

# Presentation to Port Commission

## Financing Capital Projects

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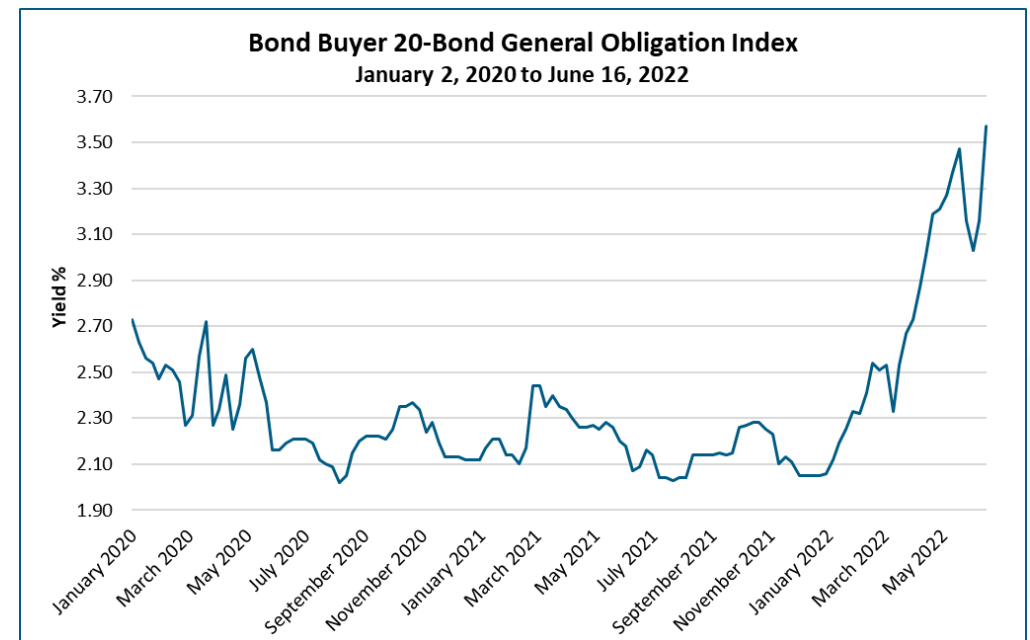
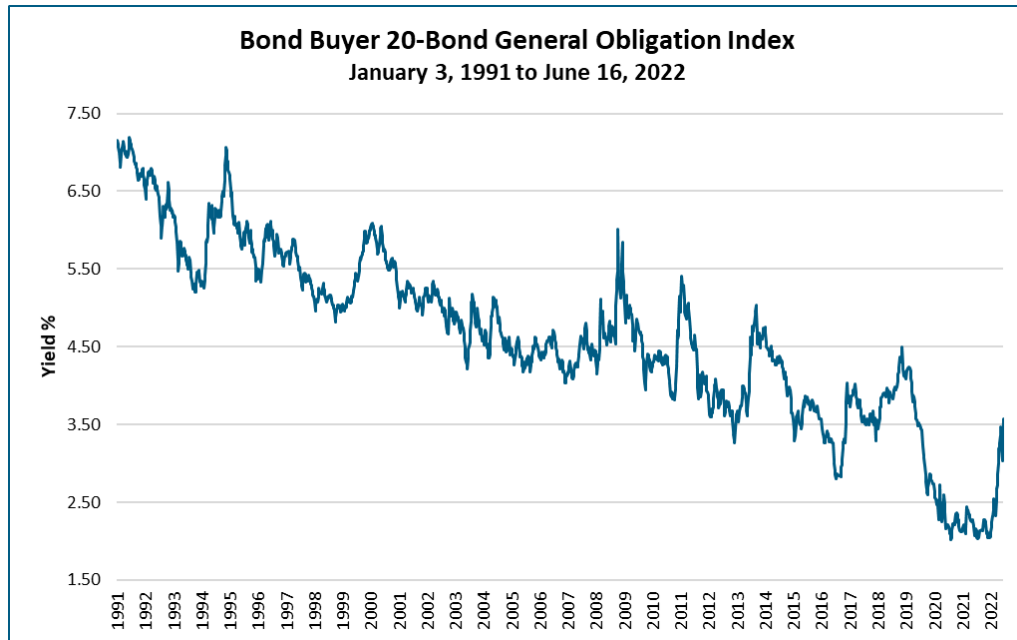
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# Bond Market

