Overview of a Port's Financing "Toolbox" and Municipal Market Update

Washington Public Ports Association – 2018 Finance Seminar

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KeyBanc Capital Markets

June 2018

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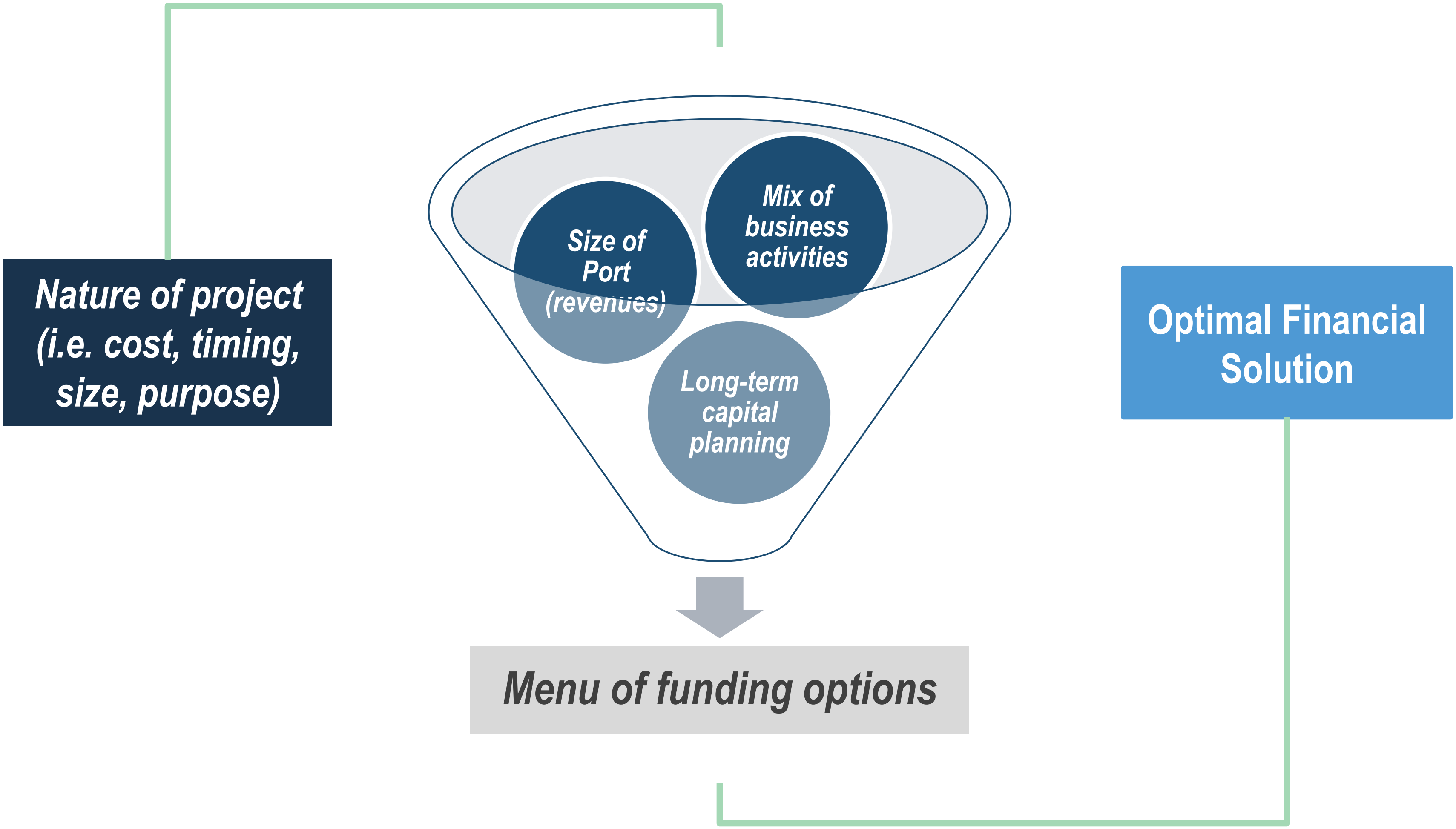
Source: KBCM and K&L Gates.

The range of funding needs and financing solutions for Ports is broad and diverse, and the optimal solution requires analysis of a number of factors



Source: KBCM and K&L Gates.

Pay as You Go vs. Debt Funding Considerations

Cash Funding ("Pay as You Go")

Advantages

- Port avoids paying interest on debt and issuance costs
- Port avoids continuing disclosure, arbitrage calculation, and post issuance compliance requirements

Disadvantages

- Infrastructure can require long "wait" time
- Spenddown of cash could limit "opportunistic" spending in the future
- Potential impact to credit rating(s) as Port draws down on fund balance
- Negative carry on saved cash can result in decline of purchasing power

Debt Funding ("Pay as You Use")

Advantages

- Achieves "intergenerational equity"; future users share in the cost of the project
- Infrastructure is built when it is needed
- Cash on hand may be conserved for other purposes

Disadvantages

- Debt payments could limit future budgetary flexibility
- Potential impact to credit rating(s)
- Post issuance compliance and continuing disclosure can be burdensome

Source: KBCM and K&L Gates.

