



Proposed Port Debt Policy

Board of Port Commissioners Meeting
January 26, 2017

The Port should establish a debt policy to provide guidance for the issuance and management of bonds.

- ❑ While the Port has not had a “debt policy”, the Port has established and improved the Port’s debt management practices over the last 7 years in accordance with best practice and fiscal prudence.

For Example:

- Debt affordability analysis
 - Establishment of Debt Service Fund
 - Repayment Schedule for Commercial Paper Notes
 - Comprehensive Debt Compliance Manual
 - Internal due diligence sessions for financial disclosure
- ❑ A debt policy is considered a best practice, and recommended by the Government Finance Officers Association (GFOA).
 - ❑ Beginning September 2016, State law requires that the governing bodies of public agencies adopt a debt policy in order to issue debt in the capital markets.

The proposed debt policy is consistent with current Port practices.

Proposed Debt Policy in Nutshell

Recommendation: Conservative, plain, boring debt is the way to go

- Issue debt for appropriate purposes only
- Make sure debt is affordable
- Re-pay debt in a timely manner
- Preserve flexibility
- Appropriate disclosure and debt compliance are paramount
- Do not realize short-term gains at the expense of longer-term costs

The debt policy does not authorize the issuance of any debt. Instead, it serves as guidance. The CFO, may recommend alternative structures, as appropriate, subject to Board approval.

Key Objectives of Proposed Debt Policy

1. Maintain cost-effective access to financial markets through prudent debt management practices
2. Maintain moderate debt and debt service levels through effective long-term planning
3. Meet significant capital improvements through debt financing
4. Structure long-term financings to minimize transaction specific risk and total portfolio risk to the Port
5. Retain financial flexibility
6. Maintain the highest practical credit ratings to support efficient access to financial markets
7. Maintain good investor relationships through the dissemination of material financial information
8. Provide user-friendly and publicly accessible electronic portal for the timely dissemination of material information
9. Maintain compliance with all bond covenants and relevant law

Summary of Key Terms of Proposed Debt Policy

1. Debt may be issued to finance the acquisition, construction and major rehabilitation of capital assets
 - Debt affordability analysis must be completed including coordination with 5-year Capital Improvement Plan, 5-year financial forecast and 5-year cash flow analysis; and impact of the debt to the Port's long-term financial sustainability.
 - Debt should only be used to finance assets with long useful life (and minimum asset life of 5 years)
2. Debt shall not be used to fund operating deficits
3. Outstanding debt may be refunded
 - Absent significant other factors, refundings should be done for the purpose to produce debt service savings and savings should be shared over the life of the remaining bonds

Summary of Key Terms of Proposed Debt Policy

4. General Bond Terms

- Final maturity shall be less than or equal to the useful life of the assets being financed, not to exceed 30 years
- Timely scheduled repayment of principal shall be established to achieve generally level debt service payments
- Fixed interest rates preferred, but variable interest rates may be utilized up to 20% of outstanding debt, for asset-liability management purposes
- The shortest possible call option shall be established, consistent with optimal pricing, to preserve future prepayment flexibility
- Debt service reserve funds shall be established in an amount deemed reasonable and customary
- Interest may be capitalized during the construction period to match revenues from debt financed assets to debt service payments
- No derivative products

Summary of Key Terms of Proposed Debt Policy

5. Commercial Paper Program

- Interim Funding – repayment source and timing must be identified prior to drawing commercial paper notes
- Long-term Funding – a timely repayment schedule shall be established and included in the budget and Debt Service Coverage Ratio (DSCR)
- Annual Reporting to Board – provide on at least an annual basis, a summary of all commercial paper draws and repayments

6. Min Aggregate Port Debt Service Coverage Ratio Target of 1.40x

- Minimum Maritime, Aviation and CRE Division DSCR Target of 1.25x

7. Method of Bond Sale

- Negotiated Underwriting Process - Given complex credit profile, necessary pre-marketing efforts, AMT status, timing and structuring flexibility (consistent with other airports and seaports)
- Other sale methods on case-by-case basis, as recommended by the CFO
- Financial Advisor shall be obtained to assist with structuring, execution and pricing of bonds, as Port does not possess capital market expertise

Summary of Key Terms of Proposed Debt Policy

8. Bond Disclosure

- CFO shall establish and maintain procedures for the preparation, review and dissemination of disclosure documents of the Port, including primary offering document and continuing disclosure filings

9. Safeguarding of Bond Proceeds

- CFO shall be responsible for monitoring the use of bond proceeds and use of bond-financed assets through the term of the bonds
- All bond proceeds shall be deposited the Port's bond trustee, and distributed by the trustee pursuant to written instructions only

10. Post-Issuance Debt Compliance and Administration

- CFO shall be responsible for on-going debt compliance and administration to ensure compliance with all laws, covenants, restrictions and requirements
- A detailed "debt compliance manual" shall be maintained

Questions, Comments, Next Steps

- ❑ Port staff plans to present a Debt Policy for Board approval on February 9 or 23, subject to Board input and feedback.
- ❑ Draft Debt Policy provided as Attachment A.