- Inflation, which can have a negative impact on the fixed income assets, has been a top focus in the bond markets this year
  - In May 2022, the annualized inflation rate was 8.6%, the highest since December 1981
  - Inflation has been exacerbated by the reduction in oil due to sanctions on Russia and the disruption of exports from China due to COVID lockdowns
- Interest rates have been increasing this year, punctuated by periods of volatility
- The Federal Reserve has entered the battle against inflation through tightening money policy
  - Increasing the short-term Federal Funds rate by 1.50% in three step increases; more expected
  - Reducing balance sheet holdings through Quantitative Tightening, the opposite of the Quantitative Easing policy of the past several years
- Borrowing rates are increasing, but as we'll see, rates are still relatively low from a historical perspective

# Bond Market

- Interest rates reached historical lows in August 2020
- Rates remained low throughout 2021
- Interest rates have been volatile and increasing since the start of 2022



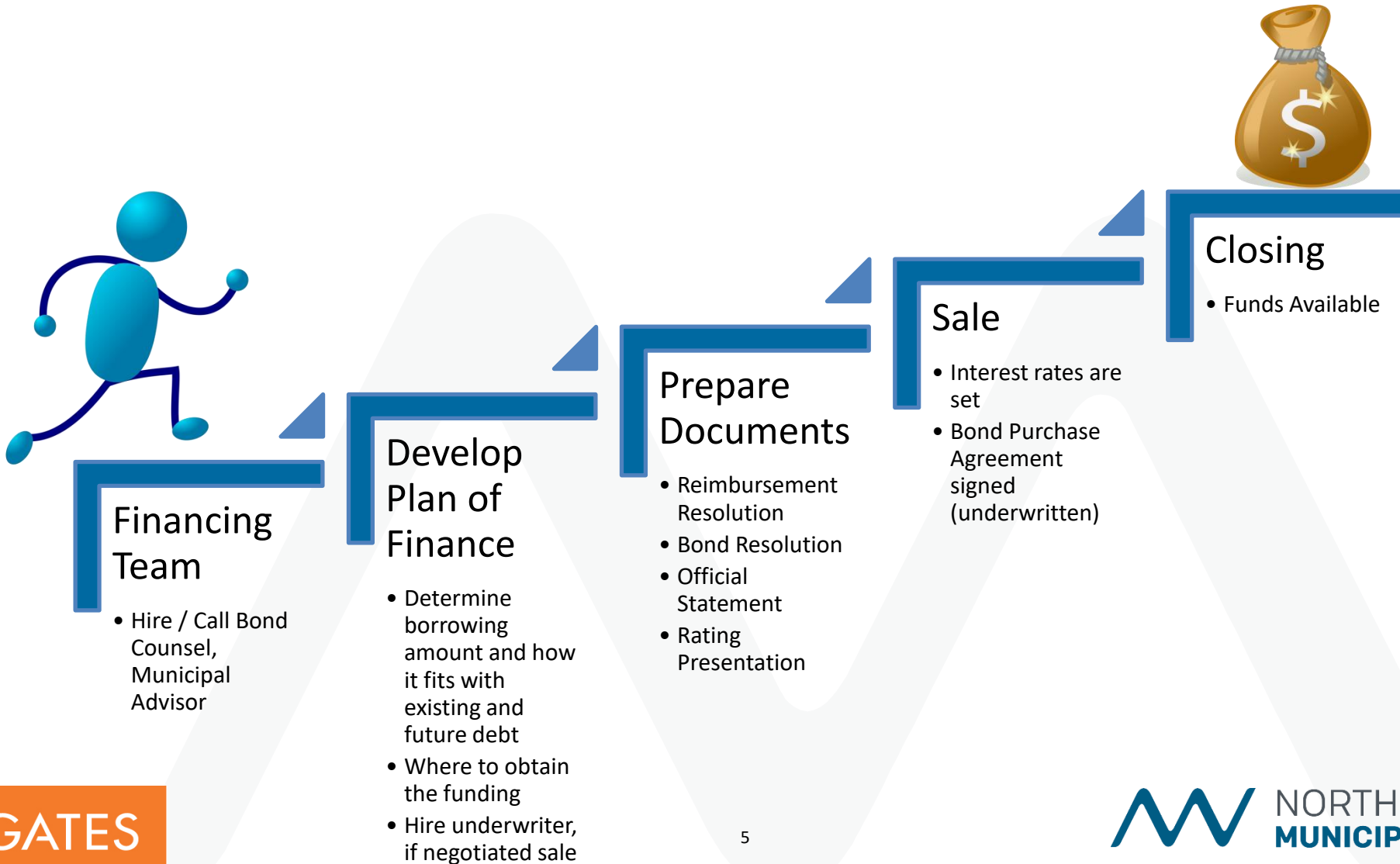
The 20-Bond Index is the average yield on 20 general obligation bonds with 20-year maturities with an average rating equivalent to Moody's Aa2 and S&P's AA.