Security Pledges: How Do you Plan to Repay the Debt?

General Obligation Pledge

- Secured by the Port's Ad Valorem tax collections
- Typically higher credit rating and lower issuance cost
- LTGO debt authorized by Port Commission; UTGO debt requires public vote
- LTGO capacity constrained by statutory limit

General Revenue Pledge

- Secured by the Port's net revenue
- Typically lower credit rating and higher issuance cost
- Disclosure document requires more detailed and lengthy information about the Port
- Authorized by Port Commission
- Healthy debt service coverage ratio required

Special Revenue Pledge

- Revenues generated by specific bond-funded project (i.e., lease payments from Port tenant)
- Cost of capital varies significantly based on the underlying credit. Typically cost of capital is higher as the revenue stream servicing the debt is "narrow", compared to a Port's general revenue stream.
- Authorized by Port Commission
- Most time-consuming and costly bond issuance process

LID Pledge

- Revenues from assessments for properties benefited by local improvement district projects (e.g., sewers, roads)
- Cost of capital varies significantly based on the underlying credit. Typically cost of capital is higher as the revenue stream servicing the debt is "narrow", compared to a Port's general revenue stream.
- Authorized by Port Commission or owner petition; subject to "veto" of 60% of owners
- Time-consuming and costly formation and bond issuance process (varies with property owners' level of support)

Source: KBCM and K&L Gates.

Legal & Statutory Guardrails & Hurdles

General Levy
- For general port purposes, no election
- $0.45 per $1000
- Banked levy capacity

IDD Levy
- 2 or 3 levy periods
- Collect over up to 20 years per levy period
- Max collection of $2.72/$1000 times base AV

Dredging Levy
- For dredging, canal, land leveling/filling
- $0.45 per $1000

101% Levy Limit
- This limitation DOES apply to port districts
  - Regular property taxes (total $)
  - No greater than 101% of the highest levy during last 3 years plus new construction

GO Bonds
- 0.25% x AV: LTGO debt limit
- 0.75% x AV: LTGO/UTGO debt limit
- 60% voter approval required for UTGO bonds.

Bond Levy
- Part of general levy, but—
- It may exceed $.45 per $1000

Revenue Bonds
- May not be paid from tax levies.

Debt Authorization
- Revenue Bonds and Warrants - RCW Ch. 53.34, RCW Ch. 53.39, RCW Ch. 53.40
- G.O. Bonds - RCW 53.36.030
- LID Bonds - RCW 53.08.010 RCW 53.25.100
- Pollution Control - RCW Ch. 70.95A
- Tax Anticipation Warrants - RCW 53.36.040
- Registered Warrants - RCW 53.36.040, RCW 36.29.040
- Revenue Warrants - RCW 53.40.135
- Airports - RCW Ch. 14.08

Source: KBCM and K&L Gates.

Forms & Methods of Traditional Debt Financing

Bank Loan

- Market prefers shorter duration terms (7-10 years), but can range up to 15 years without a “put” option
- Flexible parameters often available, e.g. drawdown, prepayment options, etc.
- Typically higher interest rates vs. bond issue; however, issuance fees are often not as much as they are for a bond issue.
- Document provisions can have a greater degree of variation when compared with bond issues, because the lender drafts documents

Bond Issue

- Longer terms, up to 30 years (without refinancing risk)
- Longer and more time consuming issuance process
- Typically involves more transaction costs
- Required compliance for continuing disclosure via MSRB “EMMA”
- Bond Counsel drafts legal documents, allowing for more control by issuer

Source: KBCM and K&L Gates.

