

Debt & Swap Overview

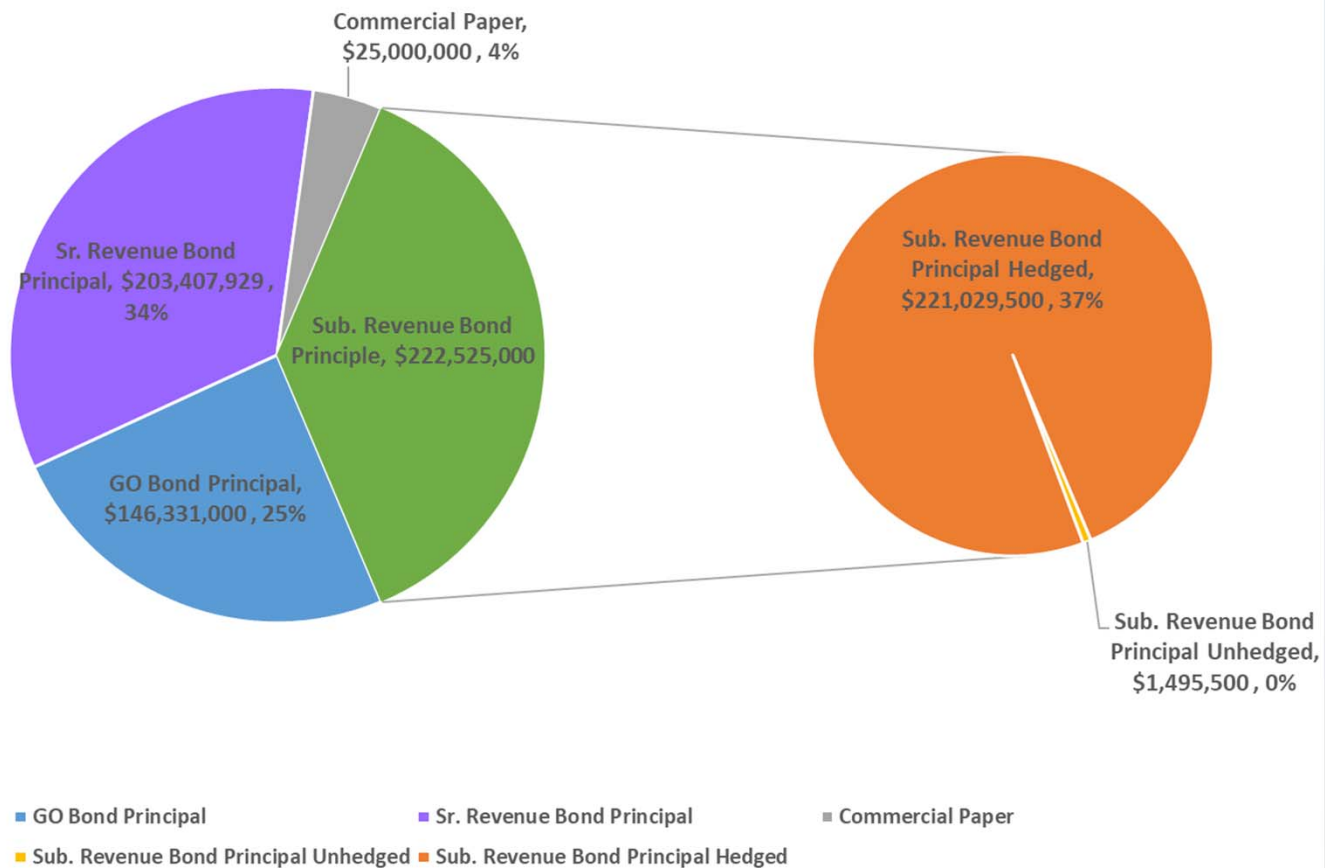
February 2020



Debt Profile



Port of Tacoma Outstanding Debt 01-01-2020



Total debt outstanding of \$597.3 million

Debt Overview - Bonds



What are bonds?

