

**AUDIT COMMITTEE**

Report to the  
Board of Harbor Commissioners

**“FOR DISCUSSION ONLY”**

**DATE: JUNE 12, 2014**

**TO: AUDIT COMMITTEE OF THE BOARD OF HARBOR COMMISSIONERS**

**SUBJECT: PROPOSED ISSUANCE OF HARBOR REVENUE BONDS FOR 2014**

The Audit Committee at its meeting of May 15, 2014 requested staff to provide additional information regarding the proposed borrowing plan at the next Audit Committee meeting on June 19, 2014.

**Background**

Currently, the Harbor Department has outstanding \$765 million in long-term bonds and another \$125 million in commercial paper (CP), combining for \$890 million in total debt outstanding. The proposed bond issuance plan seeks to minimize the cost of capital, meet the current and projected cash needs, and take advantage of higher market demand during the summer months.

With an anticipated bond issue in August 2014, the total amount of the issue will be approximately \$300 million in long-term borrowing, comprising \$200 million in new borrowings and another \$100 million that will refund existing CP outstanding. Furthermore, staff contemplates refunding approximately \$70-75 million of existing long-term bonds achieving net present value savings of about 10% or \$7 million. With the issuance and refunding, the amount of total debt carried by the Harbor Department would be \$1.090 billion comprising \$1.065 billion in long-term debt and \$25 million in CP. We project that our total marginal cost of borrowing on the new long-term debt to be around 4.5%. Our existing weighted average cost of capital is approximately at the same level. Staff anticipates bringing this item to the Board for approval at the July 10, 2014 meeting.

**Reasons to Borrow Now**

The Harbor Department has not issued new long-term bonds since 2009. Since that time, we have used the \$200 million issued that year, grants, cash on hand generated from daily operations, as well as \$25 million borrowed in commercial paper to meet capital expenditure needs. The Harbor Department refunded \$92 million in 2011 to reduce interest costs on those bonds that were eligible. The Harbor Department

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continues to use a balance of short and long-term borrowings along with cash that it generates and grants to minimize its weighted average cost of capital.

Over the course of last year, the Harbor Department’s spending has reduced the amount of days of unrestricted cash on hand from over 600 days to approximately 460 days or about \$260 million. Our financial policy sets a 365 days minimum days cash on hand or \$207 million. With large cash outlays that total approximately \$75 million at the beginning of the fiscal year to pay for retirement benefits, debt service, and City Services, the Harbor Department does not have sufficient cash to pay for such a large lump sum payment while at the same time meeting its average shortfall of \$6.7 million per month in cash flow. While the Harbor Department can and does expect to draw from its remaining \$125 million in CP availability, borrowing long-term funds to repay the CP permits better alignment between borrowing to the type of assets financed in accordance with the Harbor Department’s Financial Policies.

<b>Current Liquidity Status</b>	<b>(in millions)</b>	
Total Unrestricted Cash	\$260	
Less: Reserve	-207	
Cash in the Operating Account	\$53	
Less: Cash deficit @ 3 months	-21	By August bond issue
Available Cash for Operations	\$32	
Less: July Cash Outflow	-75	(Debt Svc, Retirement)
Subtotal:	-43	
Estimated CP borrowing in July	50	
	<b>\$7</b>	

Despite short and long-term interest rates remaining close to historical lows, we have seen a gradual increase in long-term rates that make it advantageous for the Harbor Department to borrow now. While the Harbor Department currently borrows CP at rates of approximately 0.15% reducing our weighted average cost of capital, our calculations show that a rise in long term rates can cause a substantial increase in debt service, therefore prudent financial practices lead the Harbor Department to conclude that long-term bonds should replace short-term financing while it is historically cheap to do so.

**Amount of Borrowing**

Consideration was given as to borrowing lesser or greater amounts while keeping in mind the Harbor Department’s Debt Policy of meeting a 2.0X Debt Coverage Ratio (DCR). Based on the projected level of revenues, expenses, and capital expenditures for FY14-15, staff expects a shortfall need for the fiscal year of approximately \$170 million. Given the borrowing costs related to establishing a debt service reserve fund, financial advisor, underwriter, and attorney fees, the Harbor Department decided to round up the amount to \$200 million.

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Finance staff has reviewed three possible bond issuance scenarios.

1. Issue \$200 million in new bonds and refund the \$100 million in CP. In subsequent years, first use CP to bridge any cash shortfalls and borrow long-term when the amount of CP borrowed reaches a critical mass, (Transmittal 1).
2. Issue \$200 million now and wait two years to issue another \$200 million, (Transmittal 2).
3. Issue \$400 million now, thereby enjoying current interest rates, (Transmittal 3).

In each of these scenarios, the biggest assumption is that the Capital Improvement Program (CIP) averages \$222 million per year over the next nine years. The following summary of cash flows for the coming fiscal year indicates that the Harbor Department will have a shortfall of approximately \$170 million.

	Proposed FY 2014/15 (in millions)
Operating Revenues	\$418.4
Less: Operating Expenses	-217.3
Operating Income	201.1
Less: Debt service	-65.5
Sub Total	135.6
Less: Capital expenditures	-304.2
Projected Cash Needs	\$-168.6

- *Scenario 1 Transmittal 1 – Issuing \$200 million in New Money Bonds and Refunding CP*

The proposed \$200 million of new borrowing provides the Harbor Department with sufficient liquidity to support the projected CIP through 2020. Under this scenario, the level of Debt Service Coverage (DSC) remains well above 2.0X through FY2020 with the DSC dropping to 1.93X in FY2021. Any shortfalls would be met first through borrowing CP up to approximately \$175 million, an arbitrarily chosen limit, even though total availability is \$250 million.

