Item No.: 8B
Meeting Date: Oct. 29, 2020

Financial Guidance for the Strategic Plan

October 29, 2020

Introduction

- About John Carter
- Presentation Purpose
  - Highlight the Port’s financial summary vis-á-vis the Strategic Plan
  - Illuminate the Port’s potential short- to mid-term financial potential

Commissioner Financial Concerns

Port of Tacoma

- The Port’s existing level of debt
- Achieving an appropriate financial return on investments
- Cash that can be reasonably expected to be returned to the Port from the NWSA operations
- Financial capacity potentially available for initiating a Strategic Plan in 2021 (budgeting), and 2022 (initiative prioritization and implementation)

Financial Guidance Summary

- A planning placeholder that a minimum of $100 million is available over the next five years is reasonable
- Funding guidelines should be developed for strategic initiatives as part of the Strategic Plan

Current Financial Status
(through August observations)

- The Port's revenues are down, but so are expenses
- The NWSA revenues are down
- Net operating income is flat to budget

Current Financial Status
(Port Financial Projections)

- The Port's projections are generally very conservative
- The Port and the NWSA have consistently outperformed financial projections since 2016

Financial Guidelines

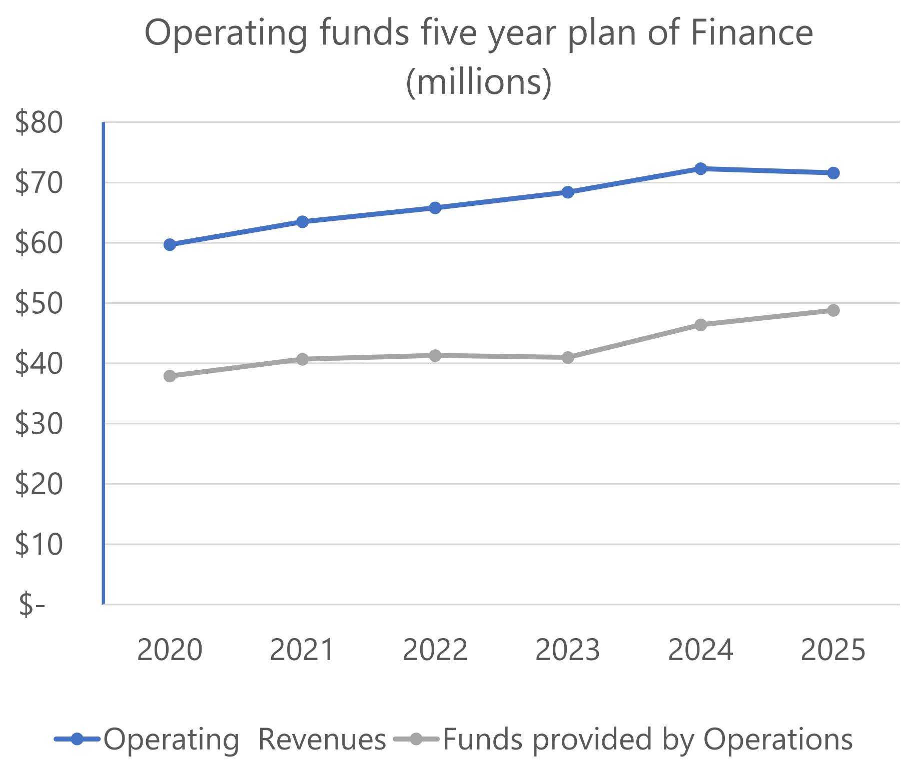
- Structured to be conservative
- Designed to maintain flexibility
- Provides for financial downturns and emergency preparedness

Financial Guidelines

- Informal measurement of 10% internal rate of return
- Minimum cash balances include:
  - Six months operating expenses of $11.2 million
  - Rate Stabilization Fund of $35 million
- Financial policy of at least 2x coverage for revenue bond debt
  - Legal requirement is 1.35x for senior debt.

