

# Financial Considerations for Public Ports

*2014 Executive Management Conference*

*Jeff Strader  
CFO, Port Freeport, Texas  
Chair, AAPA Finance Committee*

May 7, 2014



Alliance of the Ports of Canada, the Caribbean, Latin America and the United States

Seaports  
Deliver  
Prosperity

American Association of Port Authorities  
703.684.5700 • [www.aapa-ports.org](http://www.aapa-ports.org)

# Subjects consuming the thoughts of today's Port Financial Professional

- *Global and domestic market, industry and economic outlooks*
- *Risk mitigation – what to insure, what to not and what is recoverable*
- *Employee hiring and retention*
  - Benefits – Affordable Care Act
  - Career path planning – advancement and succession planning
- *Cyber/IT systems security*
- *Government regulatory impacts – financial, environmental, operational*
- *Cash Flow preservation & enhancement – “Cash is King”*
- *Funding CapEx*

*2014 Executive Management Conference*

# **CASH FLOW PRESERVATION AND ENHANCEMENT**

# Cash Flow Preservation and Enhancement

*What are we talking about?*

- *Annual **net Positive** Cash Flows – life blood of any organization*
- *Potential source categories*
  - Operations – area of greatest control and durability
  - Tax Levy – most often the focus of reduced reliance
  - Grants, appropriations, etc. – great one time or project oriented source but not reliable
- *Preservation – retained cash flow or “reserves”*
- *Enhancement – predictability, reliability (qualitative aspects) and more of it (quantitative aspects)*

# Cash Flow Preservation and Enhancement

(continued)

*Why are we talking about it?*

- *Risk Mitigation/Hedging*
  - Operational – equipment failure, work stoppage
  - Financial – loss of major customer, debt covenant requirements
  - Regulatory – COE, Affordable Care Act, SEC & Fed Reserve
- *Foundation for all CapEx and Maintenance Funding*
  - Pay go for major maintenance and smaller CapEx
  - Leverage for major CapEx (debt tax/GO or revenue based)
- *Fiduciary Responsibility to organization's constituency*
  - Increased ability to provide desired economic impacts
  - Reduced public financial support

*GOAL – to create a condition of Financial Self Sufficiency*

# Cash Flow Preservation and Enhancement

(continued)

## *What to do?*

- *Policy positions, preferably written and authorized by Governmental body for:*
  - Cash retention and investment
  - Debt issuance, capacity utilization and credit strategy
- *Data/Intelligence*
  - Market/demand, operational requirements, facility/infrastructure requirements
  - Developed internally as a team and vetted externally if credit depended
- *Business opportunity assessment process*
  - Qualitative – tied to organizations mission and vision
  - Quantitative – consistency in application, example NPV per acre
  - Collaborative – must include all relevant disciplines

# Cash Flow Preservation and Enhancement

(continued)

## *What to do?*

- *Long-range financial planning tool*
  - 10 out to 30 year range, 10 detailed and 20 projected on a econometric basis
  - Comprehensive, consistent and integrated
  - Routinely updated – tie it to annual budgeting process
  - Incorporate policy and strategy positions
- *Vetted process*
  - Internally – Full Senior Management Team
  - External – Financial Advisor, Rating Agencies, Feasibility Consultant
  - CEO/Executive Director
  - Governing Body

## *Developing the Essential Elements of a Business Plan*

# Cash Flow Preservation and Enhancement

(continued)