- *Scenario 2 Transmittal 2 – Issuing \$200 million in New Money Bonds in FY 2015, issue another \$200 million in FY2017*

The assumption here is that interest rates would rise by 1% in two years' time at the time of the second issuance. Under this scenario, DSC dips below 2.0X in

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FY2020 to a lower 1.85X level; but the Harbor Department pays interest on the extra \$200 million for two years of approximately \$9 to \$11 million per year by borrowing when it would not actually need the money.

- *Scenario 3 Transmittal 3 – Issuing \$400 million in New Money Bonds in FY15 at Current Rates*

Borrowing \$400 million now versus Scenario 2 increases annual debt service by about \$12 million per year, assuming about \$200 million of the proceeds will not be utilized within the first two years. Although projections show that DSC remains above the 2.0X target, it comes at the cost of higher payouts to debt. Despite that, because of a lower average interest rate, the level of DSC is marginally higher than Scenario 2 at 1.90X by FY2020, when the DSC dips below the 2.0X level.

Under the assumption that long-term interest rates rise by 1% in two years' time, DSC will be marginally better over the longer term at the cost of short-term deterioration in DSC given the higher levels of debt service. By definition, taking on more debt now forces higher interest and principal repayments.

Issuing \$400 million in the event of delayed spending will also subject the Harbor Department to negative arbitrage of about -4.5% per year on the unutilized portion of the bond proceeds. This is the difference between expected earnings on permitted investments for the bond proceeds, including Treasuries at a current effective rate of 0%, and the marginal cost of new debt at 4.5%.

Furthermore, Treasury Regulation 1.148-2, requires municipalities to spend 85% of bond proceeds within three years from the issuance date. This "anti-abuse rule" prevents municipalities from issuing debt too early and burdening the tax-exempt market, which may result in the municipal issuer having to reimburse the IRS for the yield differential (between the coupon rate on the bonds and the earnings on the invested bond proceeds). The harshest penalty that is possible is loss of tax exemption in which case the Harbor Department will likely face lawsuits by the bondholders. The Harbor Department will be in full compliance by issuing \$200 million of new debt. However with issuance of \$400 million the Harbor Department may not be able to meet the test.

### **Summary**

The operating cash flows of the Harbor Department remain fairly consistent year to year without substantial increases or decreases. As capital expenditures fluctuate, borrowing to meet current needs versus borrowing more than needed to hedge against possible interest rate changes creates higher interest and debt service payments and generally increases excess cash on hand. The Financial Policies of the Harbor Department seeks to minimize the level of debt. With the proposed level of new money

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borrowing of \$200 million, with mid-range shortfalls in cash funded by CP, the Harbor Department will meet CIP funding needs, appropriately match its borrowing to spending, and remain efficient relative to its cost of capital.

