue to the general public. Each syndicate member has a share in the liability of the issue.

Takedown: The total discount at which members of syndicates buy bonds from an issuer.

| **Tax Events Risk:** Risk to the issuer of variable rate bonds created by either a change in the taxable equivalent yield of comparable investments or loss of tax-exempt status. For an issuer of variable rate bonds, a reduction in federal income tax rates would increase interest costs. Re-classification of outstanding variable rate bonds as taxable would also increase interest costs.

| **Term Bonds:** Bonds comprising a large part of the issue which come due in a single maturity. The bond issuer usually makes periodic payments into a sinking fund for mandatory redemption of term bonds before maturity or for payment at maturity.

| **True Interest Cost:** The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received on the closing date of the bond issue.

| **Trust Indenture:** A contract between a bond issuer and a trustee, for the benefit of bondholders. The trustee administers the funds specified in the indenture and implements the remedies provided in case of default.

| **Underwriter:** A dealer which purchases a new issue of bonds for resale either by negotiation with the issuer or by award on the basis of a competitive bid.

| **Underwriter's Counsel:** A law firm retained by the Underwriter to represent their interests in connection with the negotiated purchase of a new issue of bonds. The firm's duties may include review of all bond documents, preparation of the agreement among Underwriters and negotiation of the bond purchase contract between the Underwriter and the bond issuer.

| **Underwriter's Gross Spread:** In a negotiated sale, the difference between the price the Underwriter pays the bond issuer and the original reoffering price to the public; includes the management fee, expenses, and sales commissions (takedown and concession).

| **Variable Rate Debt:** Securities with an interest rate that changes at intervals according to an index or formula, or is periodically (daily, weekly or monthly) reset at the market clearing rate. Variable rate debt is also known as "floating rate debt".

| **Yield Curve:** Refers to the graphical or tabular representation of interest rates across different maturities. The presentation often starts with the shortest-term rates and extends towards longer maturities. It reflects the market's views about implied inflation/deflation, liquidity, economic and financial activity, and other market forces.

| **Zero Coupon Bond:** An original issue discount bond on which no periodic interest payments are made but which is issued at a deep discount from par, accreting (at the rate represented by the offering yield at issuance) to its full value at maturity.

[Amended by Resolution. 2011-0078 dated July 7, 2011.]

[Adopted by Resolution. 2010-0046 dated May 6, 2010.]

San Diego County Regional Airport Authority

REVIEW AND APPROVAL OF AMENDMENTS TO AUTHORITY POLICY 4.40 – DEBT ISSUANCE AND MANAGEMENT

Presented by:

Vernon D. Evans, CPA

Vice-President-Finance/Treasurer and CFO



Debt Issuance and Management Policy

- Governs existing and anticipated debt obligations
- Sets forth certain financial management practices in capital budgeting that supports the Authority's ability to manage its projected debt issuance
- Policy is updated from time to time to reflect changes in law and market practices

Debt Issuance and Management Policy Objectives

- Manage and monitor existing debt to:
 - Optimize financial structure
 - Control Costs
 - Ensure compliance with bond financing covenants
- Oversee the issuance of new debt in order to maintain access to capital markets
- Obtain and maintain the highest possible credit ratings on debt



Debt Issuance and Management Policy Objectives

- Explore and implement prudent debt structuring
- Provide the required secondary market disclosure to the rating agencies & investors
- Comply with all federal and state laws and regulations as well as bond indenture federal tax law compliance
- Protect the Authority's assets and funds

Debt Policy - Amendments

- *Section (II)(2)(ii) ROLES AND RESPONSIBILITIES:*
Added the following provision to appoint a compliance officer for federal tax law post-issuance of tax exempt debt obligations in order to comply with recent IRS guidance:
–“2) President/CEO and Vice President, Finance/Treasurer: The Vice President, Finance/Treasurer, under the direction of the President/CEO, is (i) responsible for developing, evaluating, implementing and monitoring the financing plan and debt strategies for the Authority in compliance with this policy, subject to Board approvals; and (ii) is in charge of federal tax law post-issuance compliance with respect to all tax-exempt debt obligations.”

Debt Policy - Amendments

- Section (IV)(1) DEBT TARGETS:

Added language to clarify “Subordinate Obligations”.

– ““Subordinate Obligations” shall mean any debt obligation of the Authority issued under the Master Subordinate Indenture and are generally defined to mean a subordinate lien debt obligation including bonds, notes, bond anticipation notes, commercial paper notes and other instruments creating an indebtedness of the Authority, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and bank repayment obligations.”



Debt Policy - Amendments

- Section (V)(7) TYPES OF FINANCING – DESCRIPTIONS AND APPROACH:

Added language to allow the use of Floating Rate Notes(FRN) to provide additional opportunities in the current changing market.

–“7) Floating Rate Notes

Floating Rate Notes (FRNs) are notes that have a variable coupon, equal to a money market reference rate , such as SIFMA (Securities Industry and Financial Markets Association) or LIBOR (the London Interbank Offered Rate), plus a spread. The spread is a rate that remains constant. At the beginning of each coupon period, the coupon is calculated by taking the fixing of the reference rate for that day and adding the spread. Because the coupon resets based on a short-term index, the issuer is exposed to rising interest rates unless it has swapped the debt to a fixed rate. However, unlike variable rate demand obligations or Commercial Paper, FRNs are not supported by a bank liquidity facility, and therefore do not pose short-range liquidity/refinancing risk to the issuer.

The Authority may issue FRNs as a source of interim financing for capital projects.”

Debt Policy - Amendments

- Section (VI)(3) FEATURES OF LONG-TERM DEBT:

Added language that indicates that the Vice President, Finance/Treasurer will evaluate the issuance of taxable bonds in lieu of bonds subject to the Alternative Minimum Tax (“AMT”) when market conditions present a lower cost of taxable debt versus AMT debt.

- “3) Tax Status

The Vice President, Finance/Treasurer will evaluate whether or not to issue taxable bonds in lieu of bonds that are subject to the Alternate Minimum Tax (AMT) for certain maturities for private activity financing needs. In some market conditions, the cost for taxable debt may be less than the cost for AMT bonds for certain maturities.”

Debt Policy - Amendments

- Section (XII)(3) COMPLIANCE WITH **FEDERAL** TAX LAW AND MARKET DISCLOSURE OBLIGATIONS:

Section 3 lists events that are required to be reported, if material. The paragraph below is added at the end of Section 3, immediately following the specific list of events which would require disclosure reporting, if material.

–“For debt obligations incurred after January 1, 2011, the Authority will be required to enter into continuing Disclosure undertakings that will require some of the events described above to be reported even if not material and would further expand the list of events, if material, to be reported.”



Debt Policy - Amendments

Additional minor edits and technical clarifications.



Finance Committee Action Requested

- Approve amendments to Authority Policy 4.40 – Debt Issuance and Management Policy
- Forward to Board for adoption at June 7, 2012 meeting



Questions

