

Pre-Debt Issuance: What You Need to Know

Washington Public Ports Association

2019 Finance Seminar

June 2019



Presenters

Jack Flug, Senior Financial Analyst
Port of Vancouver

Duncan Brown, Senior Managing Consultant,
PFM Financial Advisors LLC

Caitlin Caldwell, Vice President
KeyBanc Capital Markets

Milestones to a Successful Debt Issuance

1. CASHFLOW PLANNING: MULTI-YEAR FORECAST MODELING

2. CAPITAL PLANNING: IDENTIFY PRIORITIES

3. EVALUATE AND DETERMINE PROJECT FUNDING SOURCES

4. EVALUATE FINANCIAL IMPACT OF PROPOSED DEBT

5. DEVELOP YOUR FINANCING TEAM & SCHEDULE

6. THE FINANCING PROCESS

1. CASHFLOW PLANNING: MULTI-YEAR FORECAST MODELING

Cashflow Forecast and Modeling – Building Block of Your Issuance

Develop a multi-year cashflow forecast and modeling tool

- Minimum 3 to 5 year model
- Identify Key Drivers/Metrics of your Port in your Cashflow Forecast – EXAMPLE of Sources and Uses

Sources:

- Operating Revenue
- Nonoperating Revenue
- Cash and Financing

Uses:

- Operating Expenses
- Nonoperating Expenses
- Debt Service
- Capital Expenditures

Key Metrics:

- Operating Margin
- Cash Balance
- Debt Service Coverage Ratio
- Remaining Bond Capacity
- Millage Rate

Remember your cashflow forecast and model needs to be tailored to your specific needs. Think about those items that “truly move the needle” for your organization.

Cashflow Forecast and Modeling – Capital Projects

Develop a multi-year capital forecast by project

- Minimum 3 to 5 year model

Things to consider when evaluating financing of capital projects:

- Perform an analysis of all capital projects you are planning to undertake each year to confirm that they meet your port's capitalization policy
- Strategy for addressing long-term maintenance of existing assets?
- Length of time for construction.
 - May want to pay interest only during construction on capital projects that will have a revenue stream once operational
- Useful life of the assets
 - Align the length of your debt service so that it does not exceed the useful life of the asset being financed
- Private or Public Use
 - Don't assume you can use tax-exempt financing for all capital projects
 - Remember dollars are fungible when evaluating what capital projects to finance

Cashflow Forecast and Modeling – Example Cashflow Template

		Forecast/Budget					
		2018	2019	2020	2021	2022	2023
Operations							
Operating Revenue	% Rev Inc		0.00%	0.00%	0.00%	0.00%	2.00%
Current Operations		38,222,119	38,222,119	38,222,119	38,222,119	38,222,119	38,986,561
Identified Incremental Revenue - See Rev & Exp Detail		-	-	-	-	-	-
Total Operating Revenue		38,222,119	38,222,119	38,222,119	38,222,119	38,222,119	38,986,561
		-					
	% OOS		30.00%	30.00%	30.00%	30.00%	30.00%
	% SGA		2.25%	2.25%	2.25%	2.25%	2.00%
Operating Expenses							
Operating Expenses - Current Operations		30,295,628	30,719,280	31,152,465	31,595,396	32,048,293	32,689,259
Identified Incremental Expenses - See Rev & Exp Detail		-	-	-	-	-	-
Total Operating Expenses		30,295,628	30,719,280	31,152,465	31,595,396	32,048,293	32,689,259
		-					
Operating Income		7,926,490	7,502,838	7,069,654	6,626,722	6,173,825	6,297,302
	% of Revenues	20.74%	19.63%	18.50%	17.34%	16.15%	16.15%
Nonoperating							
Nonoperating Revenue-Net of Tax Levy		426,003	373,600	373,600	373,600	373,600	373,600
Nonoperating Revenue-Tax Levy Unrestricted		4,271,917	4,279,374	4,273,351	4,280,127	4,144,941	6,254,690
Nonoperating Revenue-Tax Levy Restricted		5,714,941	5,707,484	5,713,507	5,706,731	5,841,917	3,732,168
Nonoperating Expenses		(2,937,538)	(2,940,892)	(1,945,444)	(1,434,160)	(1,234,160)	(1,434,160)
LTGO Bond Debt Service		(5,714,941)	(5,707,484)	(5,713,507)	(5,706,731)	(5,841,917)	(3,732,168)
Revenue Bond Debt Service		(3,947,975)	(5,007,609)	(5,191,440)	(5,365,581)	(5,370,369)	(5,366,218)
Line of Credit		-	-	-	-	-	-
		(2,187,594)	(3,295,526)	(2,489,933)	(2,146,015)	(2,085,989)	(172,088)
Capital Projects-Net		(26,794,047)	(10,000,000)	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
Increase (Decrease) in Cash		(21,055,150)	(5,792,688)	(420,280)	(519,292)	(912,163)	1,125,214