Alternatives to "Traditional" Bond/Loan Financing

Revolving Lines of Credit

Master Equipment Lease Line

Non-revolving Lines of Credit

Brownfield RLF

PWTF Loans

CERB Loans

State Revolving Loan Funds

TIFIA

USDA Grants/Loans

RRIF

EX-IM Bank

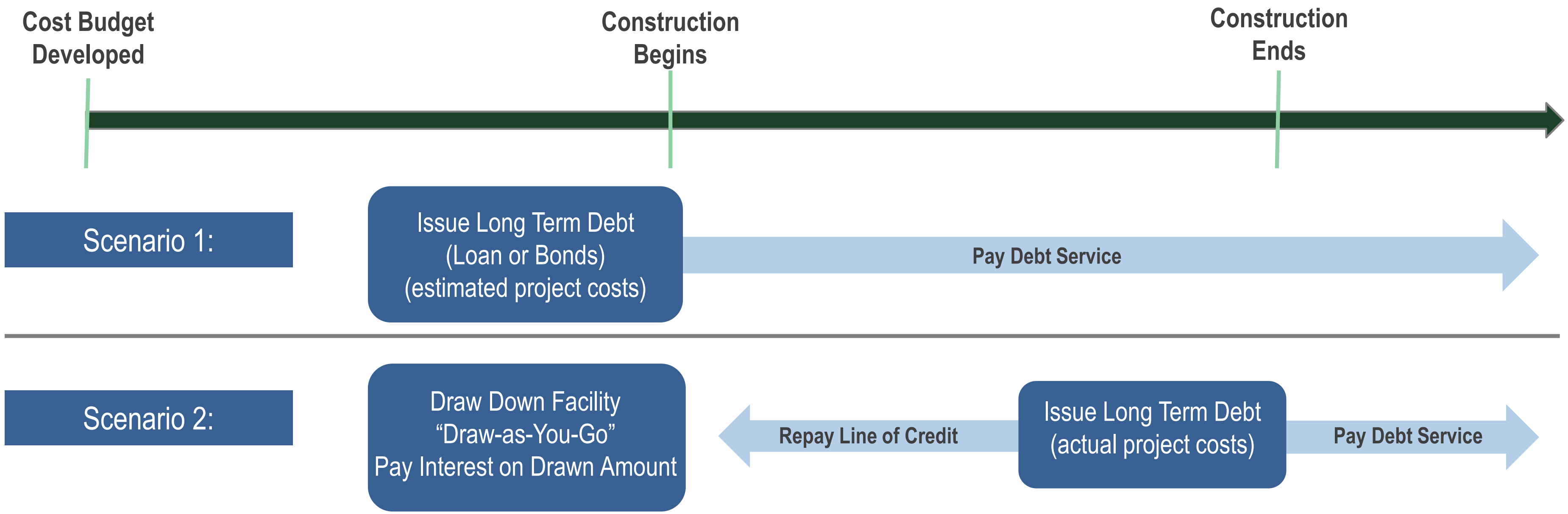
Public-Private Partnerships

EB-5 Financing

Private Capital

Source: KBCM and K&L Gates.

COMBINED APPROACH: A CASE STUDY



Pros of Bridge Financing

- Eliminates Negative Arbitrage during the construction period on reinvestment of proceeds
- Allows Port to bond for exactly the amount spent on construction, vs. estimated costs
- Depending on nature of project, allows Port to issue bonds less frequently, saving staff time and savings on transaction costs
- Line of Credit can be structured on a subordinate basis
- Line of Credit can be structured in order to fund working capital, and be considered liquidity for credit rating purposes

Cons of Bridge Financing

- Interest rate risk during construction period
- Lines are typically pegged to variable rate index, introducing interest rate risk
- Depending on nature of project, requires an additional transaction
- Short term rates have been rising more quickly than long term rates

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Source: KBCM and K&L Gates.

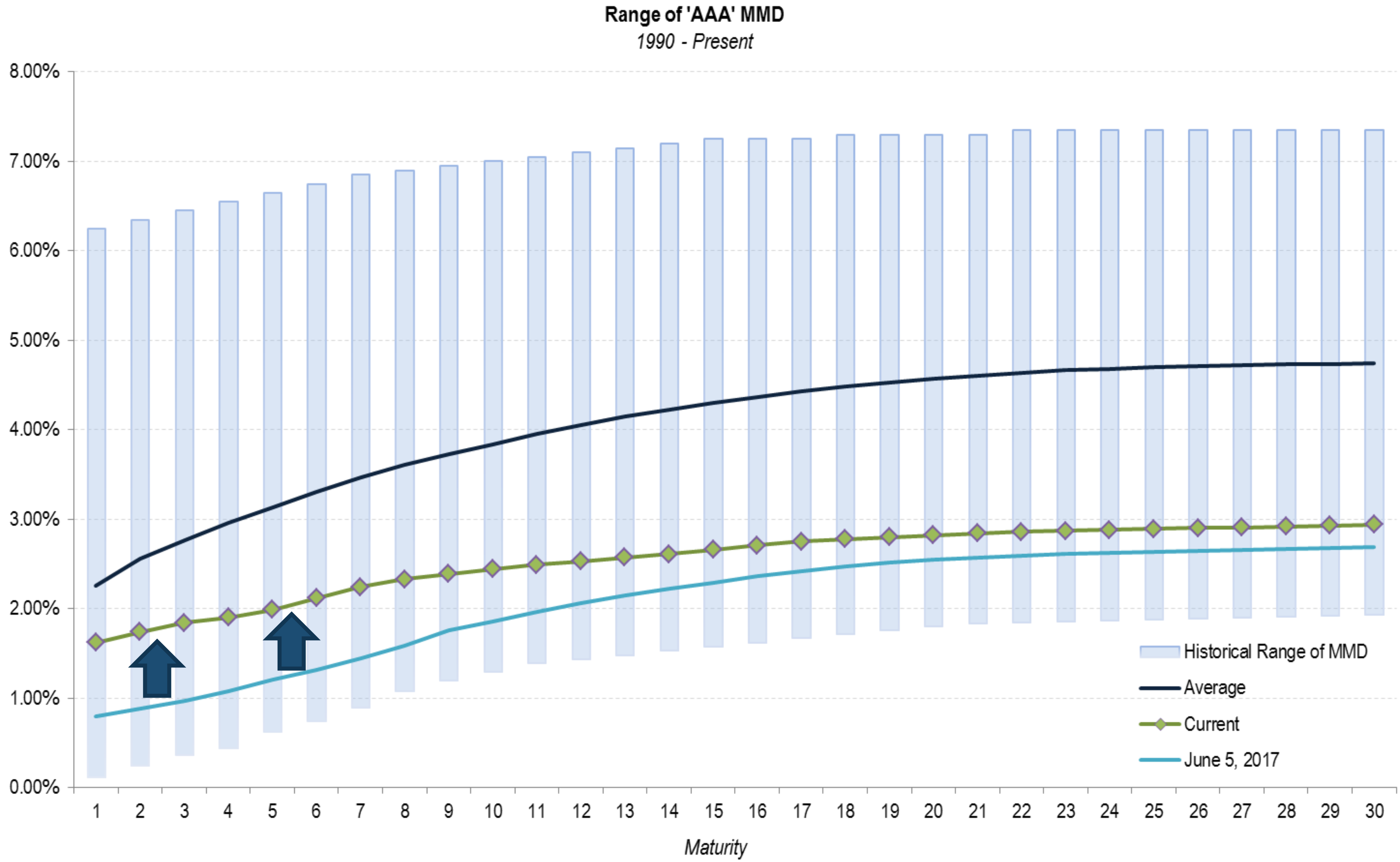
Municipal Market Update: 2017 Tax Reform

