Washington Public Ports Association
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Taxation and Debt for Port Districts

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Discussion Topics

1. Financing Participants
2. Role of the Financial Advisor
3. Debt Issuance Options and Debt Capacity
4. Methods of Sale

Financing Participants

- Bond counsel
- Financial advisor

- Underwriting firm

or

- Bank purchaser

- Bond rating agency
- Fiscal agent/paying agent – U.S. Bank (State fiscal agent)
- Additional participants for refunding (refinancing) transactions

Role of Financial Advisor

- Assist in planning and developing a financing plan for Port capital projects
- Provide current market-based expertise
- Review of debt plan and affordability
- Structural and financial analysis and advice
- Coordination of financing team; time schedule
- Communication with rating agencies and bond insurers
- Perform functions for sale of bonds
  - Notice of sale and marketing for competitive sale
  - Pricing review and input for negotiated sale
- Underwriter coordination and communication
- Fiduciary responsibility: must provide advice in the best interest of the port

Debt Financing Options for Washington Ports

	Unlimited Tax General Obligation (UTGO)	Limited Tax General Obligation (LTGO)	Net Revenue	Special Revenue
Authorization	60% voter approval	Bond resolution passed by Port Commission	Bond resolution passed by Port Commission	Bond resolution passed by Port Commission
Security / Repayment Source	New, voter-approved excess levy	Port's regular tax levy (may be repaid by any legally available source)	Net revenues of the Port (gross revenues less O&M expense; excludes tax revenues and "special revenues")	"Special" revenue associated with a particular project/tenant (i.e., lease revenue). Not included in "net revenues."
Credit / Ratings	Based largely on Port's property tax base	Based largely on Port's property tax base	Based on Port's operating performance; legal and financial covenants	Based on financial strength of underlying lease/lessee OR credit enhancement (bank letter of credit)
Cost of Capital	Lowest	Low	Moderate - High	Varies based on lessee / credit enhancement
Typical Projects	Public facilities; infrastructure (roads, dredging, rail access)	Public facilities; infrastructure (roads, dredging, rail access)	Private activity; docks, cranes, warehouses, buildings, etc.	Improvements for a single, long-term tenant
Considerations	Not currently used by any Washington port district	Total LTGO debt capacity is limited under RCW by assessed value of port district	May also require a debt service reserve fund (approximately one year of debt service)	Generally requires a large corporate tenant or parent OR bank credit enhancement
				May also be issued through an industrial development corporation created by the Port

Debt Capacity

- A port district's ability to incur additional indebtedness (its "debt capacity") is inherently limited, in multiple ways:
  1. Operationally: a port district can only afford so much annual debt service
  2. In terms of credit: a port district can incur only so much debt – LTGO or otherwise – and maintain its existing credit rating(s)
  3. By statute: outstanding LTGO debt is limited to 0.25% of a port district's assessed value
  4. By covenant: revenue bond documents typically require annual revenues to cover maximum annual debt service by 125% or more, though rating agencies and bondholders typically expect higher levels
- Debt capacity is not static: it will vary as a port's operations fluctuate year-to-year, with changes to the assessed value of its tax base, and as other debt obligations are repaid
- Debt capacity is generally backward looking: it compares past performance with future debt service requirements, and does not typically take into account future expected revenues

Methods of Bond Sale

- There are three different primary methods of selling bonds: competitive, negotiated, and direct placement
- In a **competitive sale**, the port selects an underwriter (or syndicate of underwriters) through a sealed-bid process on the day of sale
  - District receives bids from underwriters throughout the country
  - Bonds are awarded to the bidder offering the lowest true interest cost
- In a **negotiated sale**, the port selects an underwriter (or syndicate of underwriters) in advance of the bond sale
  - Negotiates interest rates with underwriter on the day of sale
  - Underwriter may be involved in discussions of bond structure and marketing strategy in advance of the sale
- In a **bank placement**, the port sells bonds directly to a single investor, typically a bank or other financial institution
  - Not well-suited for large bond issues with maturities >10 years
  - Does not require disclosure work or application for bond rating

Methods of Bond Sale – Public Offering vs. Bank Placement

- The table below summarizes key differences between a: Public Offering (either competitive or negotiated) and Bank Placement:

Method of Sale	Public Offering	Bank Placement
Purchaser	Underwriter who sells the bonds to the public	Bank
Cost	Generally lower interest rate, but higher costs of issuance	Generally higher interest rate, but lower costs of issuance
General Timing	12-16 weeks	8-12 weeks
Disclosure	Financial disclosure to the public	Financial disclosure to the purchaser
Prepayment	Prepay any time after 10-year par call	Prepayment terms are more flexible
Rating	Required	Not required

- Bank placements tend to work well for transactions that are relatively small and have a relatively short term (i.e., <10 years)

Methods of Bond Sale – Competitive vs. Negotiated

- In general, competitive sales are better suited for highly-rated and well-understood credits, with simple structures, and relatively stable market conditions
  - Strong nationwide demand for such bonds – many recent competitive sales have received 10-12 bids, which may vary by as much as 0.30%
- Negotiated sales are better suited for unique credit types, complex bond structures, and/or volatile market conditions
  - Underwriter(s) may be selected through competitive RFP process
  - Negotiated sale allows underwriter(s) to effectively "pre-market" bonds to investors across the country, which may not already be familiar with the issuer
- An issuer may easily switch from a competitive to negotiated sale prior to the sale date; however, a switch from negotiated to competitive sale is very difficult
- Under any method of sale, the port is represented by its bond counsel and financial advisor

Summary Comments and Considerations

- Look for free money and low-interest rate loans first
- If you are worried about repaying the bonds, don’t borrow the money
- Do not let rating agencies dictate how to run your organization
- Do not get talked into something unless you understand it
- Do not rush into refundings
- Do not believe rates are going to stay low or go up forever
- Develop financing policies and guidelines
- DO NOT DEFAULT ON BONDS OR BANK LOANS