AAPA

April 25th 2019

THE NORTHWEST
SEAPORT ALLIANCE
Gateway to Solutions

Capital Project Funding

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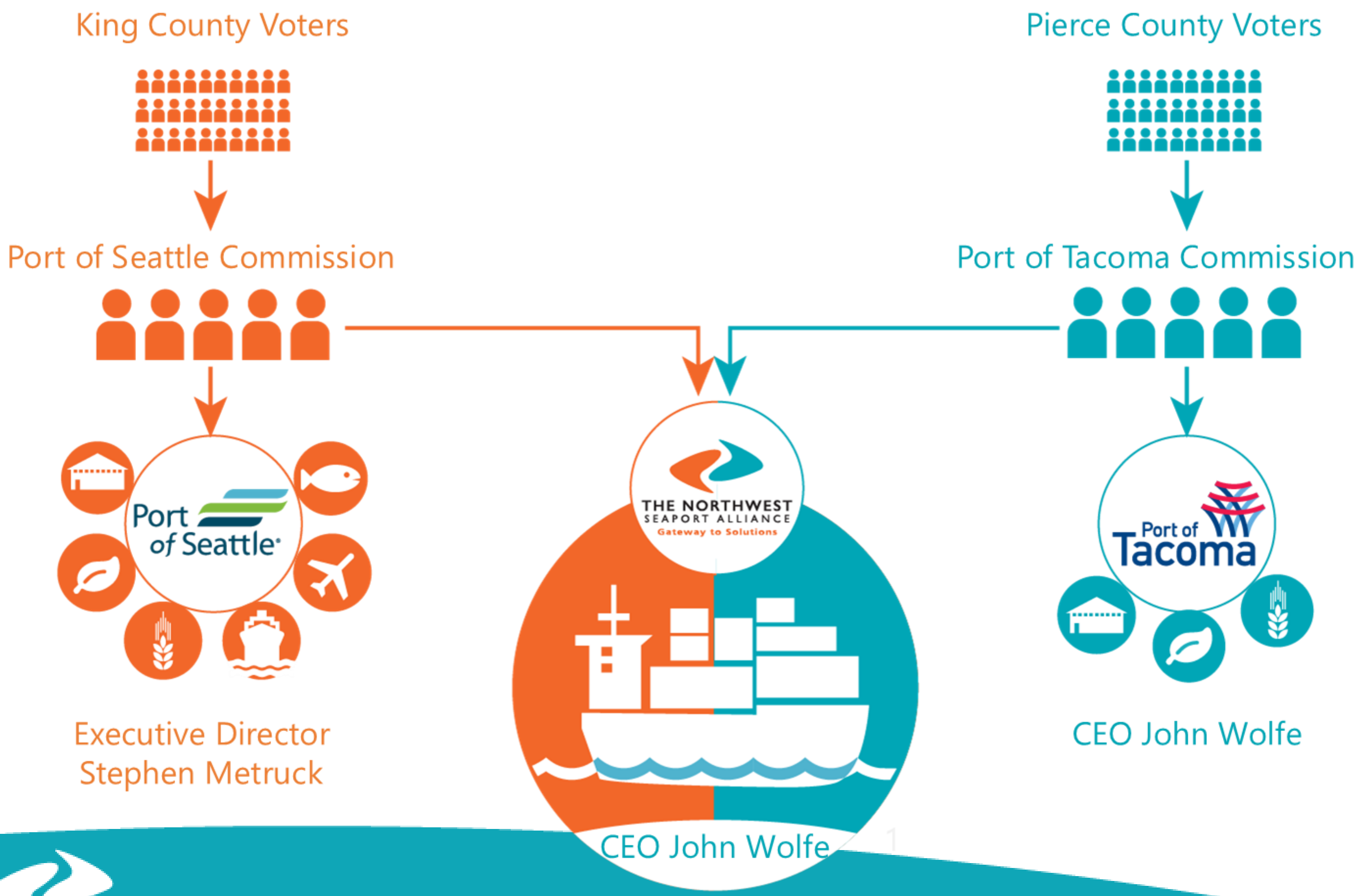
Northwest Seaport Alliance Structure



Agenda

- **Funding Options**
- **Debt Types**
- **Tax Issues**
- **Accounting Changes**
- **Example portfolio**
- **Things to avoid**