- **Initial House and Senate Tax Reform Proposals:**
  - Tax-exempt Private Activity Bonds Reduced/Eliminated
  - Advance Refundings of Tax-Exempt Bonds Eliminated
  - State and Local Tax Deductions (“SALT”) Reduced/Eliminated
  - Tax-Credit Bonds Eliminated
  - Alternative Minimum Tax Eliminated
  - Reduction in Corporate Tax Rate from 35% to 20%

- **Final Tax Cuts and Jobs Act Effective January 1, 2018:**
  - Tax-exempt Private Activity Bonds Preserved
  - Advance Refundings of Tax-Exempt Bonds Eliminated
    - Current refundings are still permitted
  - SALT deductions reduced; capped at $10,000 annually
  - Tax-Credit Bonds Preserved
  - Tax-Exempt Bonds issued for Stadiums Preserved
  - Alternative Minimum Tax Threshold Raised
  - Reduction in Corporate Tax Rate from 35% to 21% (triggered gross-up provisions)

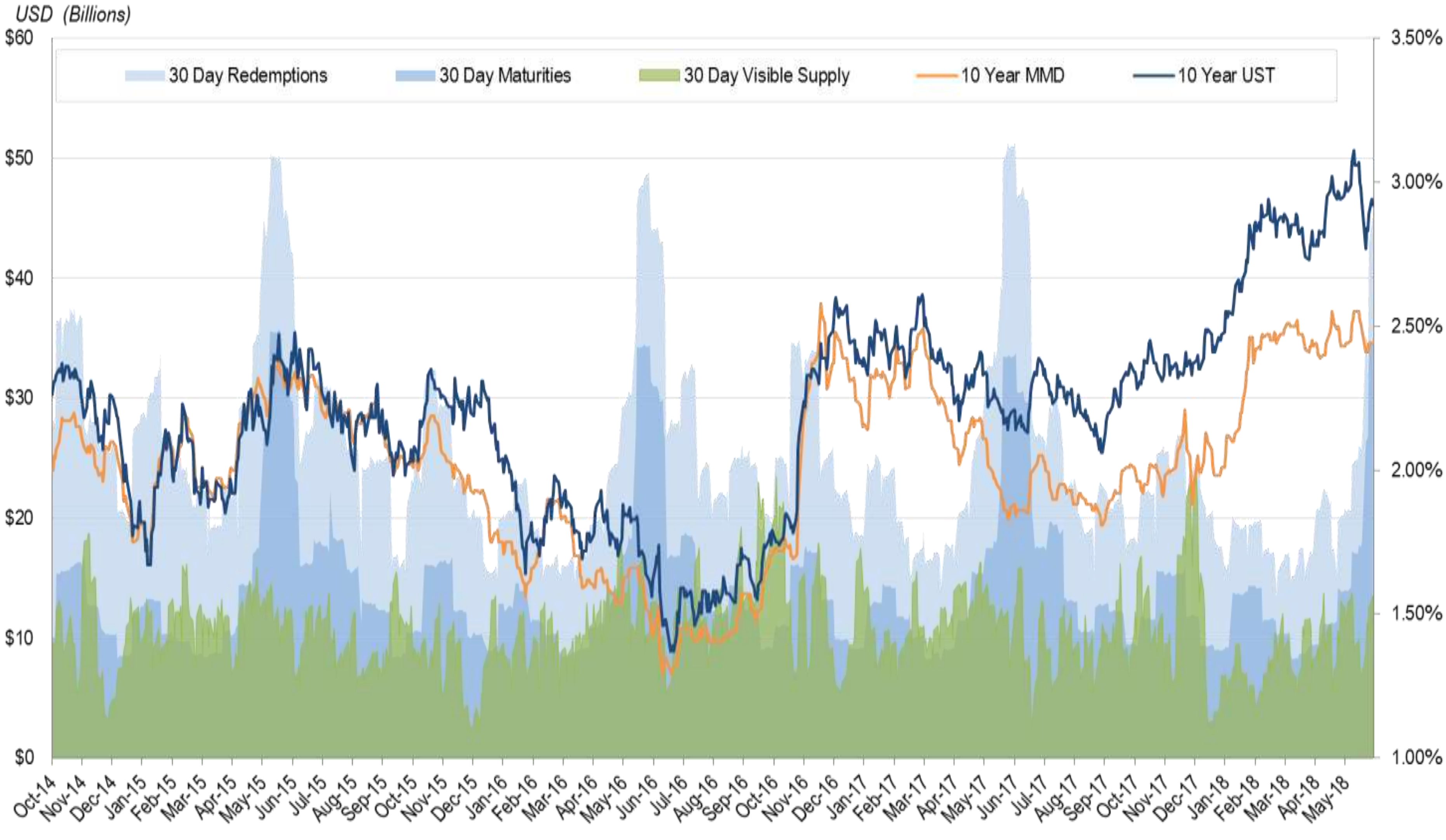
Source: KBCM and K&L Gates.