Transmittal 1: Scenario 1, to issue \$200M plus refunding \$100M in CP

Transmittal 2: Scenario 2, to issue \$200M in 2015 and \$200M in 2017

Transmittal 3: Scenario 3, to issue \$400M in 2015



GARY LEE MOORE, P.E.  
Interim Executive Director

*MCC* KP/SS/Debt & Treasury Division  
Author: Soheila Sajadian  
DT14014

Fiscal Year	End of Period															
		2011	2012	2013	2014	1 2014	2 2015	3 2016	4 2017	5 2018	6 2019	7 2020	8 2021	9 2022	10 2023	
	Data Is	Actual	Actual	Actual	Adj. Budget	Estimate	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
1	<b>TEU's</b>	3.00%	7,935	8,186	7,777	7,907	7,976	8,216	8,010	8,251	8,498	8,753	9,016	9,286	9,565	9,852
2	<b>OPERATING REVENUES</b>	<u>Escalator</u>														
3	Shipping Services	1.88%	343,498	357,717	347,875	360,128	360,148	370,414	364,081	370,927	377,902	385,007	392,247	399,623	407,137	414,792
4	Rentals	2.00%	45,428	43,143	42,890	45,377	41,512	41,585	42,417	43,265	44,130	45,013	45,913	46,831	47,768	48,723
5	Royalties and Fees	2.00%	2,492	2,030	2,311	2,039	2,124	2,319	2,366	2,413	2,461	2,511	2,561	2,612	2,664	2,718
6	Clean Truck Fees		6,376	3,250	1,409	1,550	1,453	1,459	1,459	1,459	1,459	1,459	1,459	1,459	1,459	1,459
7	Other Operating	2.00%	2,709	3,648	2,882	3,941	2,546	2,622	2,675	2,728	2,783	2,838	2,895	2,953	3,012	3,072
8	Total Operating Revenues		400,503	409,787	397,368	413,035	407,783	418,400	412,997	420,792	428,735	436,829	445,075	453,478	462,040	470,765
9	General Rate Increase (GRI)					2,302	-	-	-	-	-	-	-	-	-	-
10	MOTEMS CIP Reimbursement from Tenants					-	-	5,000	20,000	50,000	20,169	258	-	-	-	-
11	CIP Incremental Revenue Impact					-	-	-	-	-	-	-	-	-	-	-
12	Total Operating Revenues w/ GRI & CIP Incremental Revenues		400,503	409,787	397,368	413,035	410,085	418,400	417,997	440,792	478,735	456,997	445,333	453,478	462,040	470,765
13	<b>OPERATING EXPENSES</b>	<u>Escalator</u>														
14	Salaries and Benefits	3.00%	103,693	104,910	109,463	112,113	117,862	122,468	126,142	129,926	133,824	137,839	141,974	146,233	150,620	155,139
15	Marketing and Public Relations	0.00%	3,055	3,380	3,092	3,834	3,703	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734
16	Travel Expenses	0.00%	844	991	1,224	963	936	933	933	933	933	933	933	933	933	933
17	Outside Services	0.00%	30,810	29,426	31,905	35,719	35,000	35,144	35,144	35,144	35,144	35,144	35,144	35,144	35,144	35,144
18	Materials and Supplies	0.00%	6,556	6,717	6,436	7,390	7,349	7,533	7,533	7,533	7,533	7,533	7,533	7,533	7,533	7,533
19	City Services	3.00%	31,436	34,058	33,393	36,246	35,529	36,648	37,747	38,880	40,046	41,248	42,485	43,760	45,072	46,425
20	Allocations to Capital	0.00%	(9,083)	(11,822)	(14,109)	(12,235)	(18,000)	(16,700)	(17,201)	(17,717)	(18,249)	(18,796)	(19,360)	(19,941)	(20,539)	(21,155)
21	Other Operating Expenses		-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Litigation, Claims, & Settlements		3,040	-	438	750	1,019	750	1,774	4,559	4,686	3,132	1,495	1,510	1,525	1,541
23	Provision for Workers' Compensation	0.00%	1,593	7,507	3,112	1,600	2,400	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600