Funding Options

- **Pay as you Go**
- **Debt**
  - Corporate borrowing
  - Project specific
- **OPM – Other People's Money**
  - PPP or PPPP

“Pay Go” or Pay as you Go

- **Use existing cash to pay for construction of a project**
  - Suited for projects with shorter lives and where cashflow is sufficient to cover project costs per year

- **Advantages – no new debt, no interest expense, no limitations on use of funds compared to tax exempt bond proceeds and grants**

- **Disadvantages – lower liquidity, delayed project completion**

- **Example: Port of Tacoma is using Pay as you Go for a new $35M auto processing terminal**

Pay as you Go Auto Terminal

Debt

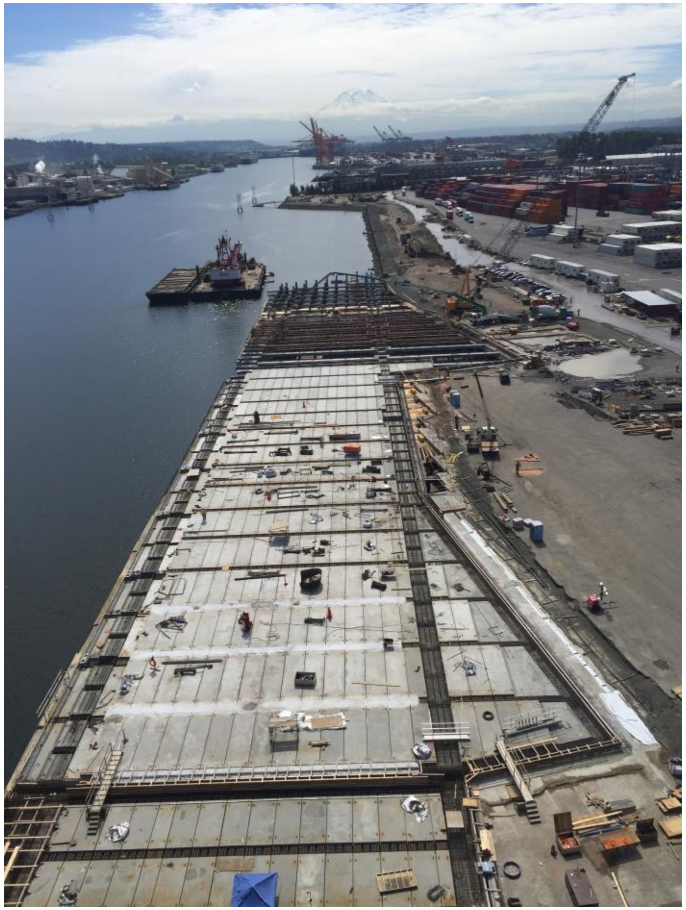
- **Promise future revenue to pay for cash borrowed to fund a project or projects**
    - Suited for larger programs or where you need to complete quickly

- **Advantages – Maintains cash/investments for liquidity, access to funds to build a project sooner, avoid construction cost escalation**

- **Disadvantages – debt payments, limits on use of bonds, impact to the Profit and Loss statement**

- **Example: Port of Tacoma issued approximately $100M in 2016 to fund the construction of a new wharf and 8 cranes**
    - Total Cost $200M, split 50/50 with Port of Seattle as an Northwest Seaport Alliance project.

Debt Funded Projects



Debt Types

- **Tax backed debt**

- **Revenue backed debt:**
  - Port Net Operating Revenue Bonds
  - Port Asset Backed Debt
  - Port Special Purpose Facility Bonds, backed by lessee/concessionaire revenue and parent guarantee
  - Port Special Purpose Facility Bonds, backed by the net operating revenue of a single terminal concession, i.e. apart from the Port's "System"
- **The chosen debt security type is port and project specific, taking into consideration the unique operating and business characteristics of any given lease**

Limitations on Bond Proceeds

- **Different types of tax treatments for the holder of the bonds:**
  - Tax payers who purchase your bonds may be subject to the Alternative Minimum Tax (AMT)