Cashflow Forecast and Modeling – Example Cashflow Template

	2018	2019	2020	2021	2022	2023
LOC/Bond Issuance						
LTGO Bonds	-	-	-	-	-	-
Line of Credit: Draws/Repayments	-	-	-	-	-	-
Revenue Bonds: Taxable (Net)	20,000,000	-	-	-	-	-
Issuance Costs	(250,000)	-	-	-	-	-
Total	19,750,000	-	-	-	-	-
Cash Balance						
Unrestricted less Internal Reserve	8,852,454	3,059,765	2,639,486	2,120,193	1,208,030	2,333,244
Restricted (Property Tax, Deposits, FSA, Comp, 3Fund)	1,022,917	1,022,917	1,022,917	1,022,917	1,022,917	1,022,917
Internal Reserve	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Ending Cash Balance	17,875,370	12,082,682	11,662,402	11,143,110	10,230,947	11,356,160
Debt Service						
LTGO Bond Debt Service	(5,714,941)	(5,707,484)	(5,713,507)	(5,706,731)	(5,841,917)	(3,732,168)
Line of Credit	-	-	-	-	-	-
Revenue Bonds: Taxable	(3,947,975)	(5,007,609)	(5,191,440)	(5,365,581)	(5,370,369)	(5,366,218)
Total Debt Service	(9,662,916)	(10,715,093)	(10,904,947)	(11,072,313)	(11,212,287)	(9,098,386)
Debt Service Ratio: Parity - Revenue Bonds (125%/150%)	3.20	2.43	2.26	2.10	1.99	2.41
Debt Service Ratio: Subordinate - Revenue Bonds (125%)	2.69	2.11	1.97	1.85	1.75	2.12
Debt Outstanding						
LTGO Bonds	37,895,000	33,475,000	28,920,000	24,225,000	19,270,000	16,320,000
Line of Credit	-	-	-	-	-	-
Revenue Bonds	89,020,000	87,490,000	85,747,837	83,786,004	81,766,860	79,694,609
Total Outstanding Debt	126,915,000	120,965,000	114,667,837	108,011,004	101,036,860	96,014,609
Capital Expenditures, Net of Grants						
Total Capitals Exenditures - Committed/Elective/Trigger	26,794,047	21,917,028	60,070,435	49,890,944	42,137,362	23,584,710
Available Capacity Unidentified Capital Expenditures	-	(11,917,028)	(55,070,435)	(44,890,944)	(37,137,362)	(16,584,710)
Total Capital Expenditures Targets	26,794,047	10,000,000	5,000,000	5,000,000	5,000,000	5,000,000

2. CAPITAL PLANNING: IDENTIFY PRIORITIES

Capital Planning: A Few “Big Picture” Questions to Answer

- **How much can the Port afford to spend?**
 - If debt, how much debt can the Port *generally* support?
 - Measurements may include:
 - Debt service coverage ratio
 - Leverage (debt to operating revenues or tax levy)
 - With OR without projected revenues that may be garnered from debt financed project
 - Early estimate likely to change as Port moves into “next step” of identifying detailed financing strategies
- **Then, how does the Port prioritize its projects?**
 - How does this project impact the Port’s “bottom line” (and...vis-à-vis other potential projects?)
 - Additionally, are there other qualitative impacts that make this project a priority?
- **When will the Port need the funds?**
 - Grants often require long lead times. Debt issuance can take as short as a couple of months, but the process can take much longer (depending on bank loan vs. bond issue vs. other tools, complexity of issuance, experience of Port with the process, etc.)
 - Ensure sufficient time – its always easier to slow down the financing process than to speed up

3. EVALUATE AND DETERMINE PROJECT FUNDING SOURCES

Evaluate the Universe of Funding Sources

- What types of debt financing tools are available and what are the advantages/disadvantages of those tools?
 - Considerations may include: ease of execution, cost of capital, and allowable terms
 - How much cash is the appropriate amount to reserve?
Suggested metrics:
 - Cash to debt (target 30-60%)
 - Days cash on hand (target 150-200 days of operating expenses)
 - Completely dependent on the unique features of your Port – for example, smaller ports may want to reserve a higher percentage of operating expenses than larger ports
 - **Equity (Cash) is not necessarily required for debt issuance, as security pledge is derived from source of payment vs. real estate**