24	Clean Air Action Plan (CAAP)	0.00%	3,174	2,938	3,095	4,000	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
25	Clean Truck Program (CTP)		5,654	2,793	934	1,700	1,600	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
26	All Other Operating Expenses	0.00%	28,926	18,908	26,185	17,669	17,317	16,679	16,679	16,679	16,679	16,679	16,679	16,679	16,679	16,679
27	Customer Incentives					340	3,500									
28	Total Operating Expenses		209,697	199,806	205,169	210,090	208,555	217,289	219,085	226,271	230,930	234,045	237,217	242,185	247,302	252,572
29	CIP Incremental O&M Expense Impact					-	-	-	-	-	-	-	-	-	-	-
30	Total Operating Expenses		209,697	199,806	205,169	210,090	208,555	217,289	219,085	226,271	230,930	234,045	237,217	242,185	247,302	252,572
31	<b>OPERATING INCOME (BEFORE DEPRECIATION)</b>		190,806	209,981	192,199	202,945	201,530	201,111	198,912	214,522	247,805	222,952	208,116	211,293	214,739	218,193
32	<b>HARBOR REVENUE FUND INTEREST INCOME</b>		7,539	7,653	7,770	7,888	7,888	8,007	8,129	8,253	8,378	8,505	8,634	8,766	8,899	9,034
33	<b>OPERATING GRANT INCOME</b>		656	2,002	12,579	500	643	2,000	500	-	-	-	-	-	-	-
34	<b>CAPITAL GRANT INCOME</b>		11,165	29,190	17,631	115,642	76,979	109,727	36,008	8,155	-	-	-	-	-	-
35	<b>NET INCOME</b>		96,071	101,936	85,348	91,448	61,996	80,044	105,115	118,009	147,706	116,709	98,957	95,092	94,084	88,149
36	Capital Improvement Program	2,351,409	233,100	139,142	247,598	399,913	347,000	281,000	256,200	183,600	219,400	164,300	273,888	199,520	266,500	160,000
37	<b>CAPITAL IMPROVEMENT PROGRAM FINANCING</b>	<u>Capital Cost</u>														
38	CP Balance Carry Forward (Existing)	0.99%	-	-	-	-	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
39	CP Issued to Cover CIP Shortfall		-	-	-	-	-	-	-	-	2,132	175,079	97,403	173,047	60,523	
40	CP Debt Balance (Before Refunding to LT Debt)		-	-	-	-	25,000	25,000	25,000	25,000	25,000	27,132	200,079	122,403	198,047	85,523
41	CP Refund to Long Term Debt		-	-	-	-	-	-	-	-	-	75,079	-	73,047	-	
42	CP Balance Carry Forward (Net of Refunding to LT Debt)		-	-	-	-	25,000	25,000	25,000	25,000	25,000	27,132	125,000	122,403	125,000	85,523
43	New Long Term Debt (Includes Cost of Issuance)	4.49%	-	-	-	-	-	304,569	-	-	-	2,165	177,745	98,886	175,682	61,445
44	<b>LONG TERM DEBT BALANCE</b>		879,930	815,835	790,740	764,505	764,505	1,036,845	1,000,157	956,768	910,803	864,616	989,195	1,030,170	1,142,686	1,137,350
45	<b>DEBT SERVICE</b>		72,923	74,354	65,536	65,391	65,570	83,908	86,715	91,509	91,932	92,157	104,219	109,933	120,888	122,959
46	CIP		233,100	139,142	247,598	399,913	347,000	281,000	256,200	183,600	219,400	164,300	273,888	199,520	266,500	160,000
47	DSCR		2.62	2.82	2.93	3.10	3.08	2.40	2.30	2.35	2.70	2.42	2.00	1.93	1.78	1.78
48	<b>Available Unrestricted Cash (Harbor Revenue Fund Only)</b>		148,488	179,199	98,821	65,996	-	252,291	146,971	95,886	31,627	-	-	-	-	4,148
49	<b>OPERATING MARGIN (MINIMUM 45%)</b>		47.6%	51.2%	48.4%	49.4%	49.1%	48.1%	47.6%	48.7%	51.8%	48.8%	46.7%	46.6%	46.5%	46.3%