- **Type of Bonds**
  - Governmental = Non AMT:
    - Question to ask: “Is the property used in the trade or business of a private person?” If not assume governmental
    - Bond interest received never subject to Federal tax
  - Private Activity = AMT:
    - If the bonds are for a private “person“, the IRS has exemptions for Airports, Docks and Wharfs, water systems, sewer systems, etc.
    - Bond interest received may be taxable per AMT rules
  - Taxable Bonds

OPM: Other People's Money

- **Giving up control and future cash flows / profit by allowing someone else to pay for a project**
    - Grants – Buy America requirements
    - Private Equity – Ownership, management and benefits of the project

- **Advantages – Maintains cash/investments for liquidity, funds the project**

- **Disadvantages – lack of control, long term concessions. The Private company in the PPP (Private Pubic Partnership) demands a higher return than the port**

Public Private Partnership

- USDOT's definition of a public-private partnership is quite broad.
    - P3s are contractual agreements formed between a public agency and a private sector entity that allow for greater private sector participation in the delivery and financing of transportation projects.
    - There are many different P3 structures, and the degree to which the private sector assumes responsibility - including financial risk - differs from one application to another.
    - Additionally, different types of P3s lend themselves to the development of new facilities and others to the operation or expansion of existing assets.

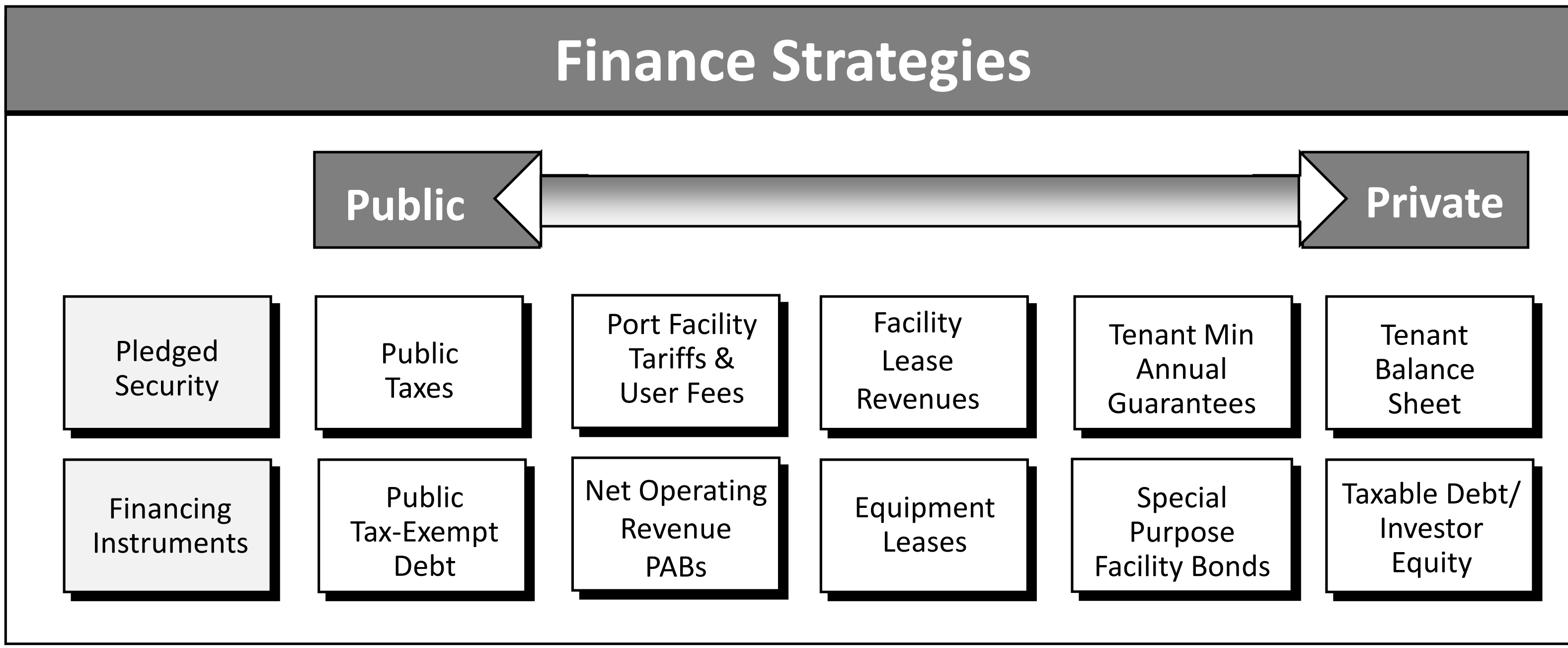
P3 vs Debt

- **Bondholders are passive lenders**
  - Seek timely payment of principal and interest
  - Investment decisions are based on third-party evaluations and “done deals”
  - Rating agencies and credit enhancement are key

