South Bayside Waste Management Authority

DEBT MANAGEMENT POLICY

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I. Introduction

The purpose of the South Bayside Waste Management Authority (the "Authority") Debt Management Policy (the "Policy") is to promote sound and uniform practices for issuing and managing bonds and other forms of indebtedness, to provide guidance to decision makers regarding the appropriate use of debt and other repayment obligations of the Authority.

The Policy is also intended to comply with California Government Code section 8855(i), which became effective January 1, 2017 which requires that governmental agencies that issue any form of debt have a "debt management policy" in place if any form of debt is being contemplated or anticipated.

II. Policy Objectives

The Policy objectives are as follows:

- To help maintain the financial stability of the Authority's solid waste management system by encouraging sound decision-making so that its long-term financing commitments are affordable and do not create undue risk or burden to the Enterprise or ratepayers.
- To protect the Authority's credit rating and minimize the Authority's borrowing costs.
- To meet the requirements of state and federal law and regulation, including state debt issuance reporting requirements and federal requirements regarding disclosure and administration of tax-exempt indebtedness.
- To incorporate best practices into the Authority's issuance and administration of its indebtedness.
- Ensure that the Authority's debt is consistent with the Authority's planning goals and objectives and capital improvement program or budget, as applicable.

III. Issuance Authority and Scope of Indebtedness

The Authority is a joint powers authority, operating and acting pursuant to the laws of the State of California, and is authorized pursuant to the Joint Exercise of Powers Act (commencing with Section 6500 of the California Government Code), including the Marks Roos Local Bond Pooling Act of 1985 (commencing with Section 6584 of the California

Government Code) to borrow money for the purpose of financing projects of the Authority.

The Authority is an infrequent issuer of debt, all of which has been and is expected to be in the form of enterprise revenue bonds. To the extent that the Authority were to consider alternative forms of indebtedness, this Policy may be amended to address relevant issues. While this Policy does not specifically address vendor financing or other forms of installment contracts, to the extent the Authority were to consider such forms of financing, the spirit of these Policies would apply.

IV. Debt Management Responsibility

The Senior Finance Manager is appointed as the Authority official responsible for the following:

- Debt issuance and management, recognizing that assigned staff may be charged with certain day-to-day responsibilities.
- Working with the Executive Director, Senior Facilities and Contracts Manager, and other staff deemed appropriate in formulating the Authority's debt management plans, seeking Board of Directors' approval to execute such plans, and ensuring the appropriate management of debt.
- Keeping the Board of Directors informed of the Authority's debt-related activities through informational reports, briefings, or workshops.

V. Uses and Limits on Indebtedness

Debt provides a tool for financing capital projects that are too large to accommodate as part of the annual budget, to share the cost of major improvements between current and future ratepayers and/or to accelerate the delivery of a project when compared to funding on a pay-as-you-go-basis. On the other hand, debt service represents a fixed cost that will compete with other expenditures in the Authority's budget and cannot be deferred in any given year.

In order to achieve the proper balance in its use of debt, the Authority will follow the following policy goals:

- The Authority will not use debt to finance operating expenses, except to alleviate cash-flow timing issues within a fiscal year. The Authority may consider use of debt in the event of an extraordinary expense, such as the financing of a major judgment.
- The Authority will plan for capital improvements and maintenance as part of its budgeting process, seeking to set funds aside in advance of need so that most capital projects can be financed on a "pay-as-you-go" basis. Debt financing will be reserved for extraordinary capital expenditures.

- The Authority believes that prudent amounts of debt can be an equitable and cost-effective means of financing infrastructure and capital project needs of the Authority. The Authority will evaluate the benefit and risks of each proposed issue of new debt on a case by case basis, considering such factors as the Authority's overall fiscal health, the potential impact of increased debt service on then current service levels, the offsetting benefits of the project on operating costs that may mitigate the cost of debt, and other long-term considerations.

In general, debt may be considered to finance such projects if it meets one or more of the following minimum criteria:

- It meets the Authority's goal of distributing the payments for the asset over its useful life so that benefits more closely match costs for both current and future residents.
- The need for the project is compelling in terms of on-going cost savings or the need for public safety or services, and the size of the project makes funding out of existing resources or near-term revenues impractical.

