



Understanding Port Finances as a Commissioner

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Highlights

- How to Be Financially Successful
- Touchstones of Financial Stability
- Port Taxing Authority
- Debt as a Tool

How to Be Financially Successful





How to Be Financially Successful

- ▶ What information needs to be communicated to make your Port Successful
 - ▶ **Current** accounting information
 - ▶ Budgets
- ▶ Historical information
- ▶ Forecasts
- ▶ Project analysis

Live within your Ports means. What does this mean?

Realistic Budget

- ▶ This includes an Operations budget and a Capital Budget
- ▶ Evaluate your Revenues
- ▶ What you can count on
 - ▶ Long term lease
 - ▶ Tax levies

More volatile revenue

Financial drivers for your business: ex Fuel prices affect marina activity or General Aviation.

If Possible make sure your expenses stay with your operating budget, but be aware it is not illegal to use your tax levy to pay operating expenses.



Establish an emergency fund

When you have your operating budget established, set aside an emergency fund.



Establish Financial Guidelines, what are they?

- They state how you are going to operate financially
- They set priorities for using your finances
- They need to be flexible yet give broad parameters
- They need to be comprehensive

Financial Guidelines, What should be included?

- Revenue Guidelines
- Operating expense guidelines
- Capital expenditure guidelines
- Budget guidelines
- Cash management guidelines
- Debt guidelines
- Treasury guidelines



Revenue

- ▶ Revenue recognition, setting revenue rates, collecting revenues due the Port, and other revenue decisions should be made by appropriate personnel, acting within the scope of their assigned duties, using the most efficient and effective manner consistent with the laws of the State of Washington. Authority to set revenue rates, collect money due the Port, maintain effective customer relations, and market the Port to potential customers is delegated by this system to people responsible for Port operations as limited by the Delegation of Authority Resolution from time to time. Accountability for revenue decisions rests with those people, however, these people may delegate such parts of this authority as they deem appropriate from time to time.
- ▶ Authority to negotiate leases outside the scope of the authority delegated in the Delegation of Authority Resolution is retained by the Port Commission which is also responsible for setting rates and all other terms for these leases which shall be negotiated on behalf of the Port as the Commission shall instruct from time to time.

Revenue Cont'd

Establishing a Fair Market Value Rate of Return for Leases:

- ▶ From Time to Time, the Port Commission shall adopt by Resolution the Rate and Fee schedule for Leased Property and the lease rates as set forth therein shall be the rate upon which new leases will be made for each subject property.
- ▶ If a lease renews during the year, the new rate shall be the rate as shown on the current year's Rate and Fee schedule for Leased Property. Rates may be adjusted to account for the length of time a new lease will last based upon the judgment of the Property Manager and the Director of Finance and Administration as to the appropriate level of expected future lease rates. In no case shall a fixed rate lease be entered into for a term that exceeds three years unless the rent adjusts a minimum of every three years.



Expenses Other than Employee and Payroll

Expenditures of Port funds, and within the purchase order procedure, should be made by appropriate personnel, acting within the scope of their assigned duties, using the most efficient and effective manner consistent with the requirements of law and using appropriate systems of financial controls.

Credit Cards

- ▶ For the efficient operation of the Port, the Director of Finance and Administration shall determine whether using a credit or purchase card system is an appropriate method of transacting business for a particular employee or Commissioner. Use of credit card will follow Port procedures.

Port Travel Expenditures & Promotional Hosting Expenditures

- ▶ For the efficient operation of the Port, the Port Commission authorizes Port employees and Commissioners to incur such travel and promotional hosting expenditures as authorized in the Port's operating and capital budget, subject to the authority delegated to the Executive Director in the Delegation of Authority Resolution.