- **P3 investors are active business partners**
  - P3 investor wants to manage the project
  - Interested in profit, in equity return, in risk allocation and in regulation
  - P3 investor will perform their own technical due diligence
  - The project & the business structure creates the credit, which in turn
  - defines the financing options

Seaport Finance Alternatives

- Many US seaports issue non-recourse net operating revenue supported debt, typically on a “system” approach as opposed to a single project.
- Compared to P3 concession debt structures, public seaports have typically used very conservative debt practices.
- Many US seaports utilize a variety of tenant lease & use agreements by which private partners might construct, finance and/or operate facilities – the related revenues support various types of debt.



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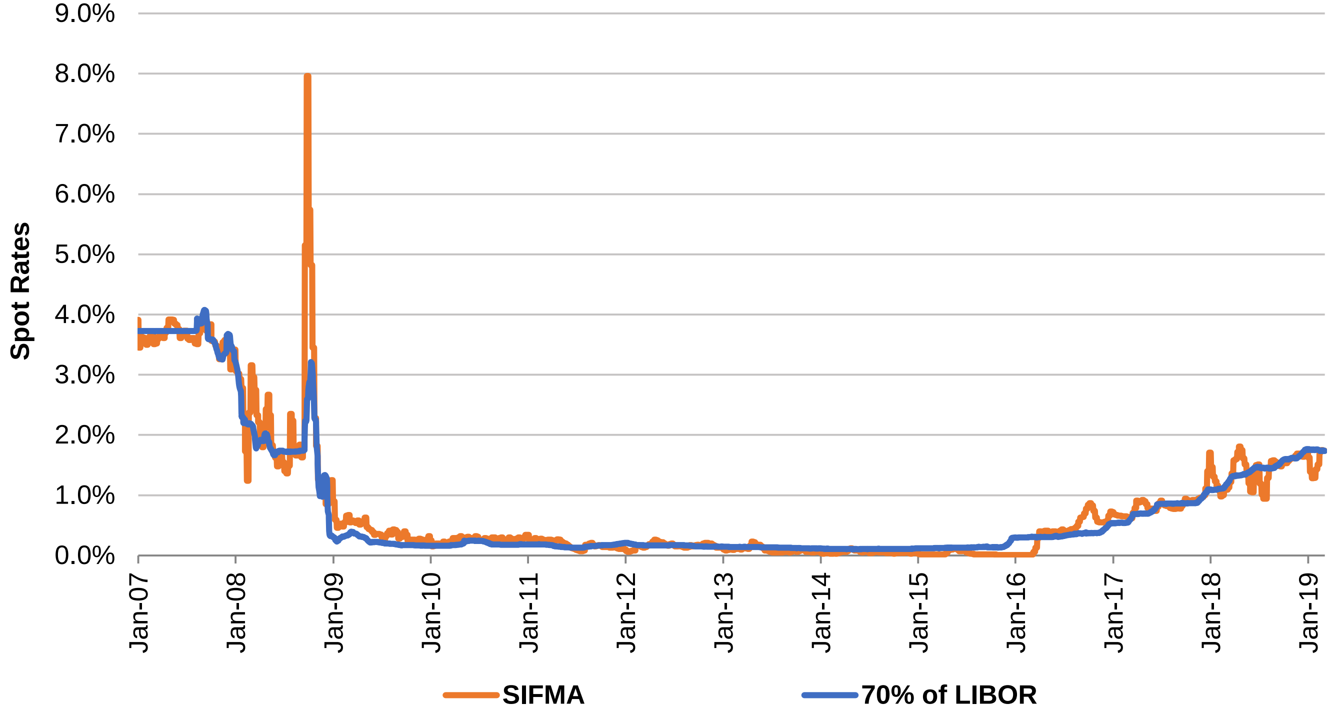
Debt Structures

