

<b>SUBJECT: THE CITY OF LONG BEACH HARBOR DEPARTMENT DEBT MANAGEMENT POLICY</b>	<b>POLICY #: 3 PAGE 1 of 7 EFFECTIVE DATE: November 28, 2011</b>
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**I. INTRODUCTION**

The City of Long Beach Harbor Department (“Harbor Department”) has established this Debt Management Policy to provide comprehensive guidelines for issuing debt and effectively managing the Harbor Department’s debt portfolio. This policy supports the strategic plan’s goal of ensuring that the Harbor Department is financially self-sustaining and fiscally strong.

**II. OBJECTIVES**

The objectives of the Debt Management Policy are to:

1. Develop comprehensive guidelines for issuance and maintenance of the Harbor Department’s debt portfolio.
2. Effectively manage the Harbor Department’s debt portfolio to prudently meet financing needs while minimizing the cost of capital, consistent with the Harbor Department’s strategic plan objectives.
3. Sustain a high credit rating from the three major credit rating agencies: Moody’s Investors Service, Standard & Poor’s, and Fitch Ratings, Inc.
4. Abide by all reporting requirements of each debt issuance in a timely manner.

**III. SCOPE AND AUTHORITY**

This policy has been established as a supplement to the City of Long Beach’s Debt Policy and addresses the specific debt management needs of the Harbor Department.

The guidelines set forth will govern the issuance and management of all debt funded in normal circumstances. However, the Harbor Department recognizes that changes in the capital markets and other unforeseen circumstances may require action deviating from this Debt Management Policy. In cases requiring exceptions to the Debt Management Policy, approval from the Board of Harbor Commissioners (Board) will be necessary for implementation.

**IV. PURPOSES & USES OF DEBT**

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. This forecast includes both revenue and capital expenditure projections.

OFFICE ISSUING:

Chief Financial Officer

AUTHORIZED:



Executive Director



## FINANCE POLICY

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New Money Financing: New money financing may be used to generate funding for long term capital projects and major equipment acquisition at the Harbor Department. Short term new money financing such as commercial paper programs may be utilized in conjunction with long-term debt or until long-term revenue bonds are issued. The life of the long-term debt obligations shall not exceed the average useful life of assets being financed.

Refunding: Refunding bonds are utilized to retire outstanding bond issues. A refunding can be utilized to lower debt service through refinancing at a lower interest rate, restructure the debt repayment schedule, remove undesirable covenants, or change the type of debt instrument being used.

In line with the City of Long Beach's Debt Policy, the minimum savings from refunding should be at least 3% of the refunded par amount or at least \$500,000 in present value savings net of all refinancing costs.

### V. TYPES OF DEBT

The Harbor Department may utilize several types of debt obligations to meet financing needs.

Revenue Bonds: The Harbor Department is an enterprise fund that is financially self-sustaining without use of taxes and therefore does not issue General Obligation Bonds. Instead, revenue bonds are typically utilized to fund the Harbor Department capital projects and 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 maintain a more predictable debt service burden. However, variable rate debt can be utilized on a limited basis when the potential advantages of capturing the lowest rates available in the current market outweigh the forecasted risks. The Harbor Department's variable rate debt outstanding shall not exceed 15% of the Harbor Department's total outstanding debt, exclusive of any commercial paper program.

Variable Rate Debt Obligation (VRDO): With predetermined intervals where the rate is reset to the current market, VRDOs with a long term maturity can be priced as short-term instruments making it potentially a less costly option in a normal upward sloping yield curve environment. The cost of variable rate debt also moves in the same direction as income from invested funds.

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Commercial Paper: This short-term debt instrument (generally, no more than 270 days) may be issued to provide interim financing for capital projects, generally in anticipation of cash inflow from other sources (e.g., bond issuance, grants). Upon maturity of the commercial paper, the Harbor Department may repay, refund, or roll-over (repay and reissue) the commercial paper.

**VI. BOND TAX STATUS**

For tax-exempt municipal bonds, the interest earned is generally not subject to federal income tax. In addition, for most states including California, when the purchaser resides in the state of issuance, the interest is also not subject to state or local income tax. The Harbor Department will ensure compliance with all tax regulations necessary to maintain a bond's tax-exempt status.

There are also bonds that qualify for tax exemption under the normal calculation of federal income tax but are subject to the Alternative Minimum Tax (AMT); in general, private activity bonds (other than ones that benefit 501(c)(3) organizations) issued after August 7, 1986 are subject to AMT. The AMT calculation reduces the tax exemption applicable to taxpayers for certain federal tax filers.