A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed or variable interest rate.

Bond Funding Classifications



General Obligation (GO) bonds

- Full faith, credit and taxing power
- GO debt generally bears the lowest interest rate
- Used generally for Governmental projects
- Entity must levy tax to pay the debt unless the entity has sufficient revenue from other sources to pay the debt
- Statutory limits based on Pierce Co. property values
 - Unvoted: up to 0.25% of assessed value
 - Voted: Up to 0.50% of assessed value
 - Total voted and unvoted: up to 0.75% of assessed value

Bond Funding Classifications



Revenue bonds

- Payable exclusively/solely from specified revenues
- NO TAX LEVY funds may be used to pay revenue bonds
- No statutory dollar limit on revenue bonds
- Used for projects with demonstrable long term revenues

Features of Bonds

Bond Lien and call features

- Senior, Mezzanine, Subordinate (Revenue Bonds only)
- Call Option – ability to refund or retire bonds starting at a certain time

Bond Interest

- Interest Rate – fixed rate, variable rate
- Payment Type – semi-annual (fixed) and monthly (variable)
- Bonds can be issued at a premium or a discount based on the coupon offered and current interest rates

Features of Bonds



Payment Guarantee

- Un-enhanced – Based solely on issuer credit rating
- Backed – Bond backed by insurance or bank LOC

Tax Treatment

- Tax Exempt – Never subject to federal taxes; May be subject to state or local taxes
- Private Activity – Subject to Alternative Minimum Tax for federal taxes
- Taxable

Debt Service Coverage

Debt service

- The total amount of principal and interest due in a given time period

Debt service coverage ratio

- The amount of cash flow available to meet debt service divided by annual debt service

Revenue available for debt service

- Revenue after all operating costs (excluding depreciation) and G.O. bond debt service have been paid