- **Fixed vs Variable interest long term debt**
  - Fixed
    - once you issue, no further management required as long as you pay your debt service
  - Variable
    - Requires ongoing management
    - Lower interest cost in general, with periods of extreme anxiety possible
- **Short term financing**
  - Commercial Paper Program
  - Short term variable rates

Short Term Interest Rates

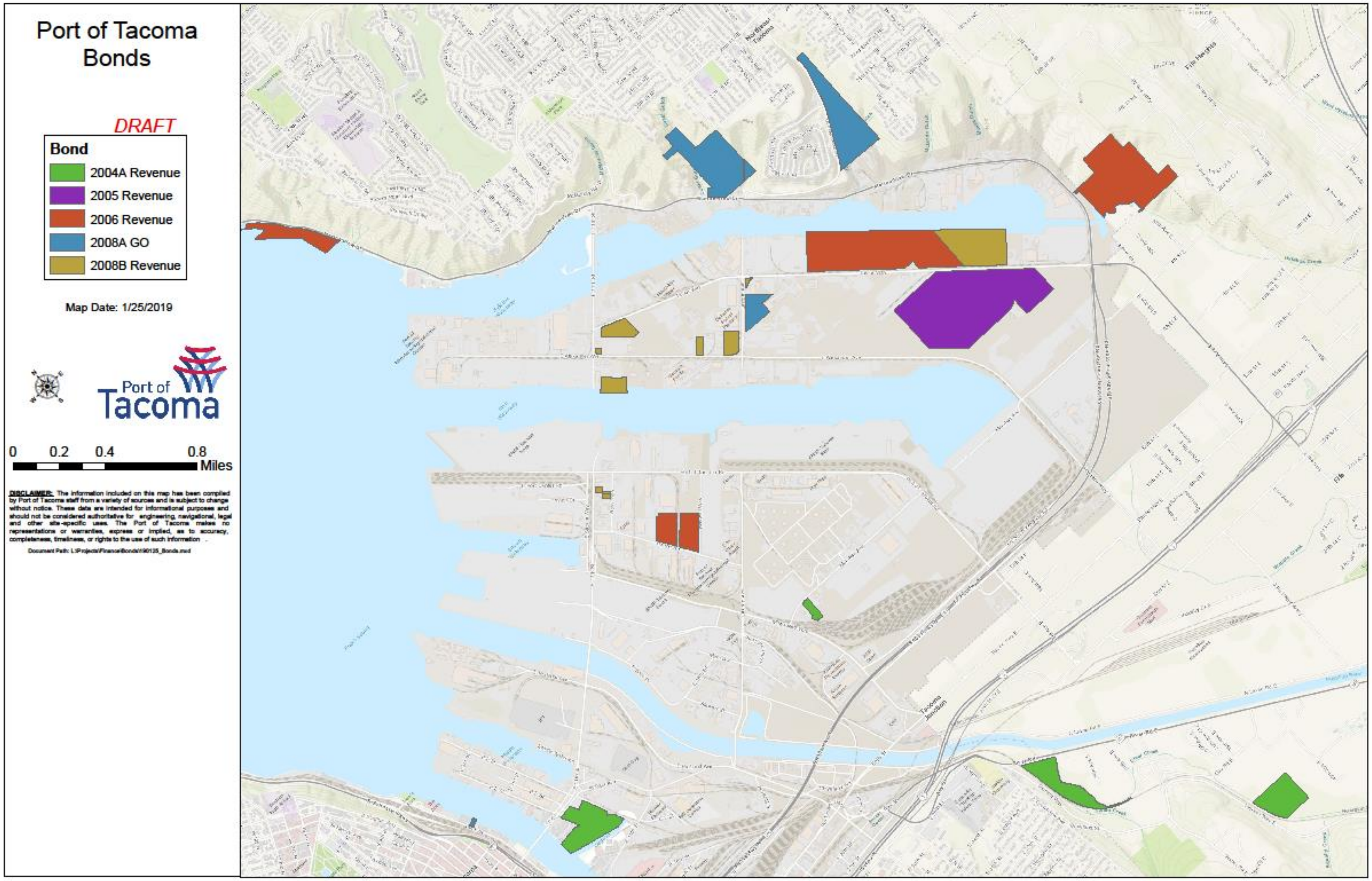


Tax Issues

- **Tracking good/bad use – map and data base**
  - Don't get in trouble with the IRS for using tax exempt bond proceeds on "bad use"
    - Example: A Starbucks on a terminal funded by AMT bonds
    - Some allowance for "bad use" for bonds, but it is small.