MUNICIPAL MARKET UPDATE: RATES STILL AT LONG TERM LOWS



Source TM3.
Rates as of June 5, 2018.

MUNICIPAL MARKET UPDATE: MUNICIPAL SUPPLY DIPS IN 2018 AS TAX REFORM TAKES EFFECT



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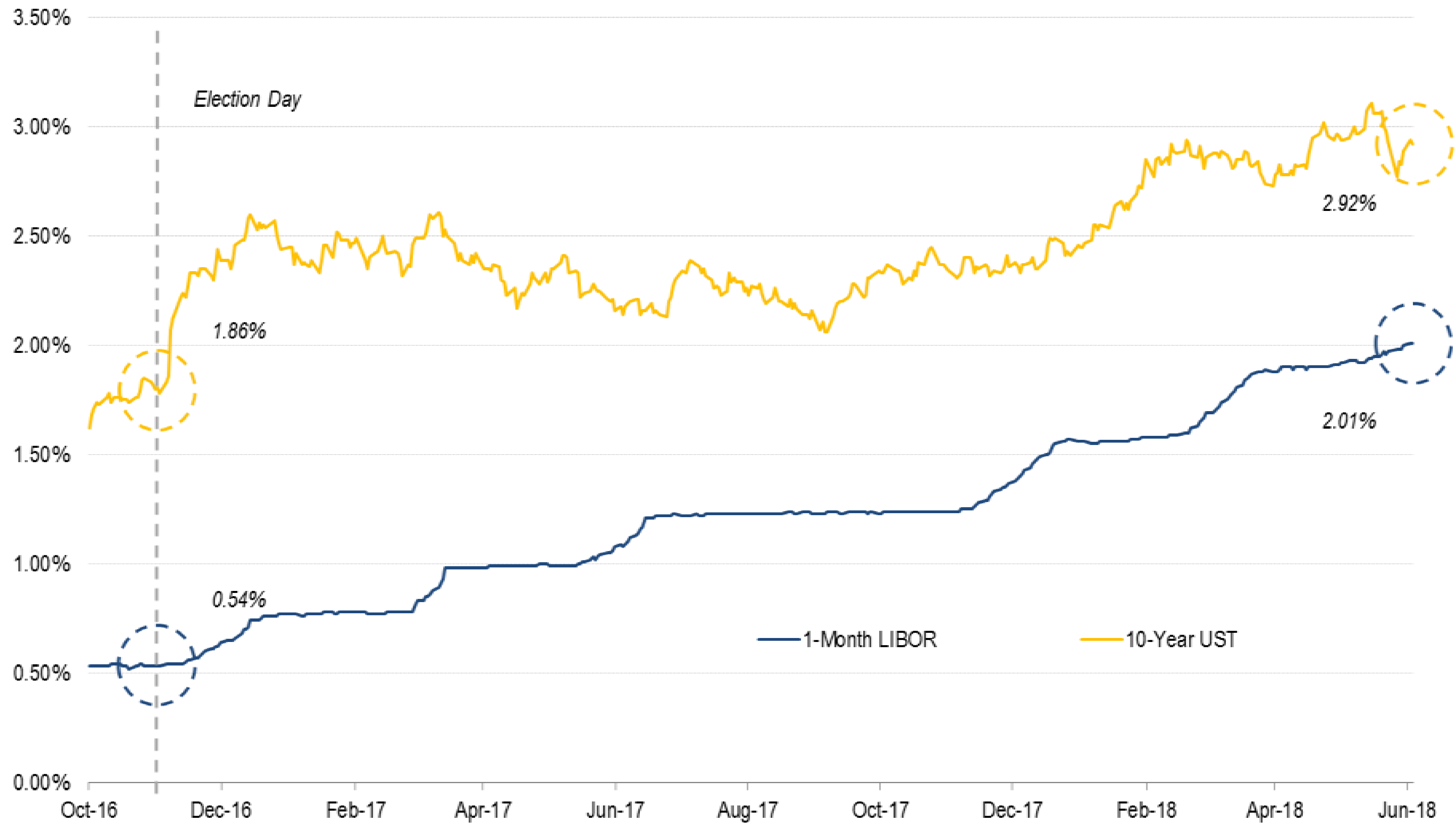
Municipal Market Update: Short-Term Rate Growth Outpaces Long-term Growth