Fiscal Year	End of Period															
		2011	2012	2013	2014	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
	Data Is	Actual	Actual	Actual	Adj. Budget	Estimate	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
1	<b>TEU'S</b>	3.00%	7,935	8,186	7,777	7,907	7,976	8,216	8,010	8,251	8,498	8,753	9,016	9,286	9,565	9,852
2	<b>OPERATING REVENUES</b>	<u>Escalator</u>														
3	Shipping Services	1.88%	343,498	357,717	347,875	360,128	360,148	370,414	364,081	370,927	377,902	385,007	392,247	399,623	407,137	414,792
4	Rentals	2.00%	45,428	43,143	42,890	45,377	41,512	41,585	42,417	43,265	44,130	45,013	45,913	46,831	47,768	48,723
5	Royalties and Fees	2.00%	2,492	2,030	2,311	2,039	2,124	2,319	2,366	2,413	2,461	2,511	2,561	2,612	2,664	2,718
6	Clean Truck Fees		6,376	3,250	1,409	1,550	1,453	1,459	1,459	1,459	1,459	1,459	1,459	1,459	1,459	1,459
7	Other Operating	2.00%	2,709	3,648	2,882	3,941	2,546	2,622	2,675	2,728	2,783	2,838	2,895	2,953	3,012	3,072
8	Total Operating Revenues		400,503	409,787	397,368	413,035	407,783	418,400	412,997	420,792	428,735	436,829	445,075	453,478	462,040	470,765
9	General Rate Increase (GRI)					2,302	-	-	-	-	-	-	-	-	-	-
10	MOTEMS CIP Reimbursement from Tenants					-	-	5,000	20,000	50,000	20,169	258	-	-	-	-
11	CIP Incremental Revenue Impact					-	-	-	-	-	-	-	-	-	-	-
12	Total Operating Revenues w/ GRI & CIP Incremental Revenues		400,503	409,787	397,368	413,035	410,085	418,400	417,997	440,792	478,735	456,997	445,333	453,478	462,040	470,765
13	<b>OPERATING EXPENSES</b>	<u>Escalator</u>														
14	Salaries and Benefits	3.00%	103,693	104,910	109,463	112,113	117,862	122,468	126,142	129,926	133,824	137,839	141,974	146,233	150,620	155,139
15	Marketing and Public Relations	0.00%	3,055	3,380	3,092	3,834	3,703	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734
16	Travel Expenses	0.00%	844	991	1,224	963	936	933	933	933	933	933	933	933	933	933
17	Outside Services	0.00%	30,810	29,426	31,905	35,719	35,000	35,144	35,144	35,144	35,144	35,144	35,144	35,144	35,144	35,144
18	Materials and Supplies	0.00%	6,556	6,717	6,436	7,390	7,349	7,533	7,533	7,533	7,533	7,533	7,533	7,533	7,533	7,533
19	City Services	3.00%	31,436	34,058	33,393	36,246	35,529	36,648	37,747	38,880	40,046	41,248	42,485	43,760	45,072	46,425
20	Allocations to Capital	0.00%	(9,083)	(11,822)	(14,109)	(12,235)	(18,000)	(16,700)	(17,201)	(17,717)	(18,249)	(18,796)	(19,360)	(19,941)	(20,539)	(21,155)
21	Other Operating Expenses		-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Litigation, Claims, & Settlements		3,040	-	438	750	1,019	750	1,774	4,559	4,686	3,132	1,495	1,510	1,525	1,541
23	Provision for Workers' Compensation	0.00%	1,593	7,507	3,112	1,600	2,400	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600
24	Clean Air Action Plan (CAAP)	0.00%	3,174	2,938	3,095	4,000	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
25	Clean Truck Program (CTP)		5,654	2,793	934	1,700	1,600	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
26	All Other Operating Expenses	0.00%	28,926	18,908	26,185	17,669	17,317	16,679	16,679	16,679	16,679	16,679	16,679	16,679	16,679	16,679
27	Customer Incentives					340	3,500									
28	Total Operating Expenses		209,697	199,806	205,169	210,090	208,555	217,289	219,085	226,271	230,930	234,045	237,217	242,185	247,302	252,572
29	CIP Incremental O&M Expense Impact					-	-	-	-	-	-	-	-	-	-	-
30	Total Operating Expenses		209,697	199,806	205,169	210,090	208,555	217,289	219,085	226,271	230,930	234,045	237,217	242,185	247,302	252,572
31	<b>OPERATING INCOME (BEFORE DEPRECIATION)</b>		190,806	209,981	192,199	202,945	201,530	201,111	198,912	214,522	247,805	222,952	208,116	211,293	214,739	218,193
32	<b>HARBOR REVENUE FUND INTEREST INCOME</b>		7,539	7,653	7,770	7,888	7,888	8,007	8,129	8,253	8,378	8,505	8,634	8,766	8,899	9,034
33	<b>OPERATING GRANT INCOME</b>		656	2,002	12,579	500	643	2,000	500	-	-	-	-	-	-	-
34	<b>CAPITAL GRANT INCOME</b>		11,165	29,190	17,631	115,642	76,979	109,727	36,008	8,155	-	-	-	-	-	-
35	<b>NET INCOME</b>		96,071	101,936	85,348	91,448	61,996	80,044	103,592	113,440	147,638	118,157	99,316	97,069	94,872	90,302
36	Capital Improvement Program	2,351,409	233,100	139,142	247,598	399,913	347,000	281,000	256,200	183,600	219,400	164,300	273,888	199,520	266,500	160,000
37	<b>CAPITAL IMPROVEMENT PROGRAM FINANCING</b>	<u>Capital Cost</u>														
38	CP Balance Carry Forward (Existing)	0.99%	100,000	100,000	100,000	100,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
39	CP Issued to Cover CIP Shortfall		-	-	-	-	38,196	-	-	-	-	-	121,304	110,391	125,000	78,556
40	CP Debt Balance (Before Refunding to LT Debt)		-	-	-	-	163,196	125,000	125,000	125,000	125,000	125,000	246,304	235,391	250,000	203,556
41	CP Refund to Long Term Debt		-	-	-	-	38,196	-	-	-	-	-	121,304	110,391	187,106	78,556
42	CP Balance Carry Forward (Net of Refunding to LT Debt)		-	-	-	-	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
43	New Long Term Debt (Includes Cost of Issuance)	5.36%	-	-	-	-	38,777	203,046	-	203,046	-	-	123,151	112,072	189,956	79,752
44	<b>LONG TERM DEBT BALANCE</b>		879,930	815,835	790,740	764,505	802,651	974,461	938,811	1,096,786	1,049,035	998,820	1,068,158	1,121,776	1,248,370	1,261,006
45	<b>DEBT SERVICE</b>		72,923	74,354	65,536	65,391	69,301	81,069	83,876	102,566	102,989	103,061	112,575	120,929	134,146	138,823
46	CIP		233,100	139,142	247,598	399,913	347,000	281,000	256,200	183,600	219,400	164,300	273,888	199,520	266,500	160,000
47	DSCR		2.62	2.82	2.93	3.10	2.91	2.49	2.38	2.10	2.41	2.17	1.85	1.75	1.61	1.58
48	Available Unrestricted Cash (Harbor Revenue Fund Only)		148,488	179,199	98,821	65,996	-	155,116	49,621	181,417	105,862	60,863	-	-	-	4,148
49	<b>OPERATING MARGIN (MINIMUM 45%)</b>		47.6%	51.2%	48.4%	49.4%	49.1%	48.1%	47.6%	48.7%	51.8%	48.8%	46.7%	46.6%	46.5%	46.3%