- **Arbitrage – why your finance team wants accurate construction schedule**
  - If your port borrows to fund a project, it may be able to keep any interest earned if certain criteria are met
    - Issue tax exempt bonds at 3%
    - Invest funds in taxable investments at 4%. You can keep the extra interest if certain spend-down criteria are met.

Port of Tacoma Good Use / Bad Use Map



Accounting Changes

- **Changes to Capitalized Interest**
  - No longer add interest expense to your capital projects
    - Interest in not an asset because it does not possess service capacity

Capitalized interest change

With capitalize interest

$100M project and you borrowed at 5%. Assume it takes one year to build the project

Asset has a 10 year life

capitalized cost = $105 million

Annual Depreciation is 10.5

	year 1	year 2	year 3
Revenue	$ 5.0	$ 35.0	$ 36.0
Expense	$ (2.0)	$ (5.0)	$ (6.0)
Income before Depreciation	$ 3.0	$ 30.0	$ 30.0
Depreciation	$ -	$ (10.5)	$ (10.5)
Income before Interest Expense	$ 3.0	$ 19.5	$ 19.5
Interest Expense	$ -	$ (5.0)	$ (5.0)
Net Income	$ 3.0	$ 14.5	$ 14.5

Without capitalized interest

$100 M project funded by borrowing at 5%

Asset has a 10 year life

capitalized cost = $100 million

Annual Depreciation is 10

	year 1	year 2	year 3
Revenue	$ 5.0	$ 35.0	$ 36.0
Expense	(2.0)	$ (5.0)	$ (6.0)
Income before Depreciation	3.0	30.0	30.0
Depreciation	0.0	(10.0)	(10.0)
Income before Interest Expense	3.0	20.0	20.0
Interest Expense	(5.0)	(5.0)	(5.0)
Net Income	$ (2.0)	$ 15.0	$ 15.0

Port of Tacoma Debt Structure Example

Port of Tacoma Debt Portfolio as of 12/1/2018

	Series	Outstanding Par	Call Date	Purpose	Interest Rate Mode	Coupon	All-In True Interest Cost	Final Maturity	Credit Enhancement	LOC/DP Expiration Date	Summary of Refunded Bonds	Additional Refunding Notes
GO Bonds (Rated Aa2/AA)	**2016 LTGO**	$ 24,893,000	Anytime	Refunding	Fixed Rate Direct Purchase	1.060% - 2.360%	1.9942%	12/1/2025	None	N.A.	- 2008A LTGO (2019-2025)	
	2016A LTGO	$ 106,155,000	12/1/2026	Refunding	Fixed Rate	3.000% - 5.000%	2.7047%	12/1/2033	None	N.A.	-2006 LTGO (2017-2033) -2008A LTGO (2018, 2026-2038)	-2006 LTGO refunded 1997B & 2003 LTGOs
	2017 LTGO (Taxable)	$ 19,410,000	12/1/2027	Refunding	Fixed Rate	2.500% - 3.400%	3.1775%	12/1/2038	None	N.A.	-2008B LTGO (AMT) (2018-2038)	
	Total	**$ 150,458,000**										
SR. REV Bonds (Rated Aa3/AA-)	**2014A REV**	$ 6,473,173	Anytime	Refunding	Fixed Rate Direct Purchase	2.500%	2.6430%	12/1/2021	None	N.A.	-2004A Rev (Term 2021)	
	2014B REV	$ 28,455,000	Anytime	Refunding	Fixed Rate Direct Purchase	2.550%	2.5886%	12/1/2029	None	N.A.	-2004B Rev (2014-2016, 2017-2029)	
	2016A REV	$ 36,535,000	12/1/2026	Refunding	Fixed Rate	4.000% - 5.000%	2.5223%	12/1/2034	None	N.A.	-2006 Rev (2017-2034)	-2006 Rev refunded 2004A Rev
	2016B REV (AMT)	$ 102,405,000	12/1/2026	New Money	Fixed Rate	2.000% - 5.000%	3.6417%	12/1/2043	None	N.A.	N.A.	
	Total	**$ 173,868,173**										
SUB. REV Bonds (Rated A1/A+)	**2008 REV (AMT)**	$ 65,190,000	Anytime	Refunding	Variable Direct Purchase	Variable Rate + Bank Fee	4.5092%	12/1/2036	None	July 2020	-1997 Rev (AMT) (2011-2017) -2006 Rev (AMT) (2009-2036)	
	2008B REV (Non-AMT)	$ 122,180,000	Anytime	New Money	Variable Direct Purchase	Variable Rate + Bank Fee	4.4792%	12/1/2044	None	Nov 1, 2019	N.A.	
	2014A REV (AMT)	$ 82,120,000	Anytime	Refunding	Variable Direct Purchase	Variable Rate + Bank Fee	4.4192%	12/1/2035	None	Oct 1, 2019	-2004B Rev (AMT) (2029-2034) -2005 Rev (AMT) (2014-2035)	
	Total	**$ 269,490,000**										
SUB. CP	**Commercial Paper**	$ 25,000,000 (1)	Anytime (at maturity)	New Money & Refunding	Variable	Variable Rate + Bank Fee	N/A	N/A	BofA LOC	April 2019		
	Total	**$ 618,816,173**										