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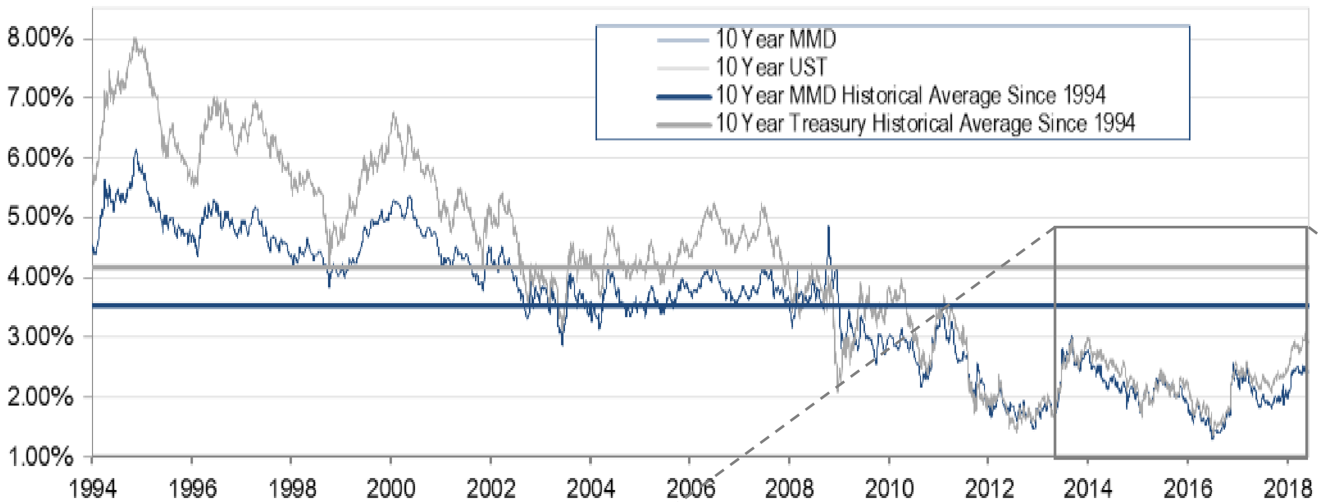
TAX-EXEMPT AND TAXABLE RATES – 10-YEAR MMD AND 10-YEAR TREASURY RATES

10-year MMD and 10-year UST (1994-Present)

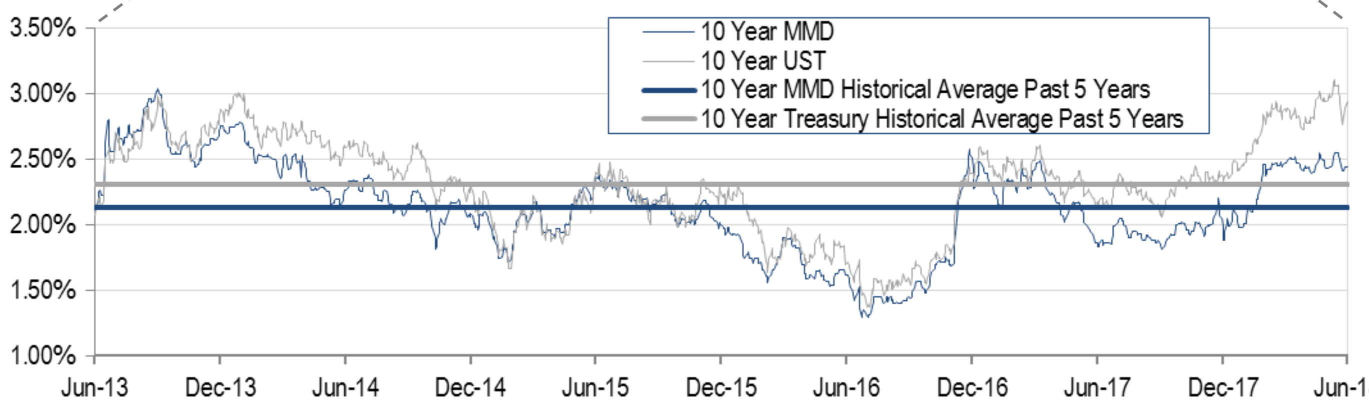
- On June 5, 2018, the 10-yr MMD and 10-yr UST were 2.44% and 2.92%, respectively
- Since 1994, 10-yr MMD and 10-yr UST have below current rates 24.18% and 30.08% of the time, respectively



	10-yr MMD	10-yr UST
Current	2.44%	2.92%
Maximum	6.15%	8.02%
Minimum	1.29%	1.37%
Average	3.53%	4.17%
% of Time Historical Rates Have Been Below Current	24.18%	30.08%

10-year MMD and 10-year UST (Past 5 Years)