Source: Bond Buyer

# Financing Options

- Port Cash
  - Operating Income
  - Reserves
  - Tax Levy
  - Industrial Development Levy
- State/Federal Low Interest Grants and Loans
- Bank Loans
- Bond Issues

# Steps in Debt Issuance



# Tax Status

- Tax-Exempt

- Bond interest is exempt from Federal income tax (for purchasers of the bonds)
- Typical requirements
  - *Governmental purpose; private activity bonds with public hearing*
  - *Limits on private activity*
  - *Reasonable expectation for spending proceeds; arbitrage restrictions*
- Bank qualified (BQ): Less than \$10 million of tax-exempt bonds issued in a year

- Taxable

- Bond interest is federally taxable
- More expensive debt
- No IRS restrictions
  - *No Limits on private activity*
- Tax credit / Direct subsidy bonds
  - *Build America Bonds, Clean Renewable Energy Bonds, Qualified Energy Conservation Bonds, etc.*

# Types of Bonds by Security

- **General Obligation Bonds**
  - Unlimited Tax General Obligation Bonds (UTGO)
    - *Voter approved*
  - Limited Tax General Obligation Bonds (LTGO)
    - *Secured by pledge of taxes collected by Port*
    - *Other sources may be used to pay debt*
  - Capacity limited by State law
- **Revenue Bonds**
  - Paid by revenues of the Port
  - Tax collections are not pledged but can be used to cover operating costs
  - Capacity limited by demonstrated ability to pay
- **Special Revenue Bonds**
  - Issued by Port for a private company which is responsible for debt
  - Security for the bonds is based on the lease payments from the company
  - The Port has no liability for payment on the bonds

# Bank Loans and Bond Issues

- **Bond Issues**

- Typically used to finance long term debt
- Sold to the public through an investment banking firm (underwriter)
- Bond rating
- Typically Include a “call provision” allowing for prepayment after 10 years
- Ongoing disclosure requirements

- **Bank Loans**

- Typically cost effective for smaller borrowing amounts and shorter maturities
- No rating or official statement
- Often more flexible terms
- Reduced ongoing disclosure