Plan of Finance

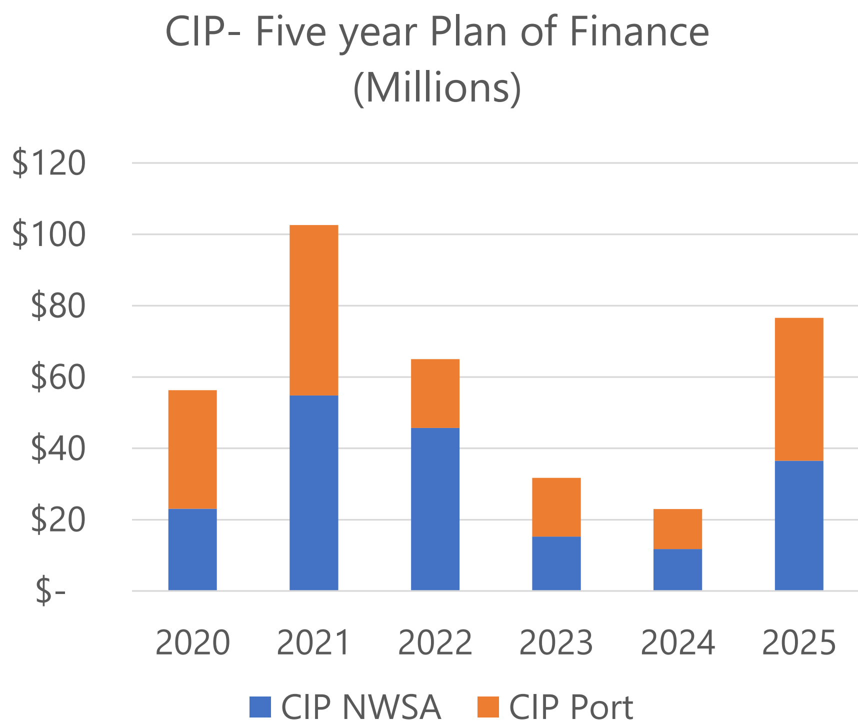
Review of 5-year Budget Trends



- Modest growth in operating revenues
- Expense control expected
- Caution: Funds from operations are flat for next three years

Plan of Finance

Review of Five-year Capital Plan



- NWSA investment $164 million
  - Front loaded $100 million in first two-years
- Port investment $135 million
  - Includes $30 million in land acquisition
  - Assumes a $17 million dredge project in 2025
  - Assumes *up to* $3 million per year in "Unplanned Capital"

Plan of Finance

Other Items

- No new debt in five-year plan
- Paying down $15 million this year
- 2021-2025 debt reduced by $91 million
- Cash reserves being utilized to fund the capital plan
- Debt service coverage ratio to exceed 2.8 times debt service
  - This is well above the Port's financial guidelines (2.0x) and legal requirement (1.35x)

Plan of Finance

Other Items

- Tax levy to grow modestly
- Levy rate projected to fall
- At least $3 million is currently available as "banked" capacity

Overview of Debt

General Obligation Bonds

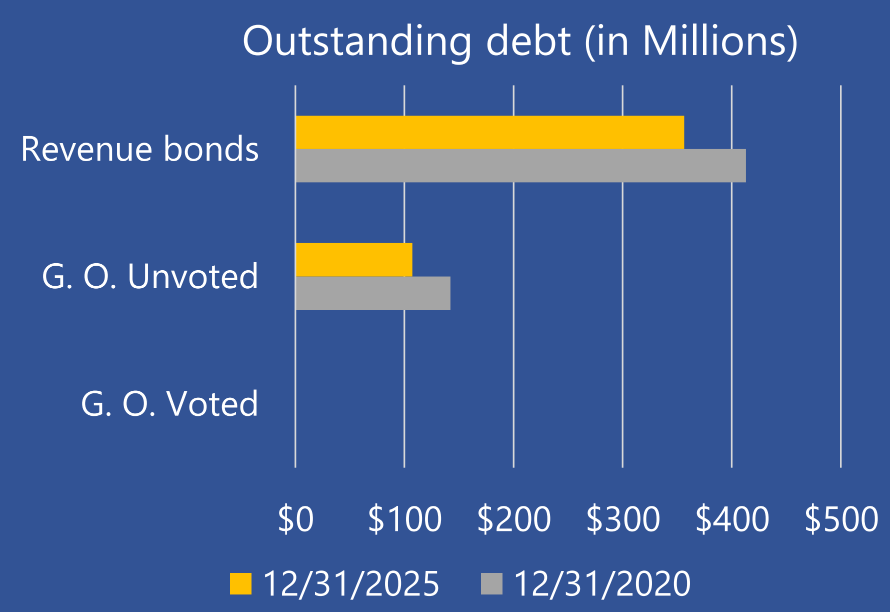
- Fully supported by property tax
- Good option for projects that don't generate funds to meet revenue bond standards
- Very large market for general obligation bonds
- Limited capacity:
- Unvoted max ¼ of 1% of assessed value
- With a vote an additional ½ of 1% of assessed value

Overview of Debt

Revenue Bonds

- Carry pledge of future revenue streams
  - Interest rates typically slightly higher than general obligation bonds due to risk of revenue streams
- Port has senior lien debt and subordinated lien debt
- Come with negotiated covenants and terms
  - Net cashflow legally must be at least 1.35 times annual debt service

Overview of Debt



- Port bonds are generally well received in market
- Port bonds rated by one or more rating agencies
- July 2020 comments about the Port from a rating agency
  - Stable cashflows
  - Strong debt service coverage ratio
  - Declining debt obligations
  - Clear and conservative financial management
  - Risks from dependence on China trade and from Canadian port competition