Determine the Optimal Project Funding Sources

- What is the most *efficient* mix of project funding sources?
 - E.g. Taxable vs. tax-exempt
 - Long term vs. short term (or combination?)
- What is the most *appropriate* mix of project funding sources?
 - Consider asset/Liability match, primary beneficiary(s) of project, etc.
 - Future flexibility (e.g. call options, grant limitations)
- What is the most *feasible* mix of project funding sources?
 - Availability of all components
 - Timing

Understand and Evaluate Limitations to Tax-Exempt Debt

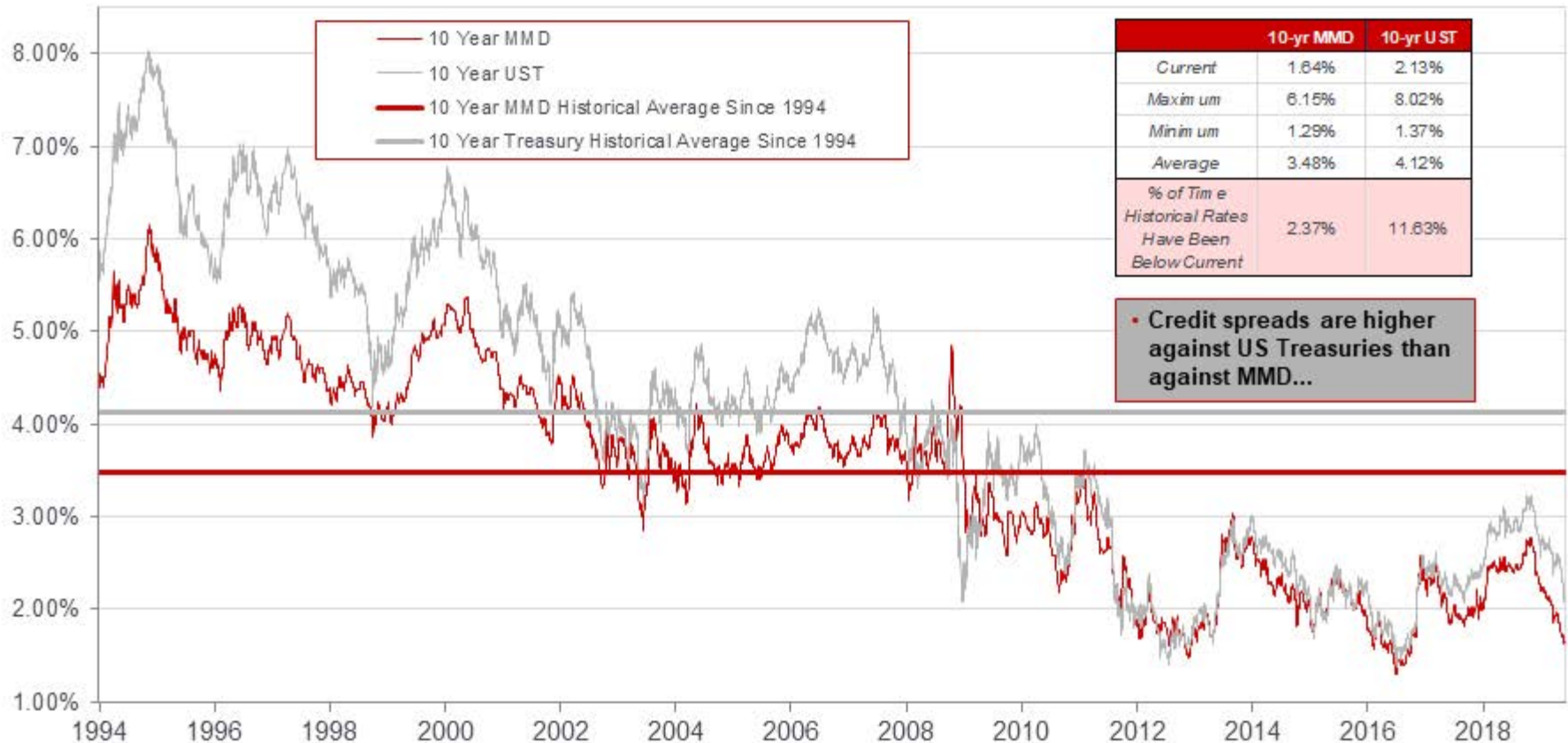
- Distinguish the aspects of your project that could result in a debt financing that would be deemed “taxable” under IRS tax code.
 - Private activity bonds are obligations that benefit non-governmental organizations, such as private individuals or businesses.
 - Does my debt financed project have a private business use?
 - Will debt to finance my project be secured by an interest used by private business?
 - Are we lending our credit to any non-governmental entities?
 - Certain projects with private use elements may qualify for tax-exempt Private Activity Bonds
 - Airports
 - Port facilities
 - Water and wastewater