Fiscal Year	End of Period															
		2011	2012	2013	2014	1 2014	2 2015	3 2016	4 2017	5 2018	6 2019	7 2020	8 2021	9 2022	10 2023	
	Data Is	Actual	Actual	Actual	Adj. Budget	Estimate	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
1	<b>TEU's</b>	3.00%	7,935	8,186	7,777	7,907	7,976	8,216	8,010	8,251	8,498	8,753	9,016	9,286	9,565	9,852
2	<b>OPERATING REVENUES</b>	<u>Escalator</u>														
3	Shipping Services	1.88%	343,498	357,717	347,875	360,128	360,148	370,414	364,081	370,927	377,902	385,007	392,247	399,623	407,137	414,792
4	Rentals	2.00%	45,428	43,143	42,890	45,377	41,512	41,585	42,417	43,265	44,130	45,013	45,913	46,831	47,768	48,723
5	Royalties and Fees	2.00%	2,492	2,030	2,311	2,039	2,124	2,319	2,366	2,413	2,461	2,511	2,561	2,612	2,664	2,718
6	Clean Truck Fees		6,376	3,250	1,409	1,550	1,453	1,459	1,459	1,459	1,459	1,459	1,459	1,459	1,459	1,459
7	Other Operating	2.00%	2,709	3,648	2,882	3,941	2,546	2,622	2,675	2,728	2,783	2,838	2,895	2,953	3,012	3,072
8	Total Operating Revenues		400,503	409,787	397,368	413,035	407,783	418,400	412,997	420,792	428,735	436,829	445,075	453,478	462,040	470,765
9	General Rate Increase (GRI)					2,302	-	-	-	-	-	-	-	-	-	-
10	MOTEMS CIP Reimbursement from Tenants					-	-	5,000	20,000	50,000	20,169	258	-	-	-	-
11	CIP Incremental Revenue Impact					-	-	-	-	-	-	-	-	-	-	-
12	Total Operating Revenues w/ GRI & CIP Incremental Revenues		400,503	409,787	397,368	413,035	410,085	418,400	417,997	440,792	478,735	456,997	445,333	453,478	462,040	470,765
13	<b>OPERATING EXPENSES</b>	<u>Escalator</u>														
14	Salaries and Benefits	3.00%	103,693	104,910	109,463	112,113	117,862	122,468	126,142	129,926	133,824	137,839	141,974	146,233	150,620	155,139
15	Marketing and Public Relations	0.00%	3,055	3,380	3,092	3,834	3,703	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734
16	Travel Expenses	0.00%	844	991	1,224	963	936	933	933	933	933	933	933	933	933	933
17	Outside Services	0.00%	30,810	29,426	31,905	35,719	35,000	35,144	35,144	35,144	35,144	35,144	35,144	35,144	35,144	35,144
18	Materials and Supplies	0.00%	6,556	6,717	6,436	7,390	7,349	7,533	7,533	7,533	7,533	7,533	7,533	7,533	7,533	7,533
19	City Services	3.00%	31,436	34,058	33,393	36,246	35,529	36,648	37,747	38,880	40,046	41,248	42,485	43,760	45,072	46,425
20	Allocations to Capital	0.00%	(9,083)	(11,822)	(14,109)	(12,235)	(18,000)	(16,700)	(17,201)	(17,717)	(18,249)	(18,796)	(19,360)	(19,941)	(20,539)	(21,155)
21	Other Operating Expenses		-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Litigation, Claims, & Settlements		3,040	-	438	750	1,019	750	1,774	4,559	4,686	3,132	1,495	1,510	1,525	1,541
23	Provision for Workers' Compensation	0.00%	1,593	7,507	3,112	1,600	2,400	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600	1,600
24	Clean Air Action Plan (CAAP)	0.00%	3,174	2,938	3,095	4,000	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
25	Clean Truck Program (CTP)		5,654	2,793	934	1,700	1,600	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
26	All Other Operating Expenses	0.00%	28,926	18,908	26,185	17,669	17,317	16,679	16,679	16,679	16,679	16,679	16,679	16,679	16,679	16,679
27	Customer Incentives					340	3,500									
28	Total Operating Expenses		209,697	199,806	205,169	210,090	208,555	217,289	219,085	226,271	230,930	234,045	237,217	242,185	247,302	252,572
29	CIP Incremental O&M Expense Impact					-	-	-	-	-	-	-	-	-	-	-
30	Total Operating Expenses		209,697	199,806	205,169	210,090	208,555	217,289	219,085	226,271	230,930	234,045	237,217	242,185	247,302	252,572
31	<b>OPERATING INCOME (BEFORE DEPRECIATION)</b>		190,806	209,981	192,199	202,945	201,530	201,111	198,912	214,522	247,805	222,952	208,116	211,293	214,739	218,193
32	<b>HARBOR REVENUE FUND INTEREST INCOME</b>		7,539	7,653	7,770	7,888	7,888	8,007	8,129	8,253	8,378	8,505	8,634	8,766	8,899	9,034
33	<b>OPERATING GRANT INCOME</b>		656	2,002	12,579	500	643	2,000	500	-	-	-	-	-	-	-
34	<b>CAPITAL GRANT INCOME</b>		11,165	29,190	17,631	115,642	76,979	109,727	36,008	8,155	-	-	-	-	-	-
35	<b>NET INCOME</b>		96,071	101,936	85,348	91,448	61,996	80,044	106,638	118,844	146,183	115,111	97,792	93,765	91,691	86,894
36	Capital Improvement Program	2,351,409	233,100	139,142	247,598	399,913	347,000	281,000	256,200	183,600	219,400	164,300	273,888	199,520	266,500	160,000
37	<b>CAPITAL IMPROVEMENT PROGRAM FINANCING</b>	<u>Capital Cost</u>														
38	CP Balance Carry Forward (Existing)	0.99%	100,000	100,000	100,000	100,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
39	CP Issued to Cover CIP Shortfall		-	-	-	-	38,196	-	-	-	-	-	114,680	103,000	125,000	68,197
40	CP Debt Balance (Before Refunding to LT Debt)		-	-	-	-	163,196	125,000	125,000	125,000	125,000	125,000	239,680	228,000	250,000	193,197
41	CP Refund to Long Term Debt		-	-	-	-	38,196	-	-	-	-	-	114,680	103,000	178,227	68,197
42	CP Balance Carry Forward (Net of Refunding to LT Debt)		-	-	-	-	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
43	New Long Term Debt (Includes Cost of Issuance)	5.03%	-	-	-	-	38,777	406,091	-	-	-	-	116,426	104,568	180,941	69,235
44	<b>LONG TERM DEBT BALANCE</b>		879,930	815,835	790,740	764,505	802,651	1,174,201	1,135,095	1,089,179	1,040,572	989,493	1,051,028	1,095,966	1,212,157	1,212,914
45	<b>DEBT SERVICE</b>		72,923	74,354	65,536	65,391	69,301	93,455	96,261	101,055	101,479	101,550	109,633	116,842	128,447	131,872
46	CIP		233,100	139,142	247,598	399,913	347,000	281,000	256,200	183,600	219,400	164,300	273,888	199,520	266,500	160,000
47	DSCR		2.62	2.82	2.93	3.10	2.91	2.16	2.07	2.13	2.45	2.20	1.90	1.81	1.68	1.66
48	<b>Available Unrestricted Cash (Harbor Revenue Fund Only)</b>		148,488	179,199	98,821	65,996	-	342,730	230,745	172,895	101,767	61,262	-	-	-	4,148
49	<b>OPERATING MARGIN (MINIMUM 45%)</b>		47.6%	51.2%	48.4%	49.4%	49.1%	48.1%	47.6%	48.7%	51.8%	48.8%	46.7%	46.6%	46.5%	46.3%