Rating Agency Evaluation

- Rating scale evaluate risk of default
  - AAA highest rating, lowest risk
  - C lowest rating, very high risk
- The Port bonds are highly rated
  - General obligation bonds
    - *Moody's = AA2 / S & P = AA*
  - Senior lien revenue bonds
    - *Moody's = AA3 / S & P = AA-*
  - Subordinated lien revenue bonds
    - *Moody's = A1 / S & P = A+*
  - Drop in rating generally raise interest rates and issuance fees

Rating Agency Evaluation

Ratings for Port Revenue Bonds	Moody's	S & P
Tacoma	**AA3**	**AA-**
Long Beach	AA2	
New York/ New Jersey	AA3	
Virginia	A1	A
Houston	A1	A+
Oakland	A1	A+
North Carolina	A2	
New Orleans		A
Portland		A
Jacksonville		A
Everett	A2	

Potential Risks to the Port's Financial Model

- Deterioration of current business model
- Stranded infrastructure and environmental remediation
- Revenue/expense from new projects not meeting projections

A Conservative Approach to Potential Funding

- Use some of growing **debt** capacity for projects that can grow revenues
- **Banked property tax levy** capacity for non-revenue generating projects such as economic development, off-site infrastructure and environmental remediations
- Be prepared to draw down a PORTION of excess **cash reserves**

Potential Funding Capacity

Issued Debt

- Debt reduction over next five-years is over $90 million
- Debt service coverage ratios are expected to grow in later years, creating additional capacity

Potential Funding Capacity

Port of Tacoma

Banked property tax levy

- 2020 banked capacity is $3.21 million
- 20-year bond at 3.5% interest would cost just over $1 million annually per $15 million in bond proceeds.
- $45 million in bonds could be issued under this scenario with banked capacity

Potential Funding Capacity

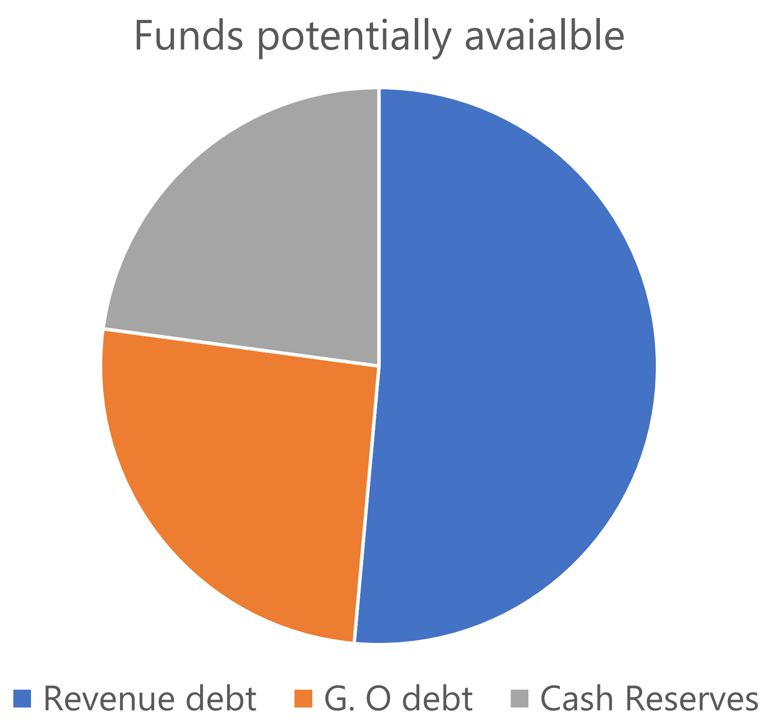
Cash reserves

- Estimated in 2025 funding plan at $113.3 million
  - Financial guidelines would have reserves at a minimum of $73.9 million
- The minimum cash includes $35 million in rate stabilization fund and covers six-months operating expenses.
- The Port covers *half* of the working capital balance of $51 million for the NWSA.

Potential Funding Plan Mix

A Potential Funding Plan for Future Strategic Initiatives

- Issue new debt replacing amortized debt over five years
  - ***Up to $90 million***
- Use property tax banked capacity to issue General Obligation debt for selected projects
  - ***Up to $45 million***
- Spend cash reserves in excess of minimum requirement
  - ***Up to $40 million***



Other Funding Options Potentially Available

- Industrial development district levy
  - Levy of up to $2.70 per thousand of assessed valuation available to be levied at a maximum annual rate of $0.45 per year
- Federal/State loan programs
  - Federal funding examples are Transportation Infrastructure Finance and Innovation Act (TIFIA) and Railroad Rehabilitation Improvement Financing (RRIF)
- Other governmental partnering
- Potential sale of underperforming assets
- Public private partnerships
  - An example is the 63/20 programs for a new Port administrative office headquarters
  - 3rd party conventional financing

Summary

- The Port has capacity for new initiatives
- Continued application of financial controls will likely provide more certainty for future funding options
- Timing and pacing is important as the Port prioritizes strategic initiatives during these uncertain financial times
- Return expectations should be agreed to and measured periodically