Understand and Evaluate Limitations to Tax-Exempt Debt

- The Port must continue to comply with these regulations post-issuance
- The Port must endeavor to avoid any activities that could result in changing the tax status from taxable to tax-exempt
 - Example: a building is built with tax-exempt bond proceeds and later that parcel of land (and building) is sold to a private company
 - Steps would have to be taken in order to avoid “an event of taxability”
- If private use/payment applies to a portion of your project (or may in the future), a “hybrid” approach (selling some taxable bonds in conjunction with tax-exempt bonds) could decrease interest expense
- Evaluate IRS “spenddown” limitations for tax-exempt bond proceeds
- **Talk to bond counsel early in the process!**

Impact of Tax Status on Cost of Debt: Taxable vs. Tax-Exempt Rates

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

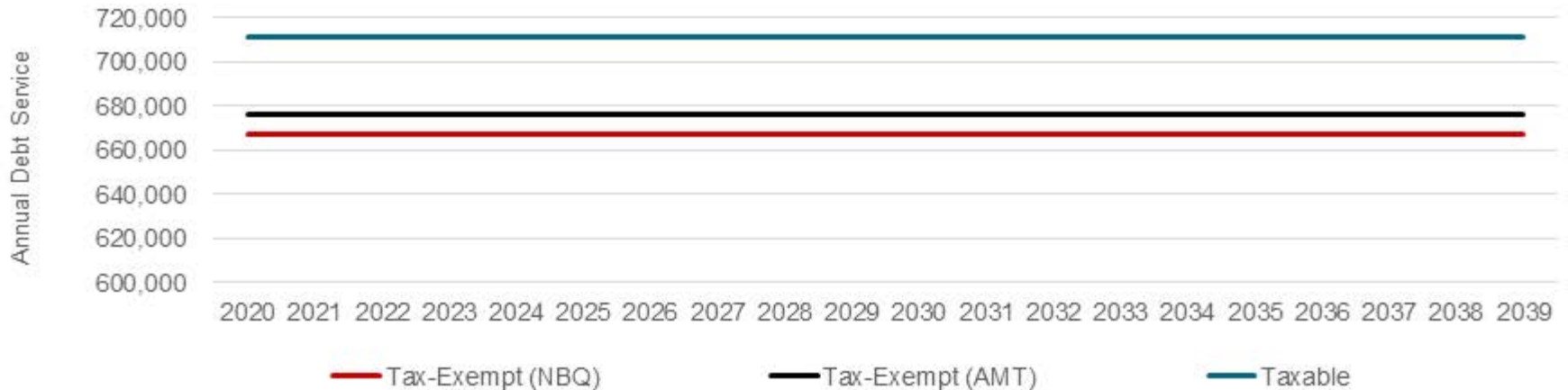


(1) The Bonds are assumed to be issued in \$0.01 denominations (as opposed to \$5,000 denominations) for illustrative purposes.
 Source: KBCM & TM3.
 Rates as of June 6, 2019.

Impact of Tax Status on Cost of Debt

Cost of 20-Year Debt for Sample \$10 Million Project by Tax Status of Debt ⁽¹⁾

Sample Debt Service Comparison




Summary of Outputs			
	Tax-Exempt (NBQ)	Tax-Exempt (AMT)	Taxable
Average Annual Payment	\$667,209	\$676,567	\$711,150
Total Debt Service	\$13,344,179	\$13,531,334	\$14,222,995
True Interest Cost (TIC)	2.80%	2.95%	3.47%
All-In True Interest Cost	2.86%	3.00%	3.52%

- At current market rates, a \$10M Taxable debt issuance is ~\$880K more expensive than tax-exempt (non-BQ) debt over the life of the debt.

(1) The Bonds are assumed to be issued in \$0.01 denominations (as opposed to \$5,000 denominations) for illustrative purposes.
Source: KBCM & TM3.
Rates as of June 8, 2019.