*What does this look like?*

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Operating Revenues	\$ 17,441,100	\$ 21,310,107	\$ 25,386,530	\$ 27,537,809	\$ 30,060,008	\$ 31,832,383	\$ 33,558,553	\$ 37,936,574	\$ 40,631,814	\$ 44,096,743
Operating Expense (Cash Based)	6,185,095	7,503,522	8,314,800	8,881,111	9,456,892	10,043,343	10,641,688	11,253,182	11,879,110	12,520,792
Cash Flow generated from Operative Activities	11,256,005	13,806,586	17,071,731	18,656,698	20,603,116	21,789,040	22,916,865	26,683,392	28,752,703	31,575,950
Service of Existing Revenue Debt	17,123,481	4,061,942	4,030,886	8,569,356	5,858,260	3,974,066	2,779,972	2,784,830	2,782,532	2,783,232
Service of New Debt										
Crane Financing	-	1,755,515	1,741,065	1,729,418	1,720,715	1,715,100	1,712,730	1,713,767	1,718,380	1,726,749
Series 2015	-	-	2,179,739	2,148,304	2,118,163	2,089,381	2,062,026	2,036,168	2,011,884	1,989,250
Series 2017	-	-	-	-	1,579,865	1,557,082	1,535,236	1,514,374	1,494,547	1,475,806
Cash Funded CAPEX and Maintenance	12,396,759	8,552,000	691,500	349,000	6,369,500	-	-	-	-	-
Reserve Funding (Requirement)										
Addition	\$ (18,264,235)	\$ (562,871)	\$ 8,428,541	\$ 5,860,620	\$ 2,956,613	\$ 12,453,411	\$ 14,826,901	\$ 18,634,253	\$ 20,745,360	\$ 23,600,913
Projected Cash/Reserve Level	\$ 41,794,988	\$ 41,232,117	\$ 49,660,657	\$ 55,521,277	\$ 58,477,890	\$ 70,931,301	\$ 85,758,202	\$ 104,392,455	\$ 125,137,816	\$ 148,738,729
<b>Debt Capacity</b>	<b>\$ 115,354,924</b>	<b>\$ 141,494,042</b>	<b>\$ 174,956,228</b>	<b>\$ 191,199,449</b>	<b>\$ 211,146,926</b>	<b>\$ 223,300,637</b>	<b>\$ 234,858,924</b>	<b>\$ 273,459,423</b>	<b>\$ 294,666,350</b>	<b>\$ 323,599,831</b>
Funded Debt										
Existing Debt	37,710,000	35,890,000	34,010,000	27,515,000	23,645,000	21,590,000	19,475,000	17,290,000	15,040,000	12,720,000
Crane Financing	14,100,000	12,978,985	11,801,920	10,566,002	9,268,287	7,905,687	6,474,957	4,972,690	3,395,310	1,739,061
Series 2015	-	34,389,000	33,871,396	33,327,912	32,757,254	32,158,063	31,528,912	30,868,304	30,174,665	29,446,345
Series 2017	-	-	-	24,925,000	24,549,843	24,155,928	23,742,317	23,308,026	22,852,021	22,373,215
Total Funded Debt	\$ 51,810,000	\$ 83,257,985	\$ 79,683,316	\$ 96,333,914	\$ 90,220,384	\$ 85,809,678	\$ 81,221,186	\$ 76,439,020	\$ 71,461,996	\$ 66,278,621
Available Capacity	63,544,924	58,236,057	95,272,912	94,865,535	120,926,542	137,490,959	153,637,738	197,020,403	223,204,354	257,321,210
Percent of Capacity Leveraged	45%	59%	46%	50%	43%	38%	35%	28%	24%	20%



*2014 Executive Management Conference*

# **CAPEX FUNDING**

# CapEx Funding

## *Landscape*

- *By scale, dwindling Federal funding availability coupled with increased competition*
  - Grants such as TIGER and Port Security
  - Federal DOT and US Army COE
- *State budget deficit issues still persists – tax collections down*
- *Aging transportation infrastructure network coupled with no comprehensive national freight transportation policy*
- *Increased financial regulatory oversight and requirements*
- *Very limited credit enhancement tools – insurance, LOC's*
- *Interest rates are on the rise but still below historic average*

## CapEx Funding (continued)

*What does this mean?*

- *An entity's stand alone credit is extremely important and Investors are no longer willing to rely singularly on credit rating agencies*
- *Large scale CapEx funding will typically require a “recipe of funding” sources*
- *Debt issuances have become highly variable in structure*
  - Careful consideration must be given to selection of pledge assets
  - Pay close attention to covenants both financial and non financial
  - Evaluate how debt is “placed”
- *Consideration of Project Finance and P3 approaches*