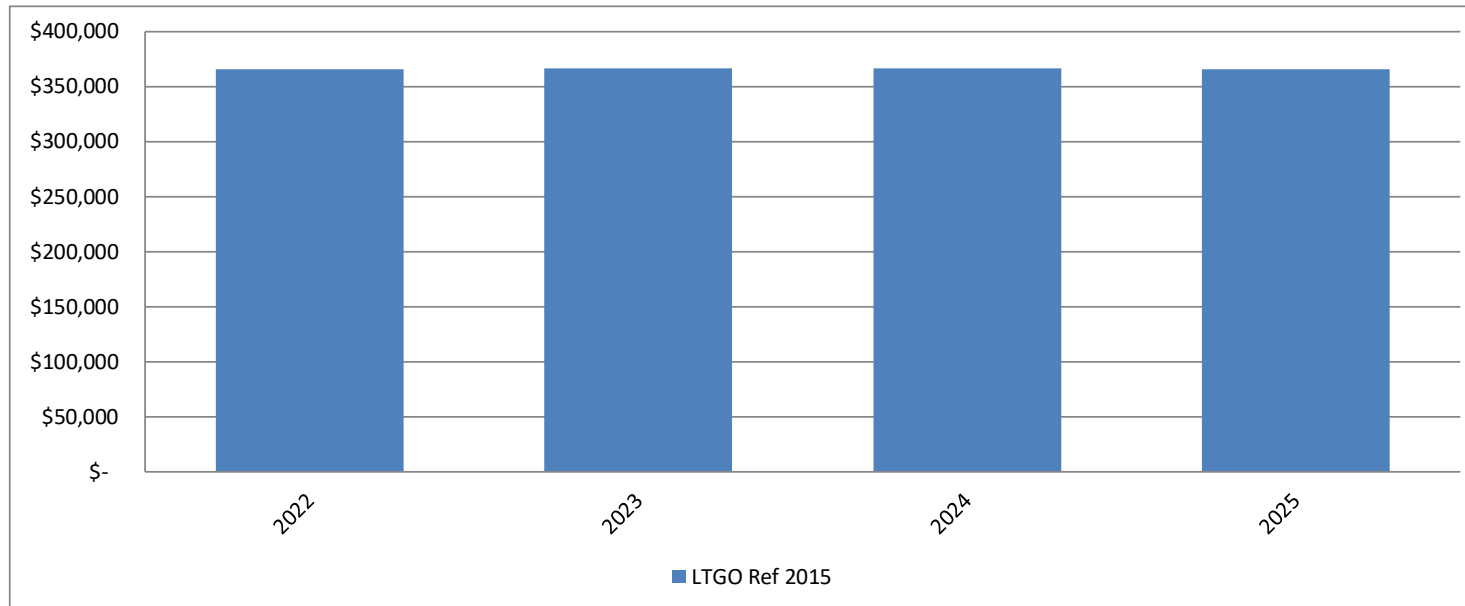


# Port Outstanding Debt

- Port currently has the following LTGO debt outstanding

## LTGO Bonds

	<u>Par Outstanding</u>	<u>Callable Par</u>	<u>Final Maturity</u>	<u>Coupon Range</u>	<u>Call Date</u>
LTGO Ref 2015	\$ 1,384,420	\$ 1,384,420	12/1/25	2.29%	Callable (1)
Total LTGO Bonds Debt	\$ 1,384,420	\$ 1,384,420			



(1) Callable, with a declining penalty. See Bond Resolution.

### Notes:

The Port has a CERB loan maturing in 2040 with an interest rate of 2.00% with \$793,645 outstanding as of 12/31/21.

The Port has a Dept of Transportation CARB loan maturing in 2040 at 2.00% with \$750,000 outstanding as of 12/31/21.

Source: Port's audited financial statement for years 2019-2020

# Industrial Development District Levy

- A port may levy an Industrial Development District levy
  - According to the 2010 Official Statement, the Port imposed an Industrial Development District levy from 1986 through 1991
  - The Port may have the option for a second levy period
- An Industrial Development District levy allows port districts to collect \$2.70 / \$1,000 x the Assessed Valuation of the Port in the base year for a period not to exceed 20 years
  - 2022 Assessed Valuation: \$11,968,469,197
  - The maximum amount to be collected during the multi-year period is  $\$2.70/\$1,000 \times \$11.968 \text{ billion} = \$32.3 \text{ million}$  (plus amount permitted for new construction)
- Funding can be used for infrastructure, economic development, addressing environmental concerns

# General Obligation Statutory Debt Capacity

- Debt capacity is limited by State law and the ability to pay

2022 Collection Year Assessed Valuation (1) \$ 11,968,469,197

Limited Tax General Obligation Debt Capacity (Non-voted)	
Limited Tax General Obligation Debt Capacity (0.25% of Assessed Valuation)	\$ 29,921,173
Less: Outstanding Limited Tax General Obligation Bonds and Other Obligations (2)	(2,928,065)
Plus: Cash and Investments in Bond Fund	-
Remaining Capacity (Non-Voted)	\$ 26,993,108

Total General Obligation Debt Capacity (Voted and Non-voted)	
Total General Obligation Debt Capacity (0.75% of Assessed Valuation)	\$ 89,763,519
Less: Outstanding Unlimited Tax General Obligation Bonds	-
Less: Outstanding Limited Tax General Obligation Bonds and Other Obligations	(2,928,065)
Plus: Cash and Investments in Bond Fund	-
Remaining Capacity (Total)	\$ 86,835,454

(1) Per Clallam County Assessor's Office.

(2) Includes CERB and CARB loans.

# Revenue Bond Debt Capacity

- Limited by ability to pay
- Calculated as debt service coverage (minimum 1.25x)
- Realistic coverage 1.5 to 2.0x
- Assumptions
  - Balance of tax levy used to offset Operating Expenses
  - Based on 2021 preliminary
  - Tax exempt bonds, 4.5% interest rate
  - 20 year maturity
- Borrowing Capacity
  - 1.75x      \$17.5 million

Operating Revenues	\$ 10,218,846
Operating Expenses	<u>9,007,688</u>
Net Operating Revenues (Expenses)	1,211,158
Ad Valorem Taxes	1,599,023
Less: LTGO Debt Service	<u>(416,761)</u>
Net Ad Valorem Taxes	1,182,262
Net Non-Operating Surplus (Deficit)	<u>(45,300)</u>
Total Other Revenues	1,136,962
Balance Available for Debt Service	2,348,120
Revenue Bond Debt Service	1,341,783
Balance for Other Purposes	1,006,337
<b>Debt Service Coverage</b>	<b>1.75x</b>
<b>Borrowing Capacity</b>	<b>\$ 17,453,826</b>

# Thank You!



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