



# Municipal Market Disclosure: The Development and Administration of Debt Disclosure Policies

## SESSION FOUR – Developing a Disclosure Policy

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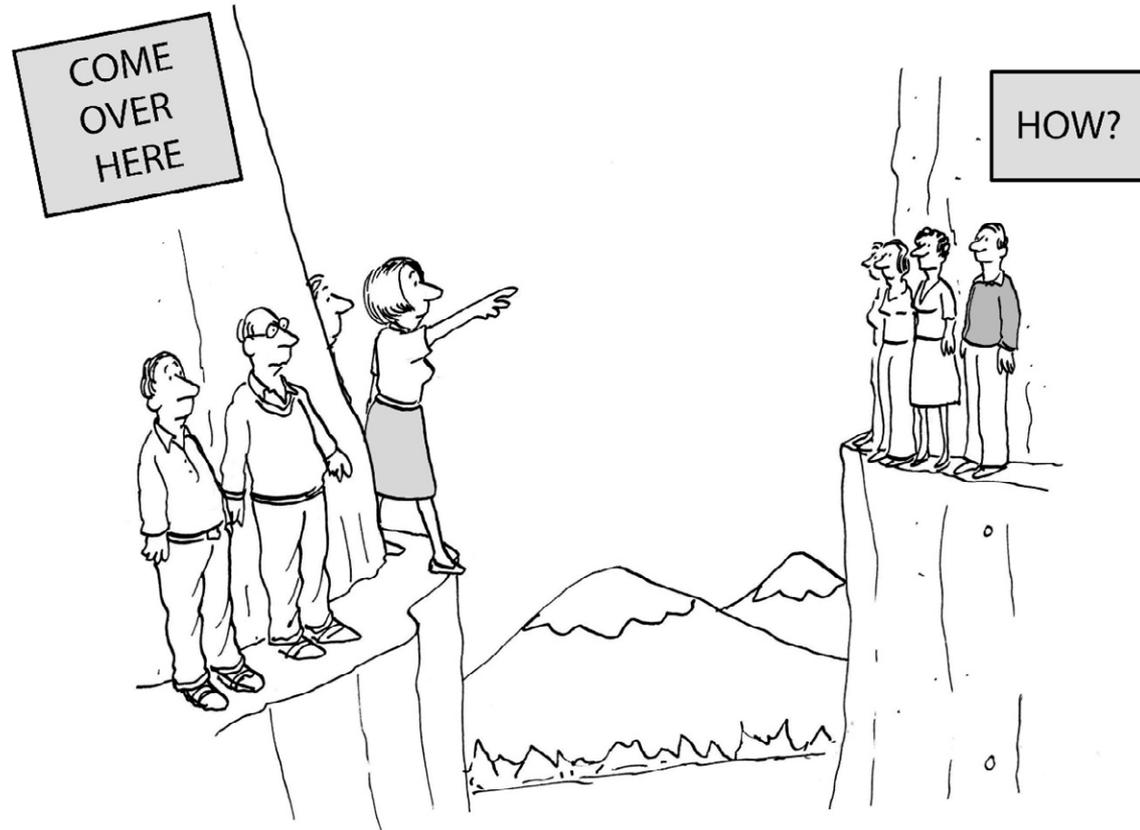
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Sometimes disclosure requirements may seem:  
Incomprehensible