VI. Rate-Setting and Debt Service

The Authority's debt service is secured by its net revenues; that is, its revenues after the payment of operation and maintenance expenses. The Authority covenants in its bond indenture that it will "fix, prescribe and collect rates, fees and charges… so as to yield Net Revenues during such Calendar Year equal to at least 1.40 times the Debt Service in such Calendar Year." This requirement is referred to as a "rate covenant." Funds remaining after payment of operating and maintenances expenses and debt service can be used for pay-as-you-go capital improvements, held in reserve, or used for any other legal purpose

In addition, the Authority will maintain a Rate Stabilization Reserve, which can be used to meet the rate covenant in extraordinary events or to phase in large future rate increases. The Rate Stabilization Reserve will be funded pursuant to the Authority's Board approved Reserve Policy.

VII. Financing Professionals

The Senior Finance Manager will be responsible for recommending the various professionals required for a financing, based on prior experience, recommendations or a request for proposal process, as he or she deems appropriate.

A. Bond and Disclosure Counsel

Bond counsel prepares the various legal documents for a transaction and renders a variety of opinions, including opinion regarding the tax-exemption of bonds. For all public sales of debt (that, is through the issuance of bonds or other securities sold to multiple investors), the Authority will retain the services of disclosure counsel to prepare the official statement. The Senior Finance Manager will also determine whether to select another law firm to provide the services of disclosure counsel or to assign such duties to bond counsel.

B. Municipal Advisor

A municipal financial advisor assists in evaluating financing options, structuring of its debt offerings, making recommendations as to the method of sale, conducting competitive bond sales, and assisting with bringing negotiated bond sales to market, including making recommendations to the Authority on proposed interest rates, prices and yields in light of market conditions and the characteristics of the bonds. The Authority will utilize a registered municipal advisor for its public debt offerings.

C. Underwriter

When the Authority issues its debt through a negotiated sale, it will select one or more underwriters. The basis for selection will primarily be the firm's experience in the solid waste and related utility sectors, and its perceived ability to secure the lowest cost of funds, including underwriter's fees and expenses.

D. Trustee and Fiscal Agent

The trustee or fiscal agent is a division of a commercial bank that services bonds and other financial instruments. The Senior Finance Manager shall have the discretion to select a commercial banking firm for recommendation as trustee or fiscal agent, either through a request for qualifications process or by relying on existing banking relationships if deemed to be advantageous.

VIII. Structuring Debt Financing

A. Term and Structure

Long-term debt financing of capital projects will be amortized over a period no longer than the useful life of the assets being financed, and in no event should exceed thirty years.

Debt service will generally be structured to be level over the length of the bonds. Alternate debt structures may be used to wrap new debt around existing debt to create overall level debt service or to achieve other financial planning goals appropriate to the specific project.

B. Debt Service Reserve Fund

To the extent required by the market, the Authority may fund a debt service reserve fund out of bond proceeds no greater than the amount allowed under federal tax law. At the time of the adoption of this policy, a reserve fund is required for solid waste revenue bonds.

C. Capitalized Interest

Funding interest payments out of bond proceeds during construction is referred to as capitalized interest. The Authority may consider funding capitalized interest when it is appropriate to begin the payment of debt service after project completion.

D. Variable Rate Debt

To maintain a predictable debt service burden, the Authority will give preference to debt that carries a fixed interest rate.

E. Call Provisions

In general, the Authority's securities will include a call feature, based on market conventions, which is typically at par ten (10) years from the date of delivery of tax-exempt bonds. The 2017 tax act stipulates that tax-exempt bonds can only be refunded on a tax-exempt basis 90 days before the call date and cannot be advance refunded with tax-exempt bond proceeds. The Authority may determine that a shorter call feature is appropriate balancing cost and/or the desire for increased future optionality.