Debt Service Coverage

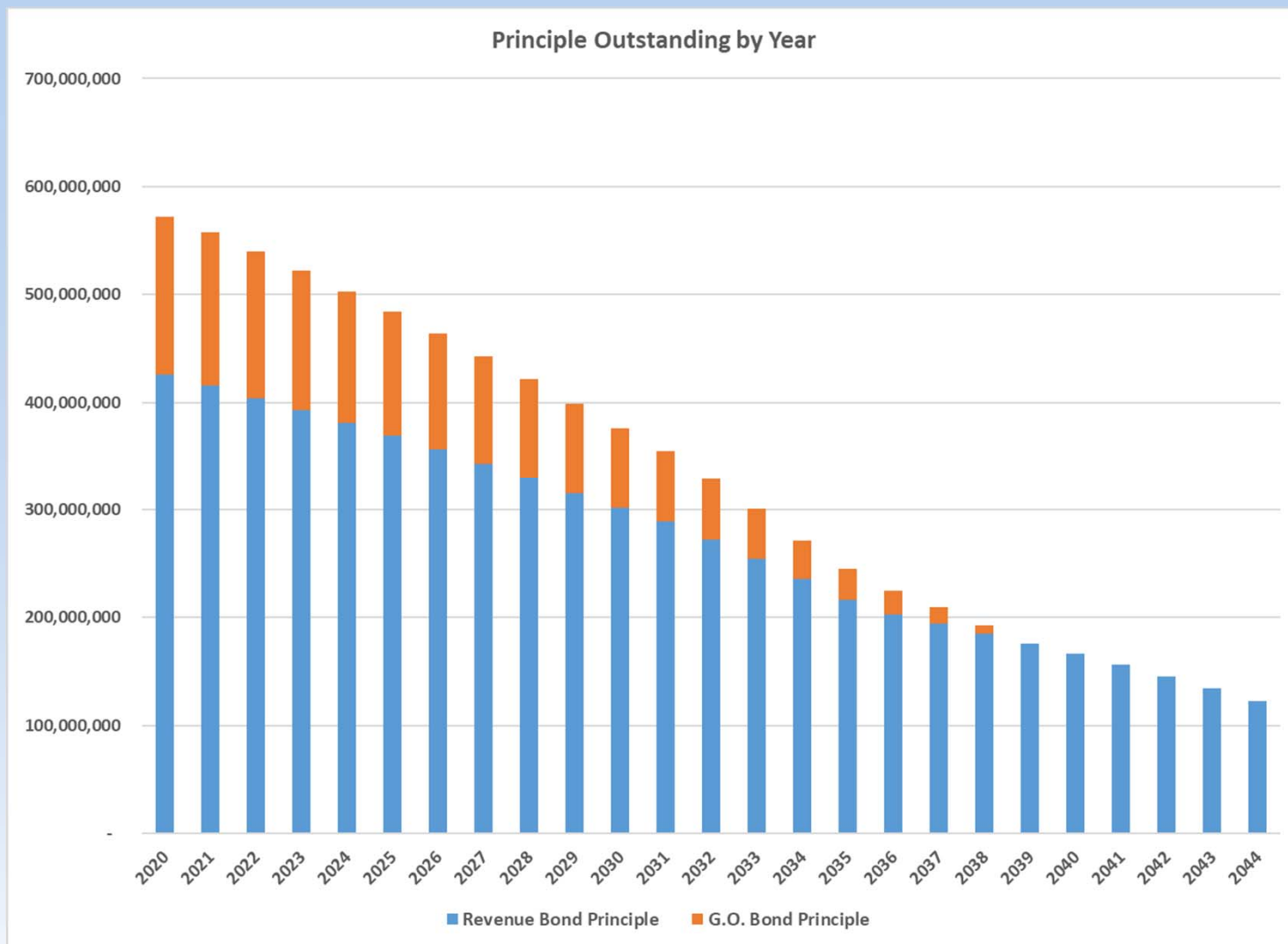
Requirements

- G.O. bonds
 - No requirements
- Revenue bonds
 - Senior lien - 1.35 times debt service
 - Subordinate lien – 1.0 times debt service

Commission Guideline

- All debt: 2 times total revenue debt service
 - Requiring 2.0 times debt service coverage exceeds bond covenant requirements and provides for cushion in case of a reduction in revenue in a given year