# 2014 Series - Plan of Finance

Report to the Audit Committee of the Board of Harbor Commissioners  
June 19, 2014



# Current Debt Profile

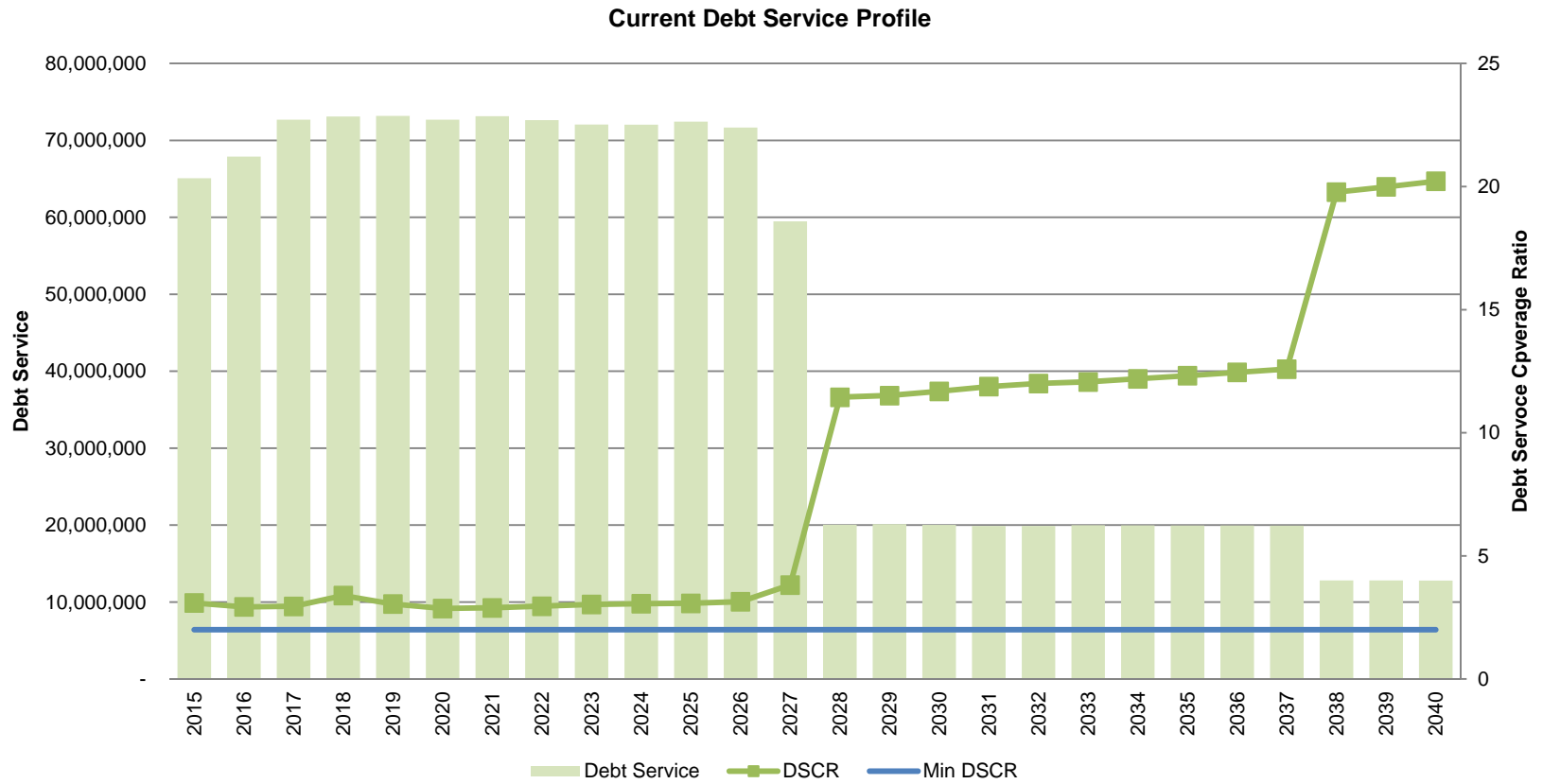
## Outstanding Long Term Debt

Series	Amount Outstanding	Tax Status	Call Date
2005A	\$ 25,685,000	Non-AMT	8/1/2015
2005B	24,095,000	Non-AMT	8/1/2015
2005C-1	7,880,000	AMT	8/1/2015
2006A	50,130,000	AMT	8/1/2016
2006B	84,100,000	AMT	8/1/2016
2006C	12,815,000	Non-AMT	8/1/2016
2006D	75,935,000	AMT	8/1/2014
2009A	86,290,000	Non-AMT	8/1/2019
2009B	100,000,000	Non-AMT	8/1/2019
2009C	205,825,000	Non-AMT	8/1/2019
2011A	58,930,000	AMT	8/1/2021
2011B	32,820,000	Non-AMT	8/1/2021
<b>\$ 764,505,000</b>			