	10-yr MMD	10-yr UST
Current	2.44%	2.92%
Maximum	3.04%	3.11%
Minimum	1.29%	1.37%
Average	2.14%	2.31%
% of Time Historical Rates Have Been Below Current	78.66%	96.16%



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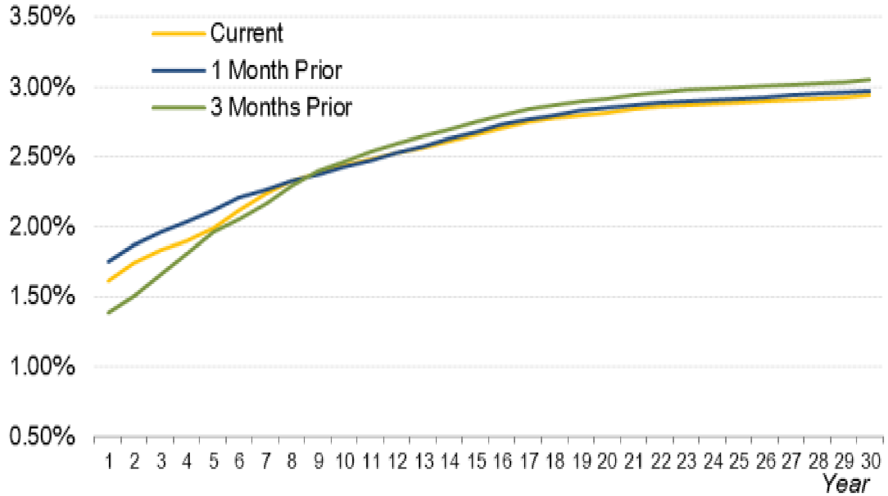
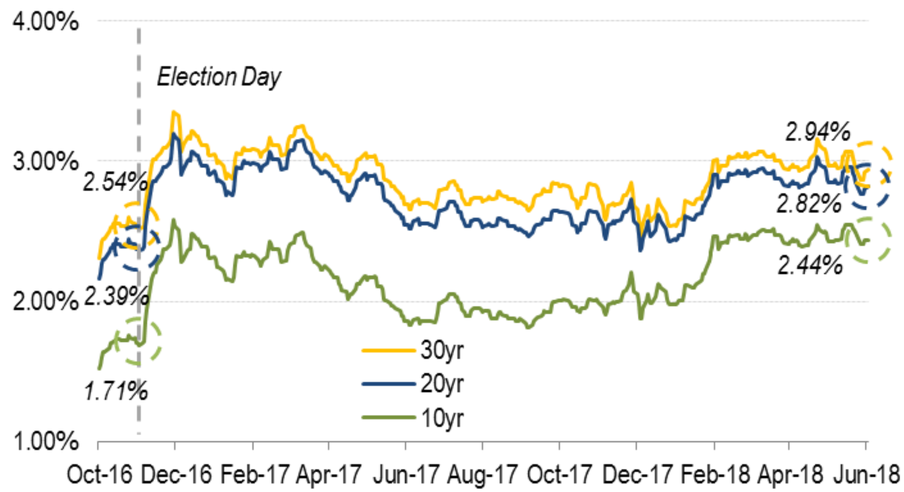
MUNICIPAL MARKET UPDATE (CONTINUED)