Furthermore, some municipal bonds are subject to both state and federal taxation because the project being funded is considered by the federal government not to be a significant benefit to the general public and therefore does not qualify for any government subsidy.

The Harbor Department may consider all types of bonds: tax-exempt not subject to AMT, tax-exempt subject to AMT, and taxable bonds.

**VII. DEBT ISSUANCE PROCESS & STRUCTURING**

Each debt issuance must be authorized by the Board and ultimately by the City of Long Beach City Council.

The Harbor Department follows the same terms and conditions relating to bond issuance as outlined in the City of Long Beach's Debt Policy. The Harbor Department may consider each issuance on a case by case basis and select the method of sale (competitive, negotiated or private placement) most effective in marketing, pricing and placing bonds for that time period.

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Level Payment Structure: A bond issuance shall generally be structured as a set of bonds with a specific maturity for each bond in the series, as outlined in the initial offering. Having the bonds mature at periodic intervals will allow for level debt service; the total bond principal is amortized over several years and therefore, the annual combined payments of principal and interest are the same each year.

Debt Service Reserve Fund (DSRF): The establishment of a debt service reserve fund is frequently required as part of a bond issuance and will be funded with cash or additional debt issuance and maintained by a trustee bank for the life of the bond issue. DSRF may also be satisfied with a surety, if it proves to be financially advantageous.

Debt Service Fund: A debt service fund shall be maintained to set aside sufficient money for the payment of debt service due, normally biannually. 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.

**VIII. PROFESSIONAL SUPPORT**

Professional support providers may include: financial advisors, underwriters, syndicates, placement agents, trustees, arbitrage rebate services providers, remarketing agents, escrow agents, bond counsel, disclosure counsel and any other related providers. The Harbor Department will generally use members of the City of Long Beach's pool of underwriters in any negotiated or competitively bid sale of debt.

**IX. MANAGEMENT & REPORTING**

Documentation/Record Keeping: The Finance division will compile and maintain each post-pricing 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.

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. The City of Long Beach and the Harbor Department shall comply with all applicable federal, state, and contractual restrictions in regard to the use and investment of bond proceeds.

Arbitrage rebate: The Chief Financial Officer shall ensure that arbitrage rebate requirements of Section 148(f)(2) of the Internal Revenue code of 1986 are met.

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Continuing disclosure: The Harbor Department will file financial statements and other required data annually in compliance with the Securities and Exchange Commission Rule 15c2-12. The annual continuing disclosure report will be filed with the Municipal Securities Rulemaking Board (MSRB) on the Electronic Municipal Market Access (EMMA) website no later than 270 days after fiscal year end.

### X. DEBT CAPACITY

The debt capacity targets and limitations outlined below ensure that enough cash is maintained to support the Harbor Department's on-going operational needs while limiting outstanding debt to a level well above that called for in the bonds covenants.

1. The Harbor Department shall maintain a minimum Debt Service Coverage Ratio (DSCR) of 2.0:1. The Harbor Department generally agrees in the Bond covenants to maintain a minimum DSCR of 1.25:1.
2. 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.

### GLOSSARY

Alternative Minimum Tax (AMT): Alternative tax calculation under the Internal Revenue Code that includes certain tax preference items that are added back to adjusted gross income. The income tax under this alternative scenario is calculated at a specific rate schedule to get the alternative tax total. The alternative tax is compared to the regular tax and the higher is paid.

Bond Counsel: A nationally recognized legal firm, in the practice of municipal bond issuance, typically retained by the issuer, to give a legal opinion that the issuer is authorized to issue proposed municipal securities, the issuer has met all legal requirements necessary for issuance and interest on the proposed securities will be excluded from gross income of the holders thereof for federal income tax purposes and, where applicable, from state and local taxation.

Commercial Paper: Short term debt instrument with a maturity of 270 days or less from the date of issue. The debt is usually issued at the prevailing market interest rates at the time.

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Competitive Sale: A method of sale in which underwriters or syndicates submit sealed bids to purchase the debt offering. The issue is awarded to the bidder providing the lowest true interest cost while adhering to all the requirements set forth in the official notice of sale.

Credit Rating Agencies: Firms that evaluate the credit quality and ability of debt issuers to repay obligations as well as their likelihood of defaulting on an obligation. The three major credit rating agencies are Moody’s Investors Service, Standard and Poor’s and Fitch Ratings.

Debt Service Coverage Ratio (DSCR):

$$\text{Debt Service Coverage Ratio} = \frac{\text{Operating Revenue} + \text{Interest Income} - \text{Operating Expense Before Depreciation \& Amortization}}{\text{Annual Debt Service: Annual Interest and Principal Payments Due}}$$

Debt Service Reserve Fund: A typical requirement of a traditional bond issue is the establishment of a debt service reserve fund. The reserve fund is frequently required to maintain the smaller amount of 100% of the maximum annual debt service, 125% of average annual debt service or 10% of the aggregate issue price. The reserve fund is commonly funded out of bond proceeds and held by the issue’s trustee.