Employee Costs and Payroll Procedures

Employment and payroll decisions should be made by appropriate personnel, acting within the scope of their assigned duties, using the most efficient and effective manner consistent with federal and state laws and good internal controls. Authority to hire employees, establish rates of pay, grant merit and other raises, promote, demote, give appropriate discipline, and terminate employees is delegated to the Executive Director for all employees and contractors except for the Port Auditor and the Port Executive Director and for those two positions, the Port Commission does not delegate its authority. *Accountability for employment and payroll decisions rests with the Commission with respect to the Executive Director and the Auditor, and for the remaining employees with the Executive Director and the other Department Heads to whom the Executive Director has delegated his authority.*

Employee Costs and Payroll Procedures (Cont'd)

The secondary internal control systems for employment and payroll processes include:

- ▶ Centralized approval of hours worked by Port Management
- ▶ Review of rates of pay to insure compliance with established pay rates on a periodic basis
- ▶ Centralized coding of payroll and benefits expenses
- ▶ Centralized employment related documentation
- ▶ Separation of employee file maintenance from the payroll process

The Executive Director shall advise the Commission of the following:

- ▶ Position (Job) descriptions and duties
- ▶ Performance review status and results of reviews including performance improvement plans and employee growth opportunities, promotions and demotions
- ▶ Transfers to other jobs or to leave status
- ▶ Disciplinary actions and terminations



Employee Costs and Payroll Procedures (Cont'd)

The Executive Director and the Director of Finance and Administration shall recommend wage and salary adjustments to the Port Commission to be effective each year as part of the budget process; so long as they are within the salary matrix which is revised annually. Wage or salary increases shall be based on the increase or decrease in the cost of living, or minimum/maximum established in the current union contracts, individual merit, job duties, the cost of employee benefits, and the total amount available to pay employees for the work the Port needs to have done. Pay increases may be granted for any promotions at the time of promotion in amounts determined reasonable by the Executive Director provided the increase is within the overall Port Budget.

The Commission shall establish the total compensation to be paid to the Executive Director and to the Port Auditor.



Capital Expenditures, Assets Acquisitions and surplusings

The Port shall provide for capital expenditures and link proposed capital expenditures to its Comprehensive Scheme of Harbor Improvements and Industrial Developments or its Airport Master Plan through regular periodic updating of the Port's capital facilities plan.



Cash Reserves Debt and Investment Policies and Procedures

The Port shall maintain an un-invested cash balance in the general fund needed to meet current obligations as determined by the Director of Finance and Administration. All funds in excess of that amount shall be transferred to the Port's investment accounts which shall be maintained by the Treasurer of the Port. If the un-invested cash balance falls below that amount, funds shall be transferred from the Port's investment accounts into the un-invested cash account. The Port Treasurer shall be the County Treasurer until changed by Resolution of the Port Commission

Cash Reserves Debt and Investment Policies and Procedures (Cont'd)

Debt Policy and Procedure

- ▶ The Port of Pasco uses long-term debt to finance acquisition or construction of long-lived assets that are generally capitalized and depreciated over more than 20 years. The Port's policy is to use debt when conditions are favorable to the Port such as:
- ▶ Interest rates are favorable for borrowing
- ▶ Grant and other sources of funds are not available to fund capital asset acquisition or construction
- ▶ The Port does not have enough cash to pay for needed assets
- ▶ The opportunity presented seems favorable to the Port
- ▶ The assets to be acquired further or enhance the Port's fulfilling its mission as defined

Cash Reserves Debt and Investment Policies and Procedures (Cont'd)

The Port Commission may authorize borrowing up to the statutory or constitutional debt limit, whichever is less, in order to finance acquisition of assets to be placed in service by the Port.

The selection of an underwriter shall be based on the estimated proceeds and estimated total cost to the Port to issue the proposed debt. Past experience with a particular underwriter may be used to aide in the selection process.

In all cases of debt issuance, the Port, with the assistance of a financial advisor, will review proposed calculations and costs to select the best underwriter.

Each year as a part of the budget process, the Director of Finance and Administration shall prepare a debt service plan and present it to the Commission. The plan will detail the sources of the debt outstanding, the payments of principal and interest due through the maturity of all debt, and it will show the projected debt coverage ratio considering all net income sources and also net income only from operations as a ratio over each period debt is planned to be repaid. The assumptions concerning the future income stream and the debt service amounts will be clearly stated in the plan and report to the Commission.

The Port Of Pasco in an effort to maintain a high level of financial solvency, will strive to achieve a minimum debt service coverage goal of 1.6 for revenue bond funded projects.



Budget Process and the Property Tax Levy

The Port Commission shall establish a budget and levy rate as required by the laws of Washington, RCW 53.35. The Director of Finance and Administration shall prepare the Port budget, and prepare a recommended levy as a component of that budget. The Executive Director shall assist in the plan and shall prioritize operating and capital expenditures based on the projected revenues.