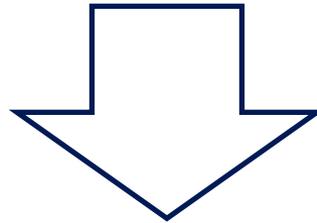
# Or Impossible to implement



Or  
An imposition on a local government's operations



## Choice to interact with the capital markets (through the issuance of bonds)

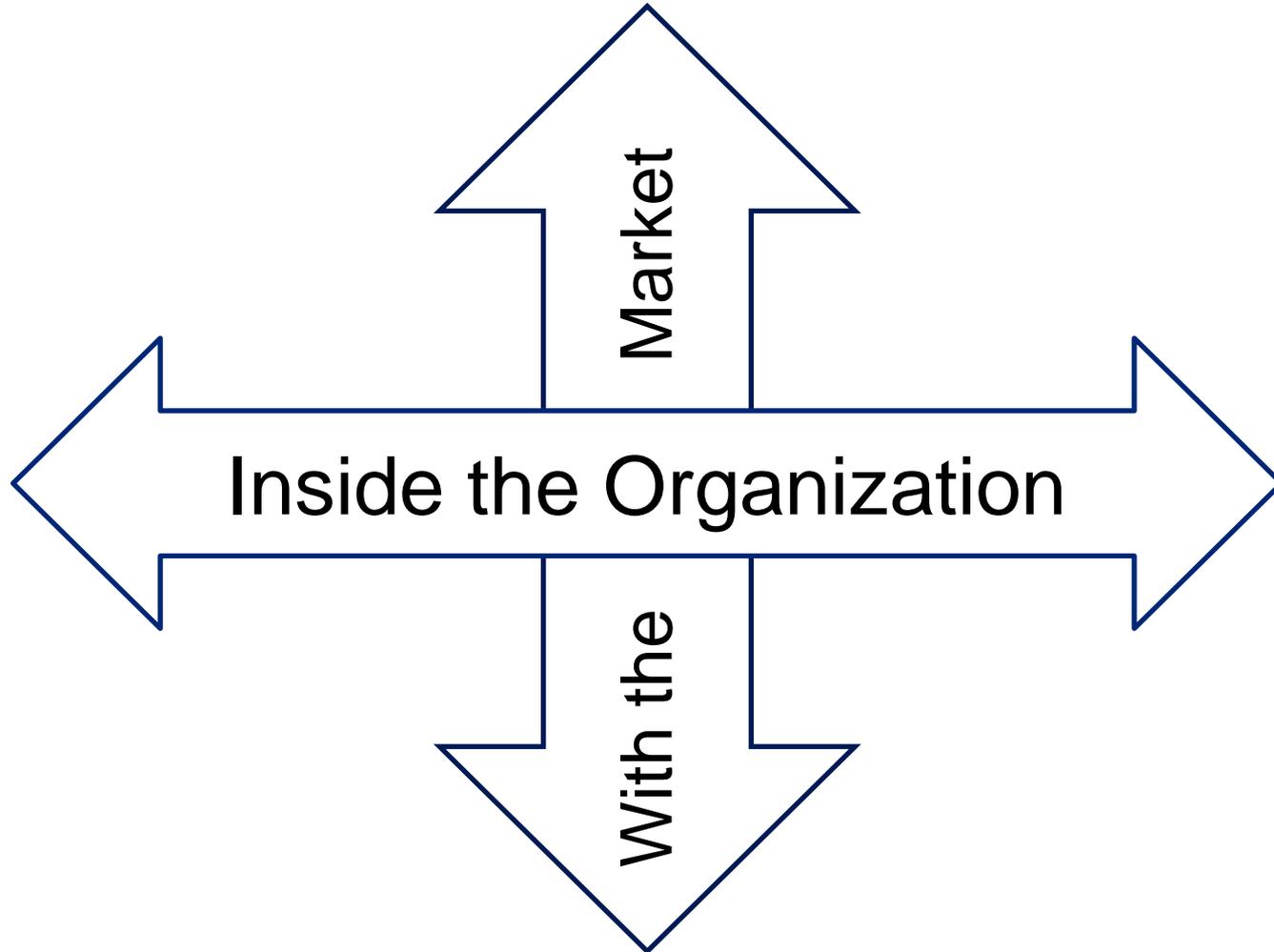


### Certain Requirements & Expectations Regarding Communication with other Parties

**The Standard (Rule 10b5):**

**“Under the federal securities laws, issuers of municipal securities (like issuers of other securities) may neither make a misstatement of material fact, nor make a statement that is misleading (in light of the circumstances in which it is made) due to the omission of a material fact, in connection with the purchase or sale of securities.”**