## CapEx Funding (continued)

*What funding sources are available? (note: no source is “free”)*

- *Traditional capital markets for both revenue and tax backed debt are still out there*
  - Consider Private placement vs. Public Sale
  - Closely consider lien level placement
  - Offers longer debt amortizations and higher issuance capacity
  - Taxable and non taxable structures (AMT and General Government)
- *Commercial Bank financings*
  - Ease of issuance and lower cost of issuance
  - Subordinated or possible no system revenue pledge
  - Shorter amortizations and lower issuance capacities
  - BQ and Non BQ structures and Taxable/Non taxable available

# CapEx Funding (continued)

*What funding sources are available? (note: no source is “free”)*

- *Government loan programs*
  - Federal TIFIA (subordination possibilities)
  - State Infrastructure Investment Banks
  - Designed to cover only a portion of project
- *Grant Programs*
  - Port Security Grant and TIGER programs
  - New proposed programs
  - Targeted funding requiring recipient matching
- *Private equity and debt funding – P3 Concessions*
- *Internal equity funding (balance sheet financing)*

# Berth 7, Velasco Terminal

# Proposed “2013 Series Revenue Bonds”

---

*Purpose: Provide all necessary funds to refinance the outstanding balance of the 2008 Series Port Revenue Bonds as well as to reimburse the Port for funds expended to make repairs necessary in order to place Berth 7 into service.*

## Transaction Outcomes

---

Restructured Master Resolution that offers expanded access to different types of financing options

Restoration of Balance Sheet liquidity with likely no net cost due to resumption of Federal agency investment position

Projected net savings on refinancing of 2008 series revenue bonds of approximately **\$5.9 million**



# Proposed “2013 Series Revenue Bonds”

## *Transaction Structure:*

- *Revenue Bond*
  - collateralized and payable solely from Port operating
  - Senior revenue pledge
  - Tax Levy can not be used to pay debt service
- *Total Issuance of \$52,610,000*
- *Issued in 3 separate series*
  - Series A – Fixed tax exempt
  - Series B - Variable non-tax AMT
  - Series C - Variable taxable

## Source of Funds

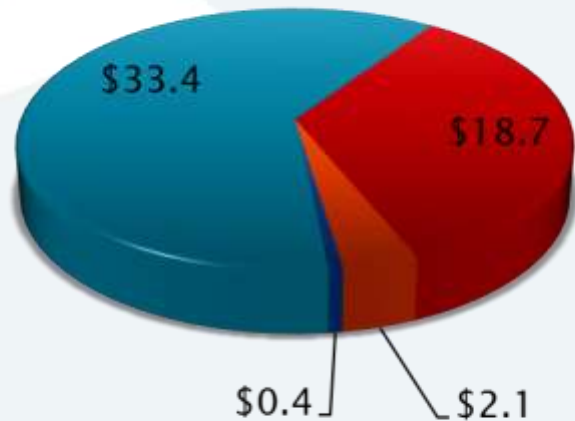


- Fixed Rate
- Variable Tax Exempt AMT
- Variable Taxable
- 2008 DSRF



# Proposed “2013 Series Revenue Bonds”

## Use of Funds



- 2008 Series Retirement
- Reimbursement of Berth 7 repairs
- Fund DSRF
- Cost of Issuance

## *Transaction Structure (continued):*

- *Private Placement as opposed to Public Sale*
  - Bank of America proposal
  - Based on First Southwest’s review of proposal offers approx \$850,000 savings over public sale
- *Terms & Rates*
  - All-In TIC (true interest cost) – 3.17%
  - Weight Average Maturity – 9.675 years
  - Series A – 15 years
  - Series B – 3 years
  - Series C – 3 years

# For more information

## *AAPA Website*

- *AAPA 2014 Port Finance Seminar*
  - David Moffett, Jefferies, LLC
  - Shaun Toups, Government Consultants, Inc.
  - David Miller, Public Financial Management, Inc.
- *Alerts & Newsletters*

*Jeff Strader*

*Port Freeport, TX*

*Tel: 979-233-2667*

*Email: [strader@portfreeport.com](mailto:strader@portfreeport.com)*