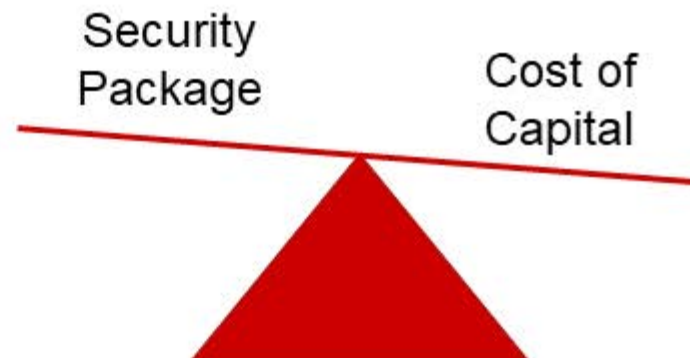
Reimbursement Resolution Can Save a Headache down the Road

- Before you spend any funds  does the Port have a reimbursement resolution in place?
 - Reimbursement resolution is a specific “evidence of intent” to be reimbursed from the proceeds of a future *tax-exempt* borrowing
 - Allows Port to reimburse itself for eligible project costs with tax-exempt bond proceeds
 - No cost to Port
 - 60 day “lookback”
 - Does not *require* reimbursement, but provides flexibility to do so

4. EVALUATE IMPACTS OF PROPOSED DEBT

Security and Method of Repayment

- How and when do we plan to repay the debt?
 - Regardless of specific security, the port should identify specific revenue used to pay debt service
 - Desired payment amount and timing will drive the term of the financing
 - Market norm is maximum 30 year terms for both LTGO and Revenue Bond financings
- What is the Port willing to pledge in the security package securing its debt?
 - General Obligation (UTGO & LTGO)
 - Net Revenue
 - Special Revenue (non-recourse to Port)



Security Packages for Port Bonds

	Unlimited Tax General Obligation (UTGO)	Limited Tax General Obligation (LTGO)	Net Revenue	Special Revenue
<i>Authorization</i>	60% voter approval	Bond resolution passed by Port Commission	Bond resolution passed by Port Commission	Bond resolution passed by Port Commission
<i>Security / Repayment Source</i>	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."
<i>Credit / Ratings</i>	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)
<i>Cost of Capital</i>	Lowest	Low	Moderate - High	Varies based on lessee / credit enhancement
<i>Typical Projects</i>	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
<i>Considerations</i>	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
	Constitutional limitations regarding "lending of credit" for projects benefitting a private party			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/affordability:** 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 at a particular credit rating
 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

LTGO Debt Capacity

- Port districts may issue limited tax general obligation bonds up to 0.25% of the assessed value of their taxing district
- The table below shows an indicative calculation of LTGO debt capacity:

Non-Voted General Obligation Debt Capacity	
<i>2018 Assessed Valuation for 2019 Tax Year</i>	<i>\$12,000,000,000</i>
Non-Voted Debt Capacity (0.25% of AV)	\$30,000,000
Less: Outstanding LTGO Debt*	(25,000,000)
Plus: Debt Service Fund Balance	<u>500,000</u>
Remaining LTGO Debt Capacity	\$5,500,000

* Includes bonds, loans, financing/capital leases, guaranteed debt, and LOCAL borrowing. Excludes special assessment debt, pension/OPEB liabilities, operating leases, and state loans (CERB, PWTF, DOE, etc.).

LTGO Debt Capacity

- In addition to traditional *bonds*, statutory debt limits capture other forms of non-voted debt:
 - Bank loans
 - Borrowing through the LOCAL program
 - Capital (financing) leases
 - Contingent loan agreements or guarantees
- Excludes:
 - Operating leases
 - Special assessment bonds
 - Pension & OPEB liabilities
 - State loans (for statutory limits only)
- Outstanding debt may be offset by the current balance in an issuer's debt service fund
- Does not take into account premium or discount associated with bonds – principal only
- *Ability to issue LTGO debt is NOT dependent on size of property tax levy*

Revenue Bonds – Debt Capacity

- Revenue bonds are not subject to constitutional or statutory debt limitations
- An issuer's capacity to issue additional bonds secured by enterprise revenues is typically limited by covenants established in the bond resolution:
 - Additional bonds test (ABT) requires an issuer to demonstrate a minimum level of debt service coverage (e.g., 1.25x or 1.50x), including the proposed new debt
 - ABT typically based on historical revenues; may also allow for projected revenues in certain circumstances
 - ABT is often – but not always – consistent with (ongoing) annual debt service coverage requirement
- Revenue bonds may require a debt service reserve fund, requiring a greater amount of debt as compared to project cost
- *Considerations:*
 - Historical vs. projected debt capacity and coverage
 - Dollar difference between debt service coverage level and actual debt service; ability to apply cash to non-operating uses (e.g., routine capital)
 - Target credit rating level

Revenue Bonds – Debt Capacity

- The table below shows a hypothetical calculation of revenue bonds' debt capacity
- Debt service coverage typically excludes non-cash revenues and expenses

Revenue Bonds' Debt Capacity	
2018 Operating Revenues	\$20,000,000
Plus: 2018 Qualifying Non-Operating Revenues	1,000,000
Less: 2018 Operating Expenses	(15,000,000)
Plus: Tax Revenues Not Needed for LTGO Debt	<u>2,500,000</u>
Net Revenues Available for Debt Service	\$8,500,000
Maximum Annual Debt Service (MADS, incl. Proposed New Debt)	\$4,500,000
MADS Coverage Based on 2018 Revenues Available	1.89x