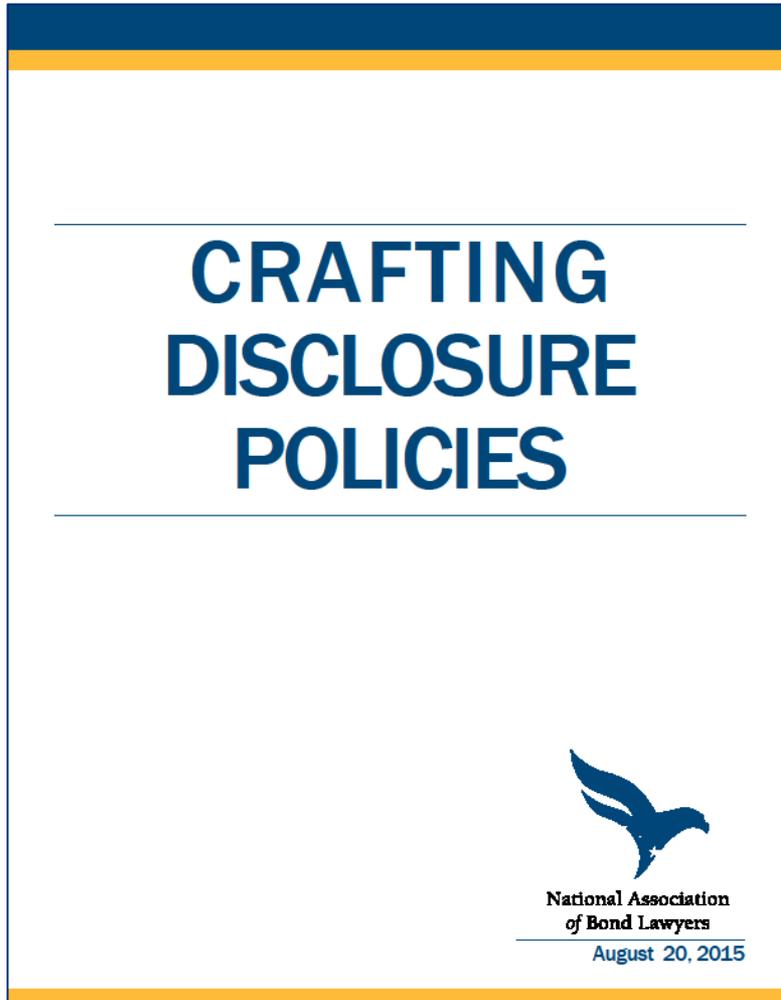
# Fundamentally its all about: COMMUNICATION



## Benefits of a written Disclosure Policy:

- » **Consistency**
- » **Harmonize information**
- » **Clarity & certainty**
- » **Focus efforts**
- » **Quality control / Reduction of errors**
- » **Training & succession**
- » **Legal protections**

# Good Source of Guidance



Available online at: [www.nabl.org](http://www.nabl.org)

## San Francisco International Airport

- » Enterprise Department of City and County of San Francisco
- » Operated by Airport Commission
- » 1,688 Airport employees
- » 30,000 other workers
- » 50 million passengers in 2015
- » 52 airlines
- » Over 428,000 flight operations in FY2015
- » 5.1 million square feet of terminal space



# SFO – Financial Snapshot

- » \$815.4 million operating revenues in FY2015
- » Approx. \$4.5 billion in outstanding bonds
  - \$4 billion fixed rate bonds
  - \$479 million variable rate bonds
- » \$483 million of interest rate swaps
- » \$400 million CP program
- » \$4.5 billion 10-year capital plan



# Development of SFO's Disclosure Policy

- » 1990's: Bond Counsel drafts Official Statements
- » 2000's: Engagement of separate Disclosure Counsel
- » 2002: Adoption of SFO's Debt, Investment & Swap Policies
- » 2012-2014: Development & Adoption of SFO's Disclosure Policy

# Options for Drafting Disclosure Policy

## FORM:

Use an  
unrelated  
“form” policy

Use San Francisco’s  
General Fund  
Disclosure Policy

Draft custom  
policy

## CONTENT:

Mostly policy  
statement with  
few procedures

Highly structured &  
very bureaucratic

## Final Approach:

- » Wrote down SFO's current procedures
- » Put into a policy format & strengthened needed areas
- » Added provisions from City's General Fund policy for consistency
- » Reviewed by Disclosure Counsel, Bond Counsel, City Attorney's Office, Airport staff & management
- » Adopted by Airport Commission
- » Final Disclosure Policy available online at SFO's Investor Relations webpage

# SFO's Disclosure Process before a Disclosure Policy

- » Sound process:
  - Well-formed internal working group between finance and City Attorney;
  - Solid, consistent working group including financial advisors, disclosure counsel and underwriter's counsel;
  - Information for preliminary official statements was appropriately collected and drafts were carefully reviewed both internally and externally by the working group;
  - Due diligence sessions were thorough and involved members of senior management.