Outstanding Debt Principle

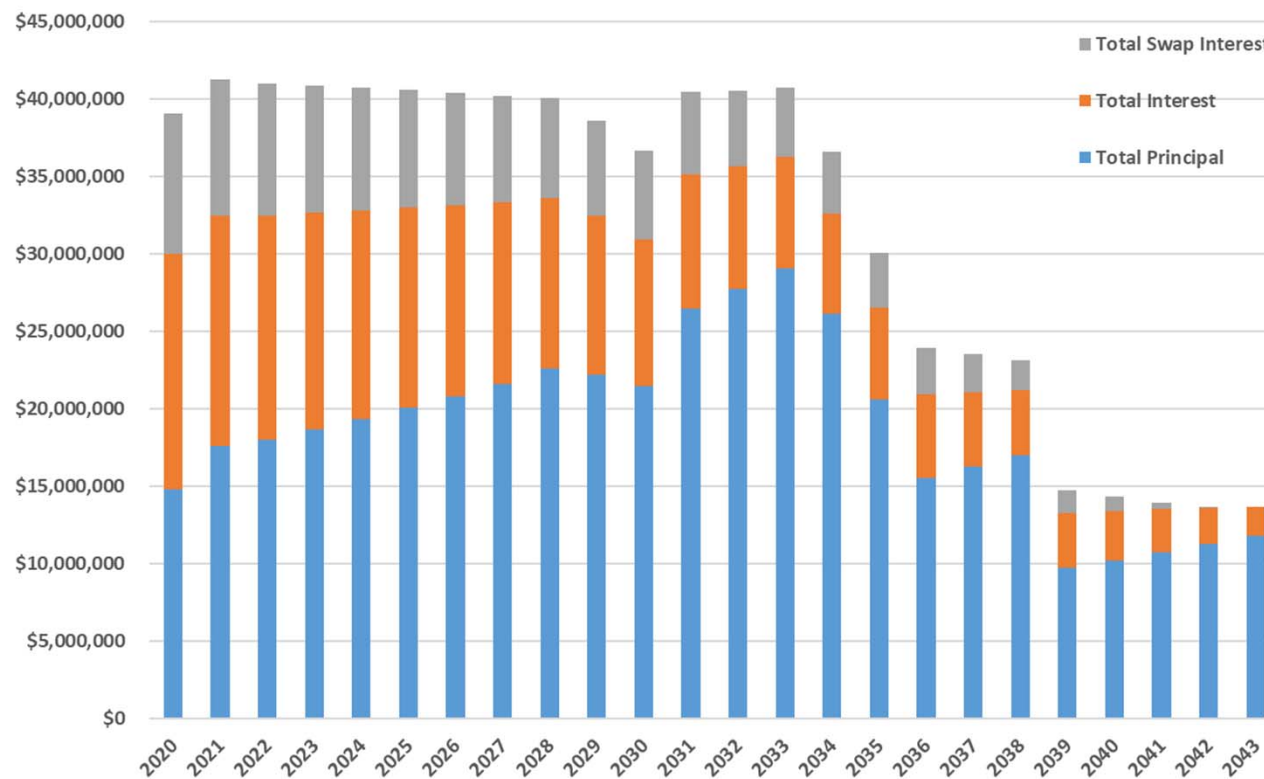


NOTE: Excludes Commercial Paper.

Total Annual Debt Service



GO and Revenue Bond Debt Service



Note: \$122 million principal payment in 2044 not shown.

Note: \$25 million of outstanding, non-amortizing short term debt (commercial paper) not shown.

Commercial Paper



- Tax Exempt Commercial Paper (TECP) is a short-term (1 to 270 days) unsecured promissory note. The Port's TECP program is combined with a bank letter of credit and provides for interim financing up to a maximum of \$100 million
- Commercial Paper has the following benefits:
 - Provides Port with increased liquidity
 - Provides access to low-cost short-term interest rates potentially lowering the Port's overall borrowing cost
- Increased flexibility when accessing long-term fixed rate funding
- The Port has \$25 million of CP outstanding

Interest Rate Swap Overview



What are swaps?

A contract between two parties (“counterparties”) to exchange interest rate payments (cash flows) for a specified period of time.

The principal amount by which the swap rates are multiplied to calculate payments (cash flows) is “notional” - principal payments are not swapped, paid or exchanged.

Interest Rate Swap Overview

Each counterparty's payments equal the product of an interest rate (swap rate) and a “notional” principal amount.