5. DEVELOP YOUR FINANCING TEAM AND SCHEDULE

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, have a relatively short term (i.e., <10 years), or for infrequent borrowers

Methods of Bond Sale

- In a **competitive sale**, the port selects an underwriter (or syndicate of underwriters) through a sealed-bid process on the day of sale
 - Port 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
- Under any method of sale, the port is represented by its bond counsel and financial advisor

Identify Team Members

– *Core team members:*

- Port staff
- Bond/Disclosure counsel
- Municipal Advisor
- Underwriter / Lender

– *Larger working group, which may include:*

- Underwriter's (or Lender's) Counsel
- Paying Agent
- Verification Agent / Escrow Agent
- Rating Agency
- Bond insurer

Setting Up for A Successful Financing

- Financing schedule will vary, dependent on a number of factors including:
 - Complexity of financing
 - Availability of Port staff
 - Time since last issuance
- For a bond issuance, information gathering and analysis for preparation of the Preliminary Official Statement can be one of the most time consuming parts of the process
- Consider timing of audited financials
 - Investors/rating agencies generally accept unaudited financials, but audits are generally preferred
 - Waiting until audit is ready can streamline the work
- TEFRA hearing required for bonds with Private Activity Bonds
- Revisit existing debt:
 - Have we been in compliance with our continuing disclosure obligations?