# So what changed with the Disclosure Policy?

- » Made the process more systematic and policy-based:
  - While solid steps were taken in disclosure process, the Disclosure Policy made the process more systematic and thereby more likely to ensure consistency;
  - The Disclosure Policy allowed the disclosure process not to rely on personalities but allowed for smoother transition as personnel changed over time.
- » Strengthened areas:
  - Documentation and Deal File
  - Designated point person
  - Clear responsibilities
  - Information harmonized across documents
  - Involvement of Commission

## » **Statement of Purpose**

- Ensure compliance with Federal securities laws
- Promote best practices
- Provide internal processes & controls
- Failure to follow does not imply inadequate disclosure or impair authorization or validity of the bonds

## » **General Principles**

- Anyone may raise potential disclosure issues at any time during process
- Process of preparing disclosure documents is not simply a mechanical process of updating numbers – review with critical eye for needed revisions
- Apply process to other disclosure documents that are not specifically listed
- Disclosure Policy is “work-in-progress” – make recommendations to improve
- Consult Deputy City Attorney with questions
- Reminder of Rule 10b5 disclosure standard

- » **Composition & Function of Disclosure Working Group**
  - To be discussed in Final Session
- » **Duties of Disclosure Coordinator**
  - Appointed by Airport's Chief Business & Finance Officer
  - Point person on disclosure / quarterback on disclosure document drafting
  - Coordinates compliance with Disclosure Policy
  - Maintains compliance file

# What disclosures should the Disclosure Policy cover?

## » **Some were obvious**

- Preliminary Official Statements and Final Official Statements
- Continuing disclosure filings

## » **Some we needed to figure something out**

- Audited Financial Statements
- Investor Relations Website

## » **Some were harder to figure out**

- Press releases

# Contents of SFO's Disclosure Policy

## **Preparation of Offering Documents (POS & OS)**

- » Disclosure Coordinator manages process & sends updates to Disclosure Counsel
- » Document sections reviewed by “Subject Matter Reviewers”
- » Disclosure Working Group & Subject Matter Reviewers review multiple drafts of the document & assigned sections
- » Draft reviewed by bond team
- » Final draft reviewed by Airport Director, Deputy Directors & Airport Commission members
- » Offering Documents not posted until all sign-off

## Annual Audited Financial Statements

- » Disclosure Working Group reviews and helps draft:
  - Management Discussion & Analysis (MD&A); and
  - Debt-Related Notes to Financial Statements
- » Disclosure Counsel compares MD&A and Notes to latest Official Statement for consistency

### » **Continuing Disclosure Filings (Annual Reports & Event Filings)**

- Disclosure Coordinator works with Subject Matter Reviewers to update Annual Report
- Disclosure Working Group & Disclosure Counsel review draft Annual Report
- Annual Report posted after all sign off
- Tickler system with Financial Advisors for downgrades of credit providers

# Contents of SFO's Disclosure Policy

## » **Investor Website**

- Quarterly review by Disclosure Working Group

## » **Training**

- Disclosure Policy distributed annually to Disclosure Working Group & those involved in preparation of disclosure documents
- Training every 2 years for staff and management

## » **Documentation**

- Disclosure Coordinator maintains a compliance file
- File reviewed by Deputy City Attorney with 30 days of filing Annual Report

# How does process of implementing Disclosure Policy differ in other places?

## » **Some things always stay the same:**

- Need to make the process systematic;
- Need to study the process;
- Documentation;
- Connecting people together in bureaucracies; and
- Creating road bumps in the process to ask the right questions with the right people.

# How does process of implementing Disclosure Policy differ in other places?

## » **Some things will be different:**

- Each issuer will have different areas to be strengthened, as examples:
  - Sometimes an issuer has clear lines of responsibilities but no clear way to be sure that everyone has carried out their responsibility;
  - Some issuers are more severely divided into bureaucratic departments that need to be better brought together;
  - Some issuers do not involve all of the right people into the disclosure process in the right ways;
  - Some issuers may not have a consistent process for thinking through its credit from a big picture perspective; and
  - Some issuers have good primary offering practices but essentially little to no continuing disclosure process.

## Questions?

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