F. Additional Bonds Test

Any new money debt issuance must not cause the Authority's debt service to be expected to exceed the level at which net revenues are less than 1.40 times the maximum annual debt service for the aggregate outstanding revenue bonds including the debt service for the new issuance, calculated in accordance with the Indenture. This test shall not apply to refunding debt as long as there are debt service savings in any year

G. Credit Enhancement

The Authority will consider the use of credit enhancements such as bond insurance on a case-by-case basis. The cost-benefit of insurance will be evaluated through the final maturity and through the first optional call date, recognizing that municipal bonds are commonly refunded prior to maturity. The Authority will consider the use of a surety policy in lieu of a cash funded reserve, but in doing so will consider estimated earnings on a cash funded reserve and the cost of replacing that surety at the time of a potential refunding, if applicable.

H. Derivatives

The Authority will not use interest rate swaps in connection with its debt program unless a separate swap policy is prepared and approved by the Board of Directors. The Authority may use derivative-like investment products to invest bond funds, but only upon staff's analysis of the investment as part of the staff report transmitting the financing and specific approval as part of the Council action.

I. Disclosure

For all public sales of debt, the Authority will retain the services of disclosure counsel (who may also serve as bond counsel) to prepare the Official Statement to be used in connection with the offering and sale of debt. The Executive Director, Senior Finance

Director and other appropriate staff will be asked to review this document to ensure that it is accurate and does not fail to include information that such staff and officials think might be material to an investor. The Authority will make every effort to ensure the fullest disclosure possible in the Authority's disclosure documents, including, as appropriate, seeking staff training in disclosure matters. A Preliminary Official Statement will be released to the market only after the completion of the "due diligence" meetings with appropriate staff and approval by the Board of Directors.

J. Credit Ratings

The Senior Finance Director, in consultation with the Municipal Advisor and other members of the financing team, will evaluate and make recommendations regarding the number of credit ratings to seek on any given bond issue. The Authority will work to maintain its current credit ratings and to increase ratings when the opportunity to do so exists. The Senior Finance Manager will periodically communicate with the agencies rating the Authority's debt so that they will remain well-informed

IX. Method of Sale

Bonds and other municipal securities can be sold at a public offering through either a competitive or negotiated sale:

Competitive Sale: Under a competitive sale, the terms of the bonds are determined by the Authority, with the assistance of its municipal advisor and bond counsel, and the sale is awarded to the underwriter judged to have submitted the lowest true interest cost, which takes into account interest rates and any discounts or premiums, including the underwriters' spread (their compensation).

Negotiated Sale: Under a negotiated sale, the Authority selects its underwriter in advance, based on proposals received or by other means. The Authority, its bond counsel and municipal advisor works with the underwriter in structuring, marketing and finally offering an issue to investors.

Because of a number of factors, including volatility in the recycled commodities market and court decisions that undermined certain flow control ordinances in the 1990s, the bond market is less receptive to solid waste revenue bonds than it is to most other municipal utility revenue bonds. Such bonds are considered a "story bond," where the ability to pre-market to potential investors is important to ensure a wide buyer base. As a result, most debt in this sectored is issued through a negotiated sale. The Authority expects to sell most of its debt in this matter unless market conditions change.

Private Placement: An alternative method of obtaining financing through the sale of bonds is through a private placement with a bank or other institution. The Authority will consider privately placing its debt for any small and or short-term borrowings or in instances where difficult credit or disclosure considerations or other special circumstances so warrant.

X. Refunding Bonds

In order to provide for the potential for refunding its bonds in the future, and absent compelling reasons to the contrary, the Authority will structure its bond issues with an optional call no longer than ten years from the date of issuance. Such compelling reasons to deviate from this policy, for example, could include a bond issue that would mature only a few years after the optional call date, making a refunding impractical. When structuring its bond issues, the Authority will take into account the coupon structure of its debt (i.e., discount bonds or premium bonds that mature after the call date) and its impact on its option to execute a refunding.

The Authority will periodically review its outstanding debt portfolio to identify opportunities to achieve net economic benefits from refunding its bonds. Recognizing that the Authority's ability to refund its debt is limited because of the market practice of making most fixed-rate bond issues non-callable for their first eight to ten years, and the elimination of the ability to refund bonds substantially before the call date (an "advance refunding," which was eliminated by the 2017 tax act), the Authority will seek to deploy its refunding options prudently. At a minimum, the Authority will seek to achieve net present value ("NPV") savings equal to at least three percent (3%) of the par amount of the bonds that are refunded.