Grant & Loan Applications

The Port shall, to the extent advisable from time to time, apply for grant and subsidized loan funding to construct capital and infrastructure assets for the benefit of the Port and its tenants. If a grant or subsidized loan is advisable, the Executive Director, the Director of Finance and Administration, and/ or other authorized Port Officials, and if necessary the Port Legal Counsel shall work together to gather the data needed to support the application, and appropriate Port Officer shall prepare and submit the application, after approval by the Port Commission.



Grant & Loan Applications (Cont'd)

Reporting Losses of Public Funds or Assets or Other Illegal Activity

RCW 43.09.185 requires that all state agencies and local governments immediately notify the State Auditor's Office (SAO) in the event of a known or suspected loss of public funds or assets or other illegal activity.

Any employee of the Port shall immediately notify the Director of Finance and Administration at any time they suspect that a loss of public funds or assets or other illegal activity concerning the Port or its property may have taken place. The Director of Finance and Administration shall, immediately upon receiving such notice, take the steps as defined in the procedures.



Touchstones of Financial Stability



What are the touchstones of Financial Stability

Liquidity

Profitability

Sustainability





Pay Attention to: Liquidity

Current Ratio

Minimum Cash Reserves

Debt Service Coverage

Debt Capacity



Pay Attention to: Profitability

- Operating Income
- Return on Revenue
- Operating Cash Flow
- Earnings (loss) before tax levy

Pay Attention to: Sustainability

- Return on productive assets
- Maintenance, Insurance, & Environmental
- Financial Capacity





Pay Attention to Annual Budget

- ▶ Does the budget align with the Port's goals? Short & Long Term
- ▶ Does it fund the important priorities for the upcoming year?
- ▶ Are the revenues and capital investments aligned?
- ▶ Does it consider the effect of capital investments on future years budgets?
- ▶ Does it comply with law and policy?