Disclosure Counsel: The legal firm that provides the legal disclosure documentation for an issue, most often in the form of the preliminary and final official statement and continuing disclosure statement, for dissemination to the public.

Maturity Date: The date on which the principal amount of a debt instrument becomes due and repayable to the investor(s) in full.

Negotiated Sale: A method of sale in which one or more underwriters are chosen by the issuer to negotiate terms in which such underwriter(s) will market the issue to investors and purchase any unsold bonds.

Operating Expenses before Depreciation: These are the expenditures incurred in the normal course of operating the Harbor Department and includes inter-department charges for services rendered. They consist of the following expenses: Facility Maintenance; Infrastructure Maintenance; Fire and Safety; General and Administrative; and Other Indirect Operating.

Par: A term referring to a debt obligation that is trading at 100% of the face value.

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Private Placement: Instead of a public offering, the original placement of an issue goes to one investor or group of investors.

Refunding: A process where an outstanding bond issue is retired using funds from the sale of a new offering.

Rule 15c2-12: A Securities and Exchange rule setting forth obligations on public issuers of securities to provide certain data such as material event disclosures and annual financial information on a continuing basis.

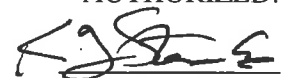
Underwriter: An entity that administers the public issuance and distribution of securities from the issuer. The underwriter works with the issuer to set the offering price of the securities, sells the securities to investors through the underwriter's distribution network, and buys any unsold securities.

Variable Rate Demand Obligations (VRDOs): Debt instruments that bear interest at a floating/variable rate which resets at specific intervals (e.g., daily, weekly, monthly) and may be redeemed with a put at par option any time the rate is reset.

OFFICE ISSUING:

Chief Financial Officer

AUTHORIZED:



Executive Director

OFFICE OF THE CITY ATTORNEY  
ROBERT E. SHANNON, City Attorney  
333 West Ocean Boulevard, 11th Floor  
Long Beach, CA 90802-4664

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ORDINANCE NO. HD- 2113

AN ORDINANCE OF THE BOARD OF HARBOR  
COMMISSIONERS OF THE CITY OF LONG BEACH  
APPROVING THE CITY OF LONG BEACH HARBOR  
DEPARTMENT DEBT MANAGEMENT POLICY

WHEREAS, the Board of Harbor Commissioners of the City of Long Beach  
("Board") wishes to establish the City of Long Beach Harbor Debt Management Policy  
(the "Policy") attached hereto as Exhibit A; and

WHEREAS, the objectives of the Policy are to:

1. Develop comprehensive guidelines for issuance and maintenance of the Harbor Department's debt portfolio.
2. Effectively manage the Harbor Department's debt portfolio.
3. Sustain a high credit rating from the three major credit rating agencies.
4. Abide by all reporting requirements.

NOW, THEREFORE, the Board of Harbor Commissioners of the City of  
Long Beach ordains as follows:

Section 1. The Policy is hereby approved.

Sec. 2. This ordinance shall be signed by the President or Vice President  
of the Board of Harbor Commissioners and attested to by the Secretary. The Secretary  
shall certify to the passage of this ordinance by the Board of Harbor Commissioners of  
the City of Long Beach, shall cause the same to be posted in three (3) conspicuous  
places in the City of Long Beach, and shall cause a certified copy of this ordinance to be

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OFFICE OF THE CITY ATTORNEY  
ROBERT E. SHANNON, City Attorney  
333 West Ocean Boulevard, 11th Floor  
Long Beach, CA 90802-4664

1 filed forthwith with the City Clerk of the City of Long Beach. This ordinance shall take  
2 effect on the 31st day after its final passage.

  
President

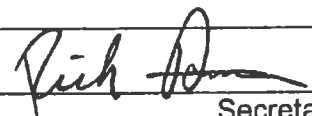
4 ATTEST:  
5   
6 Secretary

7 I hereby certify that the foregoing ordinance was adopted by the Board of  
8 Harbor Commissioners of the City of Long Beach at its meeting of October 24, 2011 by  
9 the following vote:

10 Ayes: Commissioners: Drummond, Dines, Fields, Wise

11  
12 Noes: Commissioners: \_\_\_\_\_

13 Absent: Commissioners: Sramek

14 Not Voting: Commissioners: \_\_\_\_\_  
15   
16 Secretary

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