The Authority may also consider a refunding for a non-economic purpose, including the retirement of an indenture for more desirable covenants, a change in tax status, or to change the type of debt instrument.

XI. Debt Administration

The Senior Finance Manager and his or her staff shall be responsible for ensuring that the Authority's debt is administered in accordance with its terms, federal and State law and regulations, and best industry practices.

A. Tax-Exemption

Tax-exempt bond issues are subject to various IRS rules and regulations regarding the use of bond proceeds. In most instances, the Authority's bonds will be considered "exempt private activity bonds" based on the nature of its long-term contracts with private entities; while the interest on these bonds is exempt from most federal income taxes, it is subject to the Alternative Minimum Tax (referred to as "AMT Bonds").The Authority will make sure that the use of facilities financed with tax-exempt bonds are not used for ineligible private activities, and will consult with bond counsel whenever it identifies a change in use, enters into a long-term contract involving the project, or otherwise undertakes an action that could change the tax-exempt status of its bonds.

The Authority shall periodically review and will comply with the specific post issuance compliance procedures identified in the tax documents for its tax-exempt financings. The Authority will retain an arbitrage rebate consultant to assist in calculating any earnings on bond proceeds in excess of the rate on its bonds, and to calculate whether arbitrage should be rebated to the Federal Government.

B. Continuing Disclosure

Under federal law, the Authority must commit to provide continuing disclosure to investors in any of its debt that is sold to underwriters to be offered to the public. All existing and future Authority debt should be compliant with the requirements of the Continuing Disclosure Certificates executed at the time of issuance, including the annual filing with the MSRB's Electronic Municipal Market Access ("EMMA") website of the Authority's Comprehensive Annual Financial Report and any other required reports; the filing of notices of the material events set out in the Continuing Disclosure Certificates; and the filing of any voluntary disclosures deemed material. All such filings will be made within the time requirements set forth in the Continuing Disclosure Certificates.

The Authority may retain a consultant to assist in preparing and filing required reports and notices.

C. Investment of Bond Proceeds

Investments of bond proceeds shall generally be consistent with the Authority's Investment Policy as modified from time to time, and with the requirements contained in the governing bond documents.

D. State Reporting Requirements

The Senior Finance Manager will file any reports required by State law, including the Annual Debt Transparency Report to the California Debt and Investment Advisory Commission required of all debt issued after January 1, 2017, pursuant to Government Code section 8855(k).

XII. Relationship of Debt to Capital Improvement Program and Budget

The Authority is committed to long-term capital planning. The Authority may issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the Authority's capital improvement program. The Authority shall integrate its debt issuances with the goals of its capital improvement program by considering when projects are needed in furtherance of the Authority's public purposes in determining the timing of debt issuance.

The Authority shall seek to avoid the use of debt to fund recurring infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

XIII. Internal Control Procedures

The Senior Finance Manager or designee will monitor the expenditure of bond proceeds to ensure they are used for the purpose and authority for which the bonds were issued.

In most cases, proceeds of debt will be held by a third-party trustee or fiscal agent and the Authority will submit written requisitions for such proceeds. The Authority will submit a requisition only after obtaining the signature of the Senior Finance Manager. In case where the proceeds of debt are not to be held by a third-party trustee or fiscal agent, the Senior Finance Manager shall be responsible for approving expenditures in the same manner as the approval for the expenditures for Authority revenues.

XIV. Conclusion

This Policy is intended to guide the Authority's issuance of debt. This Policy should be reviewed and updated periodically to reflect changes in the market, the identification of other best practices, and to incorporate the Authority's own experience or changing circumstances. Changes to the Policy are subject to review by the Finance Committee and approval by the Authority Board of Directors at a legally noticed and conducted public meeting.

While adherence to this Policy is generally required, it is recognized that changes in the capital markets and the Authority's needs and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy or will require modifications or exceptions to best achieve policy goals. Any deviations from this Policy that is recommended by staff should be highlighted in the staff report transmitting the resolution for approval of the financing.