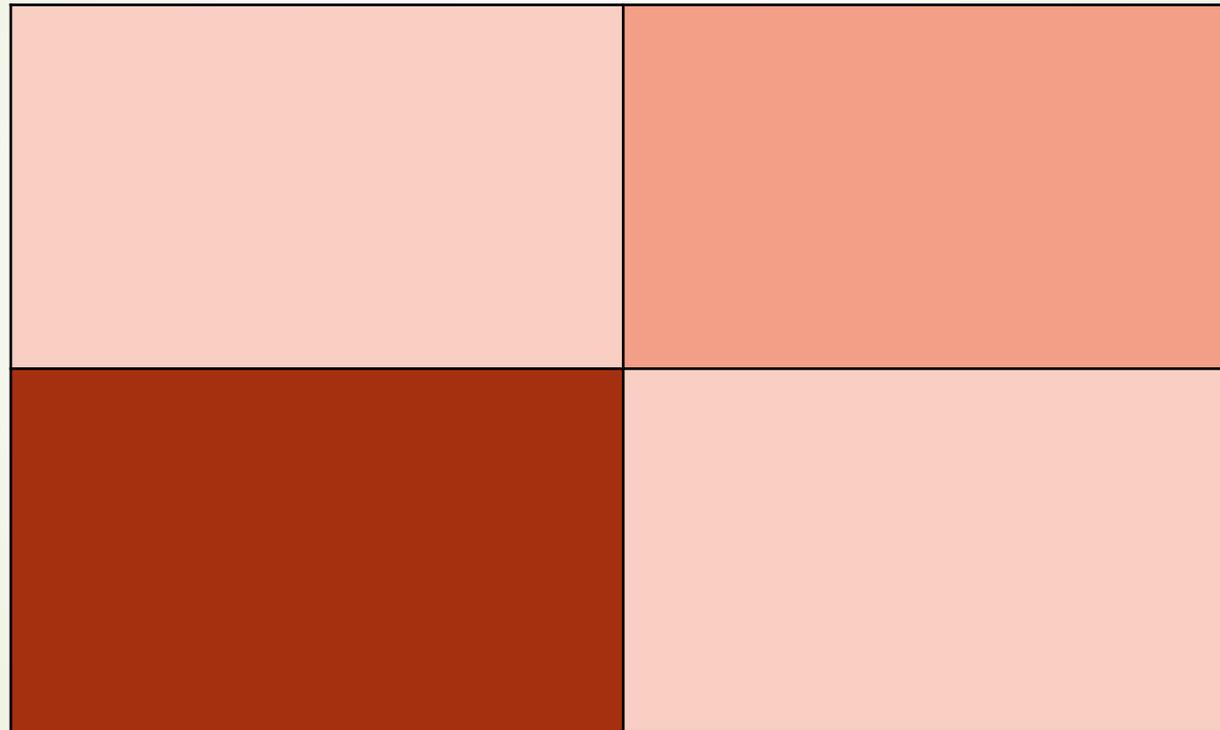


Pay Attention to: Performance

“You’ll get what you measure”

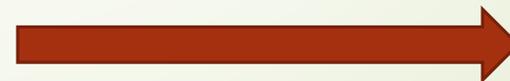
- ✓ Each Port should measure what’s important
- ✓ Find measures that drive several results.
- ✓ Measures: Simple, realistic, agreed upon.
- ✓ Review quarterly.

Setting expectations for financial return



Financial Return

Public Benefit





Port Taxing Authority



Tax Levy - Limitation

RCW.53.36.020

- ▶ A district may raise revenue by levy of an annual tax not to exceed forty-five cents per thousand dollars of assessed value against the assessed valuation of the taxable property in such port district for general port purposes, including the establishment of a capital improvement fund for future capital improvements, except that any levy for the payment of the principal and interest of the general bonded indebtedness of the port district shall be in excess of any levy made by the port district under the forty-five cents per thousand dollars of assessed value limitation. The levy shall be made and taxes collected in the manner provided for the levy and collection of taxes in school districts of the first class.



TAX LIMITS

Property tax levies are subject to several statutory and constitutional limits

- The “101% levy lid” restricts individual taxing districts to collect a maximum one per cent increase over the highest amount collected since 1985 for their regular levy, plus an amount attributable to new construction within or annexations to the district. This law applies to a taxing district budget and not to individual properties. RCW84.55.010.
- The regular levy of each taxing district cannot exceed a certain rate, which is determined by the type of district. For example, the levy for the county current expense fund cannot exceed \$1.80
- The aggregate regular levy rate of all senior and junior taxing districts (not including the state, port districts and public utility districts, emergency medical levies, and conservation futures) cannot exceed \$5.90. RCW84.52.043.

The aggregate of all regular levies (not including port and public utility districts) shall not exceed 1% of true and fair value. WASHINGTON STATE CONSTITUTION, ARTICLE VII

DEBT AS A TOOL





Where to get the money

- ▶ Issuing bonds through
 - ▶ The public bond market through use of an underwriting firm (I'll use the terms "underwriter" and "bonds")
 - ▶ Direct lending from a bank (though you'll issue a note or bond, I will use the term "bank loan")
- ▶ But consider all options
 - ▶ Grants
 - ▶ State loans
 - ▶ Federal loans
 - ▶ Vendor Financing
 - ▶ State's LOCAL program (pooled financing)



Timing

- ▶ The Process can vary depending on the complexity of the transaction and how much information is available from the issuer.
- ▶ Generally, from the start of the process to receiving funding
 - ▶ Bonds issue – 6 to 8 weeks
 - ▶ Bank Loan – Couple of weeks



Participants in Financing

- ▶ You, the “issuer”
- ▶ Bond Counsel
- ▶ Financial Advisor
- ▶ Underwriter or Bank
- ▶ Rating Agency, Bond Insurer, Underwriter’s Counsel, as applicable
- ▶ *Your Team of professionals is Immersed in the bond issuance process and may use a lot of jargon*
 - ▶ Be sure you understand and are comfortable with the process
 - ▶ Ask a lot of questions!



