



AAPA Conference
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Outline

- Disclaimer
- Basic Premises
- Being Ready to Borrow
- Vocabulary
- Conclusion



Disclaimer

The ideas and views expressed are based on the experiences of the Port of Los Angeles. The opinions and ideas presented are solely that of the speaker.



Basic Premises

- Identify the purposes of borrowing and the sources of repayment
- Set priorities
- Understand the costs and obligations of borrowing
 - It's not just the interest costs
 - Debt service reserves
 - Fees
 - Financial covenants
 - Reporting requirements



Basic Premises

- Know the risks
 - Administrative
 - Staffing
 - Skill sets
 - Market
 - Will financial options be available
 - Timing
- Let financial models help guide you



Being Ready to Borrow

- Do the key parties understand the risks
- Have a clear set of financial policies as a guide
 - Can be as simple and as complex as you wish – straightforward is better
- When matching repayments to revenues
 - Projects that generate revenues should have some clearly defined standard for rates of return
 - When is a grant not free?
 - Projects that do not generate revenues



Some Vocabulary of Borrowing

- Don't be intimidated by vocabulary
- **Bond** – a debt instrument that obligates the borrower to repay over a period of time. Viewed as long term obligations, bonds may have maturities any where from 1 to 30 years.
- **Commercial Paper** – debt instruments that generally mature in 270 days or less.
 - Lower cost than long term bonds
 - Generally needs a bank at additional cost to provide support
 - Subject to an ability to re-issue at the time of maturity



Additional Vocabulary of Borrowing

- **AMT Bonds** – Bonds that are issued that are subject to the Alternative Minimum Tax
 - Issued to support “private activity”, generally those projects that earn money
 - Interest cost will be higher for the issuer
- **Non-AMT Bonds** – Bonds issued that are not subject to the AMT
 - Bonds that fall into this category will cost the issuer less in interest
 - Issued to finance “public” or governmental projects



More Vocabulary of Borrowing

- **Investor Community**

- Rating Agencies – Entities that rate the bonds issued. There are three of them: Moody's, Standard & Poor's and Fitch Ratings. Understand their role and your relationship with them
- Debt Ratings – Ranges from AAA to C
- Bondholders

- **Insurance/Surety**

- Or lack thereof

- **Disclosure**

- The role of information



Even More Vocabulary of Borrowing

- **Underwriters/Investment Banks** – Firms that will sell your bonds into the marketplace
 - Known as “underwriters” because in theory, they underwrite, meaning buy, all of the bonds that you issue and re-sell them
 - Once a firm underwrites, in theory, you have all the money you intended to raise.
 - ***They are in business to make money***
- **Financial Advisors** – Firms that exist to assist municipalities in navigating the financial marketplace



Summary

- Policies
- Clear priorities
- Financial staff
- Investors
- Rating Agencies
- Investment Banks
- Financial Advisors





The End