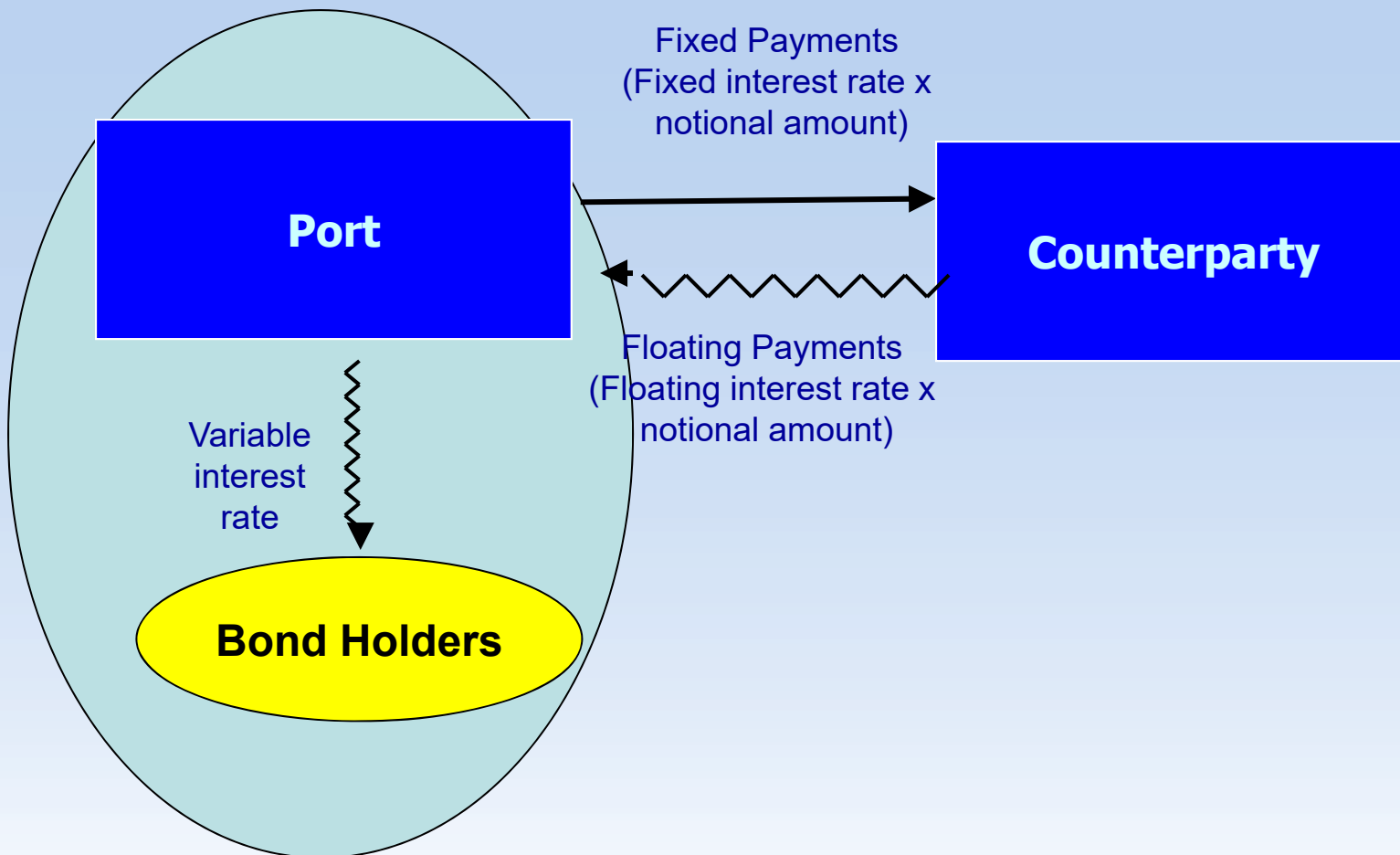
Usually, the swap rate for one counterparty is a fixed rate, while the swap rate for the other counterparty is a floating rate.

Port entered into swaps to lock in future interest rates.

- Only tool to lock in future rates.