Bond Counsel

- ▶ Prepares resolutions/ordinances, reimbursement resolutions
- ▶ Proper authorization and enforceability
- ▶ Federal tax law impacts and regulations
- ▶ Provide unqualified legal opinion that the bonds
 - ▶ Have been duly authorized and are valid and enforceable obligations
 - ▶ Exempt (or not) from federal income tax
- ▶ Opinion is required by investors and others



Financial Advisor

- ▶ Perform overview, review and coordination for financing
- ▶ Develop financing alternatives
 - ▶ Bank vs. underwriting firm
 - ▶ Sale Method: Competitive vs. negotiated
- ▶ Provide current market-based expertise
- ▶ Structural and financial analysis and advice
- ▶ Coordination with rating agencies, bond insurers, underwriters
- ▶ Represents the issuer in negotiations with the underwriter



Underwriting Firm or Bank

- Generally
 - Bonds have lower interest rates but higher up front costs
 - Bonds work better for larger amounts of money and longer periods of time
 - Banks work well for interim, variable rate financing (tied to Prime or LIBOR)
 - Most banks will not go longer than 15 years
 - Banks often work better for weaker credits
- If the decision is close to a toss-up, need to consider the “hassle factor”



Types of Bonds

- ▶ General Obligation Bonds – Voted & Non-voted
 - ▶ Lowest cost of borrowing
 - ▶ Secured by property taxes and limited by State statute
 - ▶ Can be “Double-barreled” – payable from specific revenues
- ▶ Revenue Bonds (General Port, Airport, etc.)
 - ▶ Payable solely from revenues
 - ▶ No dollar limit, but practical limit (Revenue)
 - ▶ Issuer makes certain covenants and pledges
 - ▶ Debt Service coverage, reserve fund, additional bonds
 - ▶ Cannot be paid from property taxes



General Obligation Debt Limits

- ▶ State law limits general obligation debt
- ▶ The limitation is based on the entity's assessed valuation
- ▶ Port Limitation (% of assessed valuation)
 - ▶ Non voted = 0.25% Total = 0.75%
- ▶ May want to maintain capacity for a "rainy day"



Documentation

- ▶ Bond Resolution
 - ▶ Provides all the details of the bonds that the Commission agrees to
 - ▶ Approved on the date of sale or ahead of time on a delegated basis
 - ▶ Delegation to staff (e.g. Executive Director, Finance Director)
- ▶ Official Statements
 - ▶ The disclosure document provided to investors prior to the sale
 - ▶ POS or Preliminary Officially Statement
 - ▶ Contains information about the project being financed, structure, call provisions, and security for the bonds and details about the issuer, local economy, etc.
 - ▶ Updated with the pricing details after the sale (Final Official Statement)



Debt Structure

- ▶ Level and wrapped debt structures are examples of common structures
- ▶ Explore various structures to determine what makes sense for your organization, tax payers, and / or rate payers.
- ▶ When applicable, can frequently structure most expensive debt first followed by least expensive debt.



Method of Sale

- ▶ Negotiated
 - ▶ Select an investment banking firm
 - ▶ What is negotiable?
 - ▶ Structure, terms and maturities
 - ▶ Interest rates
 - ▶ Redemption provisions
 - ▶ Underwriting compensation
- ▶ Competitive
 - ▶ Financial advisor works with client to develop financing plan, structure the issue, prepare the official statement, apply for bond insurance (if available) and bond ratings, and schedule a sale date.
 - ▶ Underwriting firm is selected through bids received electronically
 - ▶ Firm providing lowest cost of financing is selected
 - ▶ Lowest cost of financing includes interest rates and underwriting fees



Bond Ratings

- ▶ Ratings are essential to most bond sales
- ▶ Three primary rating agencies
 - ▶ Moody's
 - ▶ Standard and Poor
 - ▶ S
 - ▶ Fitch
- ▶ Insurance may be used to enhance the rating
- ▶ Banks may not require a rating
- ▶ Meetings with Analysts
 - ▶ In person visit, either at your site or theirs
 - ▶ Phone call
- ▶ *Analysts are your advocates*



Date of Sale

- ▶ Negotiated
 - ▶ A pricing call takes place the day before
 - ▶ Financing team discusses preliminary interest rates, comparable sales and sale schedule
 - ▶ About a three hour process
 - ▶ Underwriter begins order period early in the morning
 - ▶ Sales force confirms order amounts and interests
 - ▶ Financing team reconvenes after order period for an update or, if the bonds have been sold, agree to size and interest rates
- ▶ Competitive
 - ▶ At the set date and time, underwriters submit interest rate / fee bids
 - ▶ Most bids arrive within seconds of the specified time