## Outstanding Short Term Debt

Series	Amount Outstanding	Tax Status	Liquidity Provider
Series A2	\$ 25,000,000	AMT	Wells Fargo
Series B1	50,000,000	Non-AMT	Mizuho
Series B2	50,000,000	Non-AMT	Wells Fargo
<b>\$ 125,000,000</b>			

# Current Debt Profile



# Proposed Plan of Finance

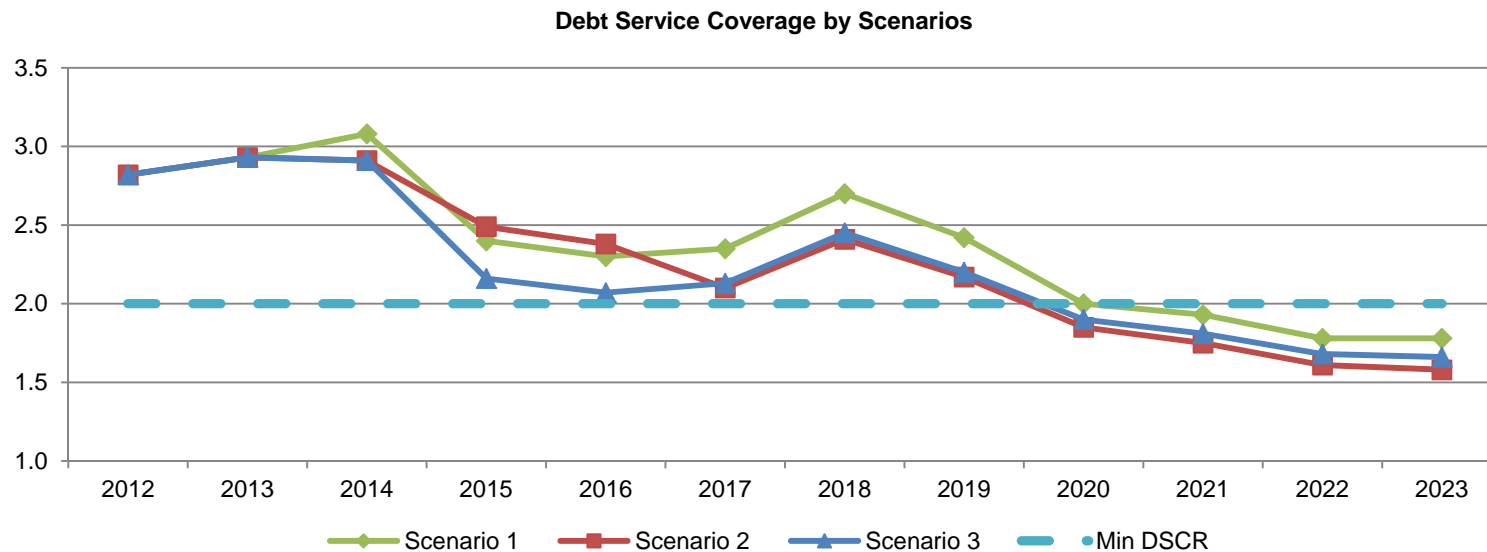
## Scenario 1

- Plan based upon
  - Historically low interest rate environment
  - **Using short-term funds until critical mass reached**
- Approximately \$300 million in financing, comprising:
  - \$200 million in new money
  - \$100 million in commercial paper (CP) refunding
  - Projected total cost of borrowing at close to 4.5%
- Plan provides for adequate liquidity while preserving 2x debt service coverage **until 2021**

# Scenarios

## “New Money” Scenarios

- Scenario 1: If POLA raises \$200 million today and then uses CP, DCR falls below 2.0X in FY2021
- Scenario 2: If POLA raises \$200 million today and \$200 million in FY 2017, DCR falls below 2.0x in FY 2020
- Scenario 3: If the Department chooses to raise \$400 million today, DCR also falls below 2.0x in FY 2020
- If long term rates rise by at least 50 bps between FY15 and FY17, Scenario 3 offers a present value benefit to POLA compared to Scenario 2.



# Scenarios

## “New Money” Outcomes

	Strategy	Positive	Negative	Present Value of D/S Years 1-5
<b>Scenario 1</b>	Issue \$200mm in 2014	<ul style="list-style-type: none"> <li>Preserves 2.0x DCR until 2021</li> <li>Allows use of short term funds until critical mass reached</li> </ul>	<ul style="list-style-type: none"> <li>Exposes POLA to possible interest rate rise</li> </ul>	\$451 million
<b>Scenario 2</b>	Issue \$200mm in 2014 and \$200mm in 2016	<ul style="list-style-type: none"> <li>Allows use of short term funds until critical mass reached</li> </ul>	<ul style="list-style-type: none"> <li>DCR falls below 2.0x in 2020</li> </ul>	\$496 million
<b>Scenario 3</b>	Issue \$400mm in 2014	<ul style="list-style-type: none"> <li>PV savings benefit to POLA in long term (yrs. 6 and beyond)</li> <li>Cheaper than option 2 if long term rates rise by 50 bps</li> </ul>	<ul style="list-style-type: none"> <li>DCR falls below 2.0x in 2020</li> <li>Most expensive option on PV basis (yrs. 1-5)</li> </ul>	\$513 million

### Assumptions

- Coupons range from 3-5%
- Level debt amortization
- Long term rates rise by more than 50 bps from FY 2015 to FY 2017