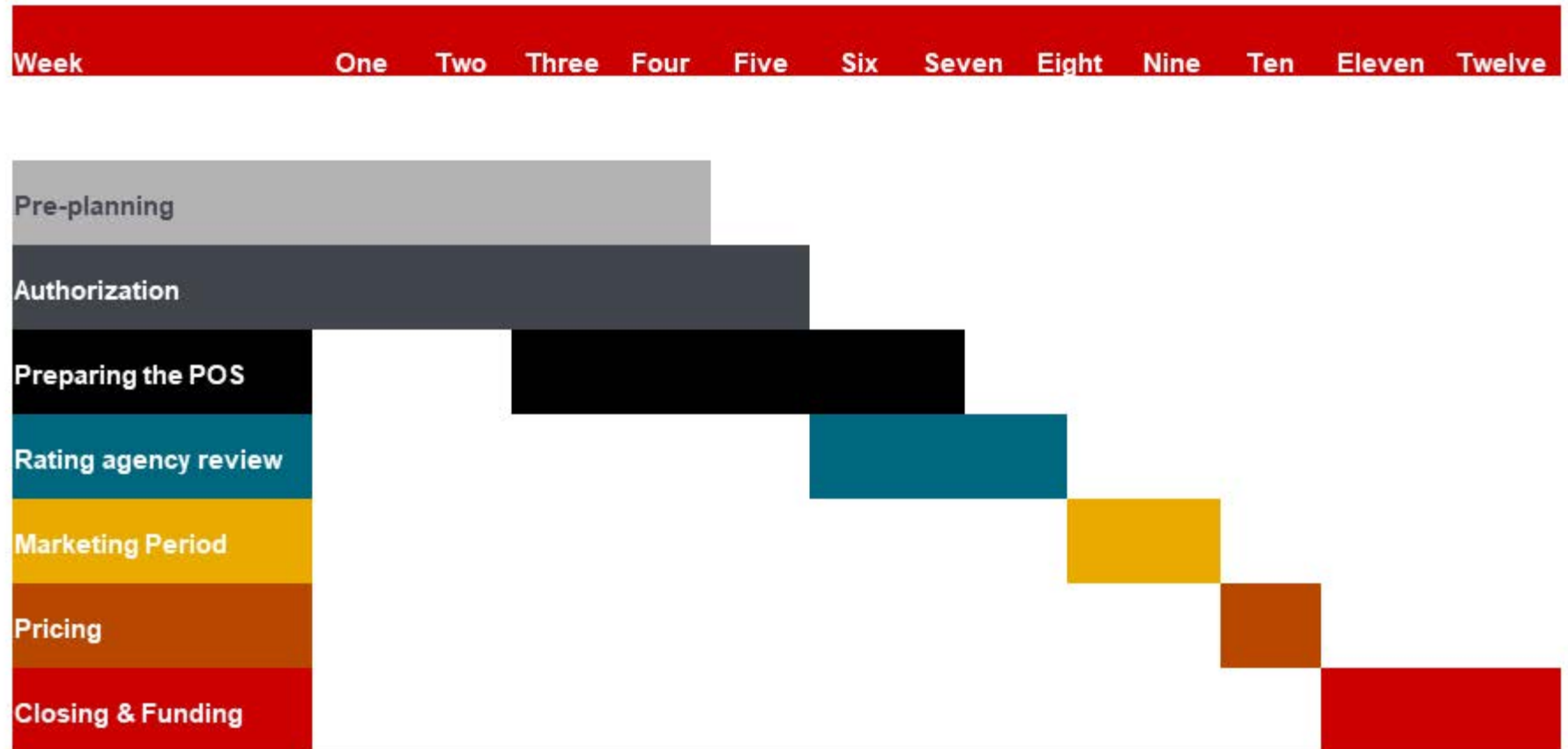
Setting Up for A Successful Financing

- Questions to ask your finance team early on:
 - How does the proposed debt coordinate with our existing debt?
 - Have we kept in contact with the rating agency?
 - Review prior ratings and reports
 - Financial policies: are the policies up to date?
 - Debt Policy and Post Issuance Compliance Policy

Sample Financing Schedule: Major Milestones

- Pre-planning: Port works with transaction team to determine preliminary bond sale goals, size, and structure
- Authorization: Port receives approval from Board of Commissioners to issue Bonds under certain parameters
- Preliminary Official Statement (POS) Preparation: Port and transaction team finalize bond structure and develop required disclosure for POS
- Rating agency review: Port and transaction team make presentations to rating agencies (either in person or by phone) and receive ratings in 1-3 weeks
- Marketing Period: Underwriter conducts sales calls with investors in advance of pricing
- Bond Pricing: Underwriter takes orders for the bonds and “underwrites” unsold balances; Port and Underwriter sign the Bond Purchase Agreement (BPA)
- Closing: Underwriter wires funds to Port and the bonds begin to accrue interest

Sample Financing Schedule for Bond Issuance



6. THE FINANCING PROCESS

Authorizing Bond Resolution

- Use of delegation relating to financing authorization
- Typically includes parameters
- Determination of the “designated representative”

Decisions that may be delegated:

- Size of bonds
- Method of sale
- Issue date
- Denominations
- Payment dates
- Final maturity
 - Redemption Provisions
 - Interest rates
 - Minimum savings (for refunding)

Authorizing Bond Resolution

- Review –at a minimum –key sections of the Bond Resolution sections addressing Project and Purpose
 - does the language reflect local preferences and political or practical sensitivities? Is there sufficient flexibility in use of proceeds?
 - Do you know and understand what Funds and Accounts are required; are they correctly designated or named?
- Are assigned responsibilities, particularly as it relates to delegated items accurate and provide for flexibility?
- If you do not understand the language in your authorizing document, request a walk-through from your bond counsel and/or financial advisor

Preliminary Official Statement

- The document that is prepared on behalf of an issuer in connection with an offering of municipal securities that discloses material information regarding that offering
 - The primary document used in the bond marketing process
- It is important that you know what is in the POS and where it came from
- The POS will include information such as:
 - Information about the Bonds (principal amounts, interest rates, maturities, etc.)
 - Purpose/Use of Proceeds of the Bonds
 - Description of the Security Pledge
 - Discussion of the Port
 - Management
 - Operations
 - Facilities
 - Financial Information

Preliminary Official Statement

- It is important to understand that the PORT has responsibility for the official statement
 - Others can be involved, but that does not reduce issuer responsibility
- Nobody can contract for or replace your obligations for disclosure
- Your financing team wants to make it easy on you, but are we making it too easy?
- Key items to keep in mind:
 - Does Port staff understand the responsibility and context?
 - Ensure the information provided gets translated correctly by the financing team.
 - Is the continuing disclosure undertaking consistent with prior undertakings; is it practical to comply with?
 - Ensure continuity between your POS and Rating Presentation materials

Credit Ratings Strategy

- Explore what can impact your bond rating “up” or “down”
 - Size / competitive position of the Port
 - Diversity in industries served
 - Diversity in revenue streams
 - Financial health (liquidity, debt service coverage, etc.)
 - Tax base
- Stay up to date - rating methodology evolves
- The best way to know what the rating agency may be thinking is to review prior rating reports
- Tools exist which can provide transparency to the process and *potential* results
 - Rating Agency Methodology and associated “scorecards”