Fundamentals of a Fixed for Floating Interest Rate Swap with Bank LOC

Bank Letter of Credit



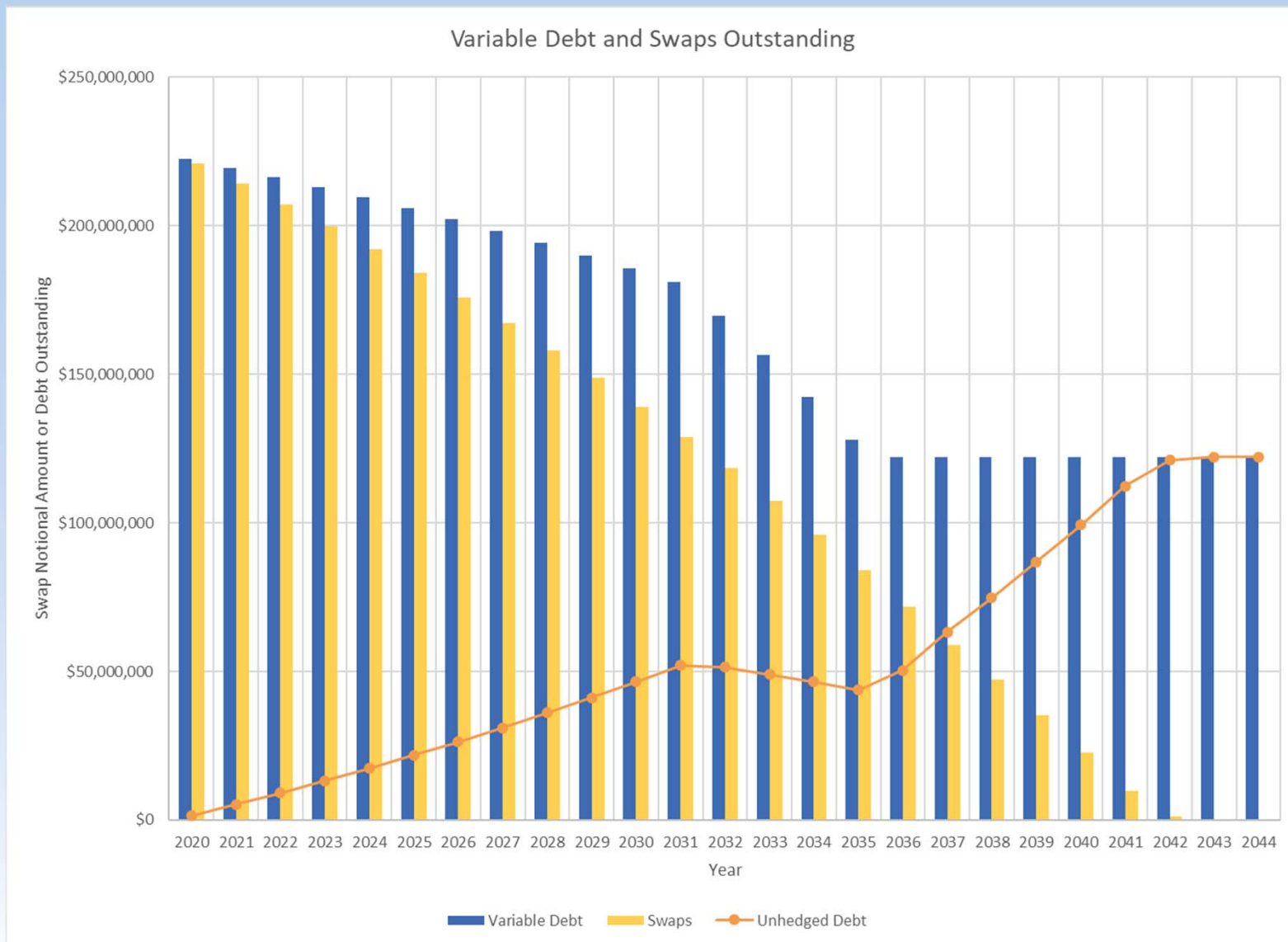
Swap Summary



Initial Notional Amount	Current Notional Amount	Bank Counterparty	Port Pays	Port Received	Maturity	Termination Value 12/31/2019
\$ 30,000,000	\$ 21,904,500	Goldman Sachs	3.32%	70% of USD Libor	Dec-36	\$ (3,981,700)
80,000,000	68,755,000	Dexia	4.15%	70% of USD Libor	Dec-40	(21,008,142)
130,000,000	112,855,000	Dexia	4.20%	70% of USD Libor	Dec-41	(36,500,059)
20,000,000	17,515,000	Bank of America	4.23%	70% of USD Libor	Dec-42	(5,946,382)
<u>\$ 260,000,000</u>	<u>\$ 221,029,500</u>					<u>\$ (67,436,283)</u>