(1) The Port can issue up to $100 million Commercial Paper.

Things to Avoid

- **Borrowing more than you need**
- **Borrowing sooner than you need**
- **Bad Use of bond funded projects that used Governmental or Private Activity Bonds**

Port Planning and Investment Toolkit – *Funding Strategy Module*

- **Developed through a cooperative agreement between the U.S. Department of Transportation, Maritime Administration and the American Association of Port Authorities**

- **Public Financial Management led Toolkit development, with oversight of Port Industry Volunteers**
  - Port managers
  - Technical consultants
  - Legal consultants
  - Financiers
  - Industry association members
  - Academicians

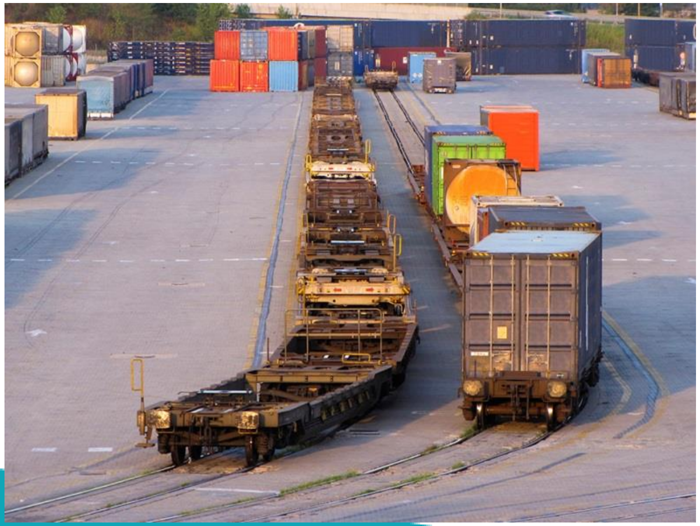
Goal of the Toolkit *Funding Strategy Module*

- **Funding strategy is a primary consideration of any capital investment decision**

- **Ports should evaluate and approach investment opportunities using an approach grounded in prudent due diligence and fundamental credit/investment evaluation**

- **It is important for ports to understand the full range of potential capital needs and financial solutions, and not be wed to just one potential solution**

    - **The Toolkit offers a full range of funding solutions!**



- **The Toolkit can be used to lead a port through a logical and thorough step-by-step process to make sound investment decisions**