MOODY'S INVESTORS SERVICE INFRASTRUCTURE

Appendix: Public Ports Factor Scorecard

Port Methodology Scorecard Definitions

	Aaa	Aa	A	Baa	Ba	B	Caa	
1. Market Position								
a) Port size (Operating Revenues)	Greater than \$300 million	\$200 million or greater but less than \$300 million	\$175 million or greater but less than \$200 million	\$50 million or greater but less than \$175 million	\$30 million or greater but less than \$50 million	\$15 million or greater but less than \$30 million	less than \$15 million	
b) Quality of Service Area and Competition	Port has an effective monopoly on port services for a large population base (>10 million) or is a key national port asset with little competition.	Port forms an essential part of the economy for a large, multi-state or province region (population >5 million). Competitive position in the region is dominant.	Port serves as a major regional port and is the largest in its state or province. Faces some competition but has a competitive advantage.	Port primarily serves a mid-sized to small city or region (population 1-3 million) with limited economic growth. Strengths equal to peers in its competitive environment and is expected to maintain its current activity levels or competitive position.	Port primarily serves a small city with limited expected economic growth, limited connections, or proximity to major centers. Operates at a competitive disadvantage which is expected to cause throughput to stagnate or decline.	Port located away from any significant population centers. Operates at a significant competitive disadvantage to other ports, or expected to have a highly volatile demand pattern.	Competitive position is not established, is speculative, or expected to show a steep decline.	
c) Operational Restrictions	No physical limitations to operations	Port able to handle all cargo types, but some physical limitations may limit long-term growth	Ability to handle container throughput is small, some physical limitations are expected to limit long-term growth; port may primarily be for cruise passengers but able to handle several large vessels	Port unable to routinely handle containers; long-term growth of bulk cargo is not limited by physical restrictions; port may primarily be for cruise passengers but able to handle a single large vessel	Port can only handle bulk cargo, but handles a wide variety of cargo types; mid-term growth may be limited by channel depth, physical land area, or other, primarily	Port can only handle certain types of bulk cargo; mid-term growth severely limited by channel depth, physical land area, or other, primarily	Port has limited ability to handle new cargo types or additional volume; Port capabilities are in decline	
2. Diversity and Volatility								
a) Financial Revenue Variation (5-year operating revenue LAGR)	5% or greater	3% or greater but less than 5%	1% or greater but less than 3%	0% or greater but less than 1%	-1% or better but less than 0%	-3% or better but not more than -1%	less than -3%	
b) Customer Diversity	Operating revenue from diverse array of customers; top 10 account for no more than 25% and no one customer accounts for more than 5%	Operating revenue from diverse array of customers; top 10 account for no more than 30% and no one customer accounts for more than 10%	Operating revenue from diverse array of customers; top 10 do not account for more than 50%; no single customer accounts for more than 20%	Operating revenue has some concentration in customers or industries; top 10 account for more than 50% but not more than 70%	More pronounced concentration in customers or industries; top five customers may account for more than 50% of revenue	Very high concentration in customers or industries; top 3 customers may account for more than 50% of revenues	Extreme sector concentration or dependence on a few customers; top 3 customers may account for more than 75% of operating revenues; or one commercial customer may account for 50% or more of operating revenues	

Source: Moody's Investors Service Rating Methodology: Public Port Revenue Bonds

Credit Ratings Strategy

- What should be included in the information package to the rating agencies?
- Will depend on a number of factors, including
 - LTGO Bonds vs. Revenue Bonds
 - Revenue Bonds will have an increased “focus” on operational assessment of the Port
 - Specific strengths / challenges of the Port
 - Diversity of revenues
 - Competitive advantages
- Anticipate that the rating analyst will look on your website and view reports, communication
- Rating presentation: in-person or telephonic?
 - First credit rating
 - Long time since last rating
 - “Story” to tell (or see)
 - Consider having a mix of Port staff in attendance to provide a “holistic” view of the Port
- Communicate the rating process and outcome to your colleagues, commissioners, and constituents

Key Takeaways

- Create/update your Multi-year Cashflow Model - 3 to 5 year minimum
- Assemble and engage your Financing Team early
- Understand what you are financing and why
- Engage your Management Team and your Commissioners early in the process – Educate!
- Create/update your Financial Policies - Debt Policy, Post Compliance Policy, Master Bond Resolution
- Consider authorizing a Reimbursement Resolution and Delegation of Authority
- Understand the “big picture” items that can significantly impact affordability of project
 - Potential private use
 - Potential “lending of credit”
- Understand tradeoffs of different security types (LTGO, Revenue, Special revenue)
- Understand tradeoffs of different methods of sale (competitive, negotiated, bank placement)
- Understand the Port’s responsibilities within the POS preparation process
 - Creation, Review, Sign-off
 - Buck stops with you
- Set yourself up for success with your Credit Review: Right team, right story
- Celebrate your issuance including communicating back to your Stakeholders
- Wash, Rinse, Repeat with your next issuance using what you learned

Questions?

THANK YOU!!