Post Issuance Compliance

- ▶ Continuing Disclosure
 - ▶ Annual financial statement
 - ▶ Other statistics agreed to and specified in bond resolution / ordinance
 - ▶ Material events
- ▶ Tax Exempt Status
 - ▶ Watch out for private use
 - ▶ Track bond proceeds / investments
- ▶ Bond Covenants
 - ▶ Debt Service coverage
 - ▶ Reserve requirement
 - ▶ Additional bonds test

PORT OF PASCO
SCHEDULE OF LIMITATION OF INDEBTEDNESS
as of December 31, 2010

Total Taxable Property Value \$ 4,645,402,562

<u>I. Indebtness Without A Vote Legal Limit .25%</u>		\$ 12,535,552.55
A. General Purpose Indebtedness Without a Vote (Legal Limit .25%)		\$ 12,535,552.55
Indebtedness (Liabilities):		
GO Bonds	\$ 8,660,000.00	
Others		
Less Assets Available		
Indebtedness Incurred-Section A		\$ 8,660,000.00
Margin of Indebtedness Available Without a Vote		\$ 3,875,552.55
<u>II. Indebtedness With a 3/5 Vote</u>		
Indebtness (Liabilities)		
GO Bonds		
Others		
Less Assets Available		
Indebtedness Incurred-Section II		\$ -
Margin of Indebtedness Available With 3/5 Vote		\$ 37,606,657.65
<u>Total Indebtedness Allowable -Section I and II (Legal Limit .75%)</u>		<u>\$ 37,606,657.65</u>
<u>Less: Indebtedness Incurred -Section I and II</u>		<u>\$ 8,660,000.00</u>
MARGIN OF INDEBTEDNESS AVAILABLE		<u>\$ 28,946,657.65</u>

Debt Cap

	Actual		
	2013	2014	2015
AIRPORT REVENUES			
Airline Revenues	\$ 1,616,597	\$ 1,676,152	\$ 2,090,075
Non-Airline Revenues	4,623,177	4,752,664	5,019,196
Non-Operating Revenues	-	-	-
Total Airport Revenue	\$ 6,239,774	\$ 6,428,816	\$ 7,109,271
Airport Operating Expenses	4,365,293	3,904,686	4,305,557
Net Operating Revenue	\$ 1,874,481	\$ 2,524,130	\$ 2,803,714
Passenger Facility Charge	1,328,469	1,316,565	1,418,673
Airport Net Revenue Available for Debt Service	\$ 3,202,950	\$ 3,840,695	\$ 4,222,387
NON-AIRPORT REVENUES			
Operating Revenues	\$ 2,904,715	\$ 2,860,575	\$ 2,463,121
Non-Operating Revenues			
Tax Levy	\$ -	\$ -	\$ -
Less General Obligation Debt Service	923,142	925,762	921,627
Net Tax Levy	(923,142)	(925,762)	(921,627)
Other Non-Operating Revenues (Expenses) ⁽¹⁾	-	-	-
Net Non-Operating Revenues	(923,142)	(925,762)	(921,627)
Total Non-Airport Revenues	\$ 1,981,573	\$ 1,934,813	\$ 1,541,495
Non-Airport Operating Expenses	3,036,331	1,303,301	1,360,937
Non-Airport Net Revenue Available for Debt Service	\$ (1,054,758)	\$ 631,512	\$ 180,558
Combined Net Revenue Available for Debt Service	\$ 2,148,192	\$ 4,472,207	\$ 4,402,945
Actual Debt Service, 2014 A&B Bonds*	\$ 694,034	\$ 1,971,225	\$ 1,969,950
Debt Service Coverage, 2014 A&B Bonds (Airport Net Revenues)	4.61x	1.95x	2.14x
Debt Service Coverage, 2014 A&B Bonds (Combined Net Revenues)	3.10x	2.27x	2.24x

(1) Excludes Interest Expense and Depreciation.



Continuing Disclosure

- ▶ Current the reporting platform is EMMA
 - ▶ Electronic Municipal Market Access
 - ▶ Managed by the Municipal Securities Rulemaking Board (MSRB)
 - ▶ Investors have access to information at no cost



Questions?

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