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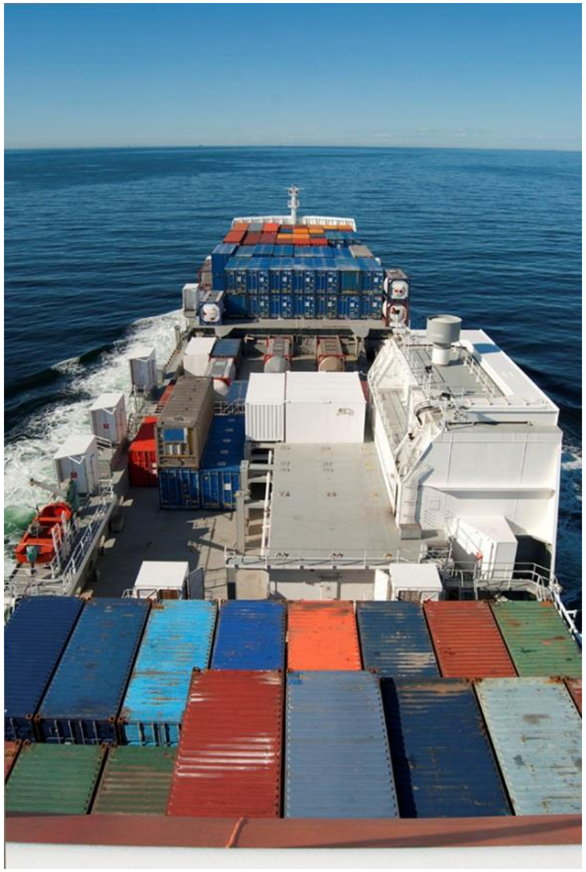
Toolkit Components and Uses

- **Toolkit components include:**
  - Port Planning and Investment Toolkit - *Funding Strategy Module*
  - Funding Strategy Checklist
  - Sample Financial Model

- **Port industry professionals can use the Toolkit for any number of capital investment activities including, but not limited to:**
  - Long Term Capital Planning
  - Upgrading Capacity
  - Asset-Backed and Lease Financing
  - Weighing Traditional vs. Alternative Financing
  - Project Finance Structuring
  - Evaluation and Implementation of Public-Private Partnerships
  - Procuring Government Loans and Grants



The possible applications of the Toolkit are broad!

Port Concession Transactions

Transaction	JaxPort Mitsui	Oakland Ports America	Baltimore Ports America
Operating Model	Long Term Landlord	Passive Landlord	Passive Landlord
Primary Mgmt Control	Public-Private	Private	Private
Typical Contracts & Lease Agreement	Single Tenant; Term Covers Debt	Single Tenant; 50-year Term to Cover Debt & Equity Return	Single Tenant; 50-year Term to Cover Debt & Equity Return
Facilities Financed	2 berth container terminal on 158 acres	5 berth container terminal on 202 acres	3 berths going to 4 berths container terminal on 201 acres
Sources of Revenues and Security for Debt	Corporate Rental, Minimum Guarantee & Throughput Fees	Tariffs/Lease Revenue; Received by Private Concessionaire	Tariffs/Lease Revenue; Received by Private Concessionaire
Type of Debt	Special Purpose Conduit Bonds and JaxPort Revenue Bonds	Concessionaire Private Equity	PABS, Tax-Exempt Debt & Private Equity
Tax Status/ Term	AMT Tax-Exempt Up to 33 years	Taxable 50 years	Tax-Exempt and AMT 50 years
Primary Private Partners	Shipping Company/ Terminal Operator/ Corporate Guarantor	Private Equity Concessionaire	Private Equity Concessionaire

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Value and Risk Sharing

Transaction	JaxPort Mitsui	Oakland Ports America	Baltimore Ports America
Upfront Capital	$100M SPB + $95M PABs; PV of DS Rent $147M; Mitsui buys cranes $65M	$60M Equity	$140M Upfront Payment and $105 for Construction (Financed with $167M Tax-Exempt Debt; $82M PABS; $70M Equity)
Revenue Sharing	$7/container; Adjusted by CPI, capped at 5%	$19.5 million/year + $26.55/lift over 900,000	$3.2 million/year + $15/lift over 500,000
Interest Rates	JaxPort has Risk	N/A	Private has Risk
Completion Costs	Shared; Mitigated by Const Contract	N/A	Private Pays and has Risk; Mitigated by Const Contract and 95% Design
Market Revenues	Private has Risk	Private has Risk	Private has Risk; Partially Transferred to Debt
O&M Costs	Private Pays and has Risk	Private Pays and has Risk	Private Pays and has Risk
Technology Performance	Private has Risk	Private has Risk	Private has Risk
Long Term Capital	Private Pays and has Risk	Private Pays and has Risk	Private Pays and has Risk