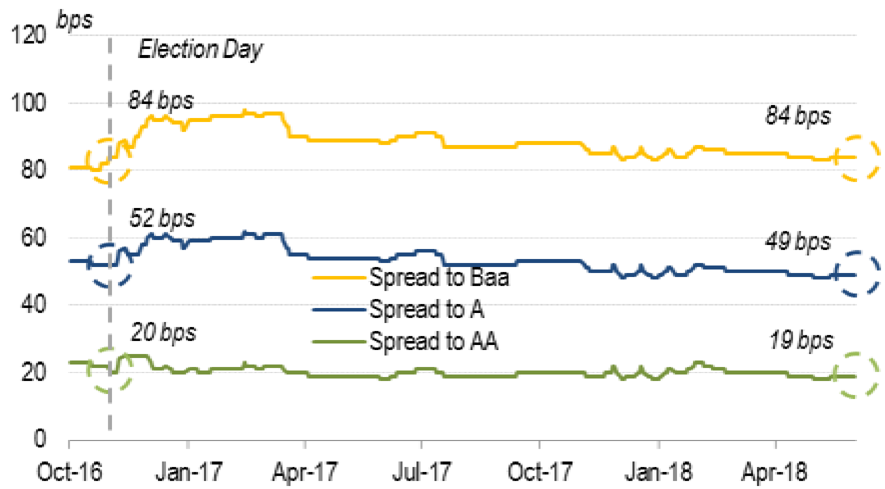
MMD Yield Curves



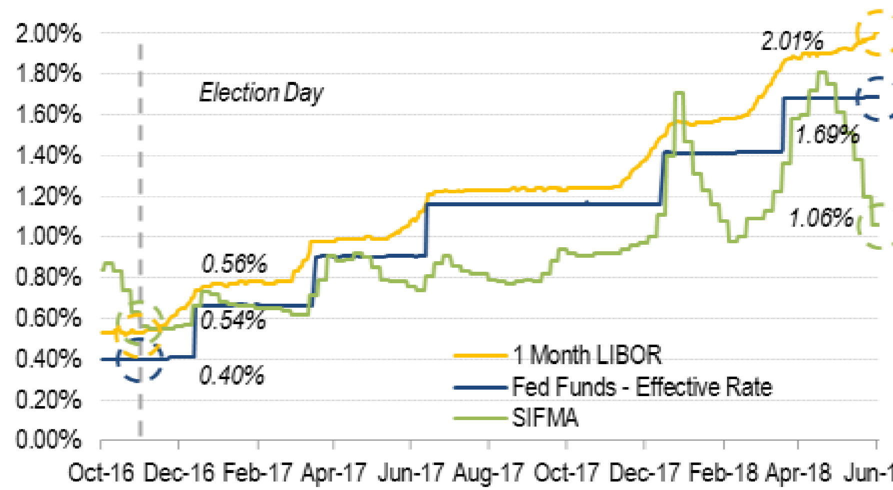
10- 20- & 30-Year MMD Yields Since Oct. 2016



Credit Spreads to AAA MMD Since Oct. 2016



Short Term Benchmarks Since Oct. 2016



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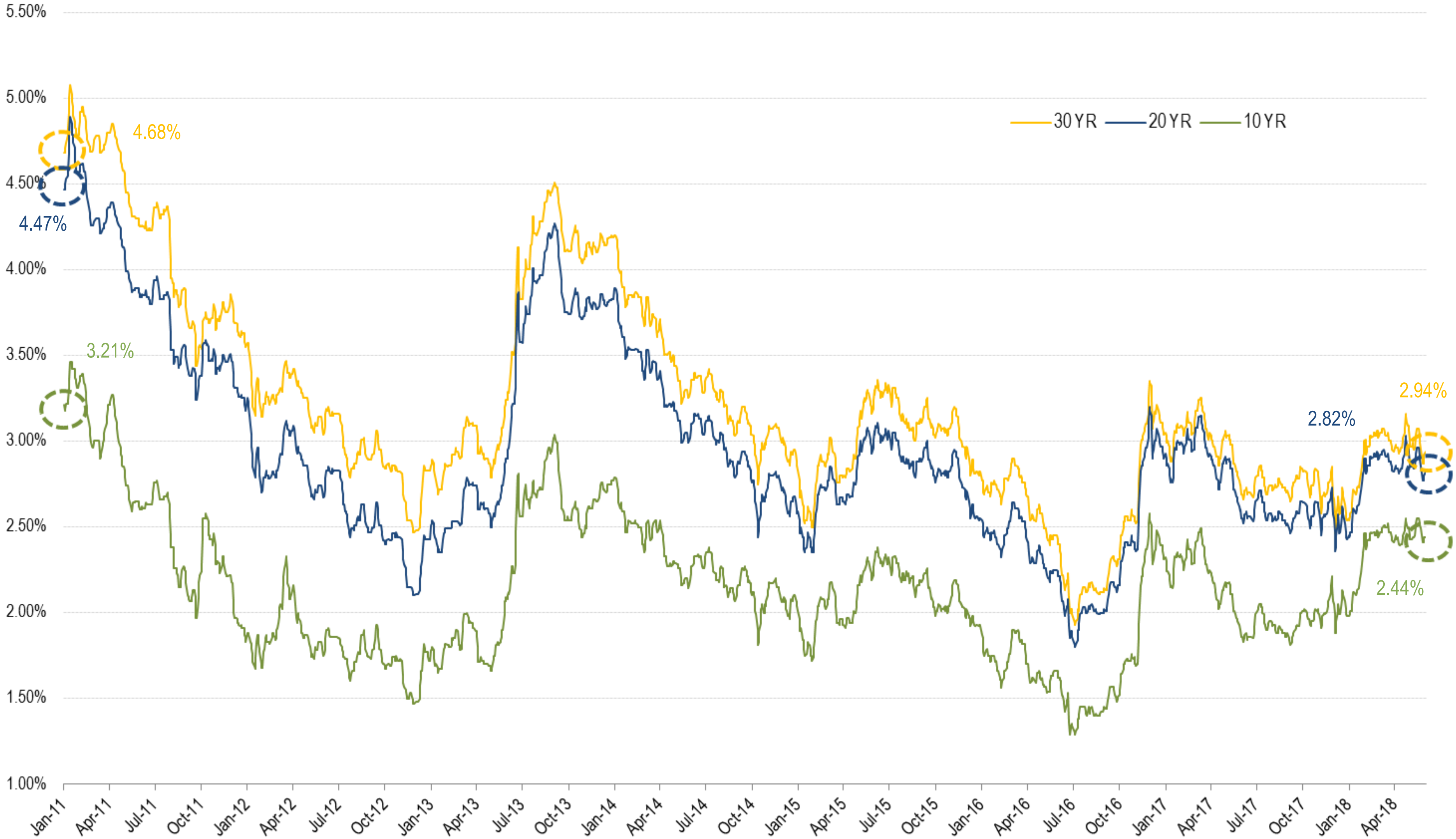
Municipal Market Update (Continued)



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