- Swaps notional amount of \$221,029,500
- Subordinate lien variable rate debt outstanding must exceed notional amounts of swaps per WA state law

Outstanding Swaps vs. Variable Rate Debt (excluding CP)



2020 Treasury Tasks



Commercial Bank RFP

- With Bank of America since 2007
- RFP in 2012 – stayed with BofA
- 5 year contract + 2 extensions
- Total annual cost ~ \$32k (both companies)

Financial and Swap Advisor RFP

- Public Financial Management since 2007
- RFP in 2014 – stayed with PFM
- Direct costs for advising plus transaction costs when issuing bonds
- Also provides swap advice and valuations

2020 Treasury Tasks



Commercial Paper (CP)

- The Federal Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) requires a public hearing for **private activity bonds (AMT)**
- Private activity bonds are **municipal bonds used to fund** governmental facilities with “private activity” which includes:
- CP TEFRA’s required every 18 months, but practice is to complete annually.

Debt Profile (as of 1/1/2020)



	Series	Outstanding Par	Call Date	Purpose	Interest Rate Mode	Coupon	All-in True Interest Cost	Final Maturity	Credit Enhancement	LOC/DP Expiration Date
GO Bonds (Rated Aa2/AA-)	2016 LTGO (NAMT)	\$ 21,506,000	Anytime	Refunding	Fixed Rate Direct Purchase	1.060% - 2.360%	1.9942%	12/1/2025	None	N.A.
	2016A LTGO (NAMT)	\$ 106,155,000	12/1/2026	Refunding	Fixed Rate	3.000% - 5.000%	2.7047%	12/1/2038	None	N.A.
	2017 LTGO (Taxable)	\$ 18,670,000	12/1/2027	Refunding	Fixed Rate	2.500% - 3.400%	3.1775%	12/1/2038	None	N.A.
	Total	\$ 146,331,000								
SR. REV Bonds (Rated Aa3/AA-)	2014A REV (NAMT)	\$ 4,367,929	Anytime	Refunding	Fixed Rate Direct Purchase	2.500%	2.6430%	12/1/2021	None	N.A.
	2014B REV (AMT)	\$ 26,075,000	Anytime	Refunding	Fixed Rate Direct Purchase	2.550%	2.5886%	12/1/2029	None	N.A.
	2016A REV (NAMT)	\$ 36,535,000	12/1/2026	Refunding	Fixed Rate	4.000% - 5.000%	2.5223%	12/1/2034	None	N.A.
	2016B REV (AMT)	\$ 101,800,000	12/1/2026	New Money	Fixed Rate	2.000% - 5.000%	3.6417%	12/1/2043	None	N.A.
	2019A REV (AMT)	\$ 34,630,000	Non-Callable	Refunding	Fixed Rate	5.000%	1.8998%	12/1/2031	None	N.A.
	Total	\$ 203,407,929								
SUB. REV Bonds (Rated A1/A+)	2008 REV (AMT)	\$ 62,230,000	Anytime	Refunding	LOC-backed VRDOs	SIFMA + LOC Fees	4.4851%	12/1/2036	PNC LOC	Sep 29, 2022
	2008B REV (NAMT)	\$ 122,180,000	Anytime	New Money	LOC-backed VRDOs	SIFMA + LOC Fees	4.4951%	12/1/2044	BofA LOC	Mar 29, 2023
	2019A REV (AMT)	\$ 38,115,000	Anytime	Refunding	LOC-backed VRDOs	SIFMA + LOC Fees	4.4851%	12/1/2035	PNC LOC	Sep 29, 2022
	Total	\$ 222,525,000								
SUB. CP	Commercial Paper	\$ 25,000,000	Anytime (at maturity)	New Money and Refunding	Variable	SIFMA + LOC Fees	N/A	N/A	BofA LOC	March 2022
	Total	\$ 597,263,929								

LOC= Letter of Credit. VRDO = Variable Rate Demand Obligation. AMT = Alternative Minimum Tax. NAMT = Non AMT