



Bond Market Update and Capital Access Considerations for Washington Ports

Washington Public Ports Association – Finance Seminar

June 2024



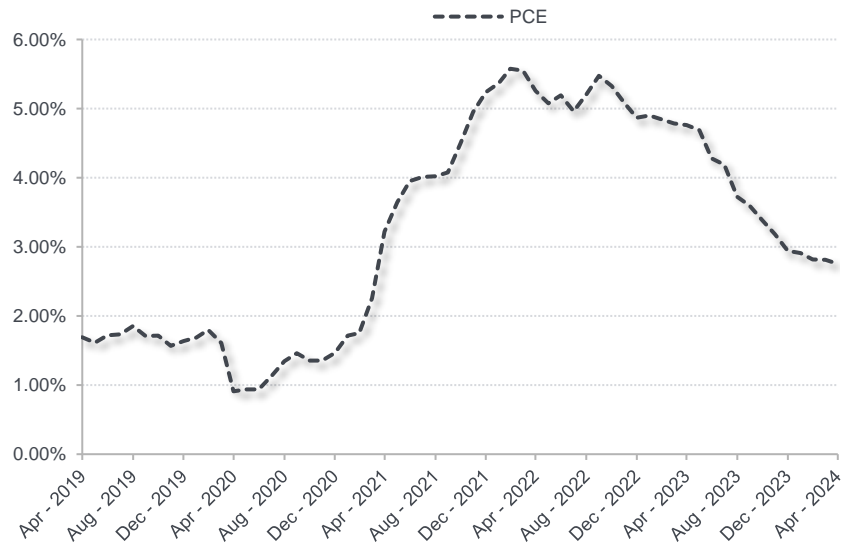
Agenda

- Market Backdrop
- Bond Market Conditions
- Bank Market Update
- Rating Agency Updates

Inflation Measures

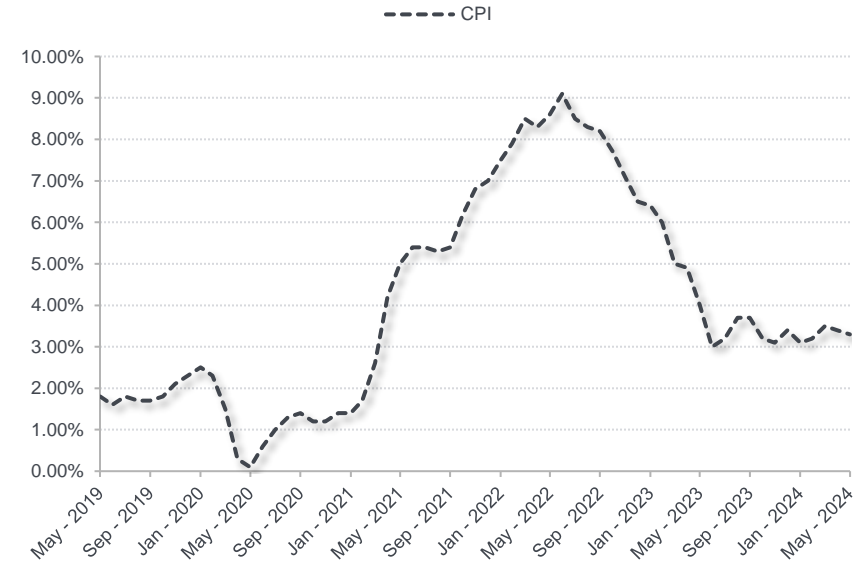
Personal Consumption Expenditure (PCE)

- PCE remains well above the Fed's stated target of 2%



Consumer Price Index (CPI)

- Likewise, CPI remains elevated above the 2% target



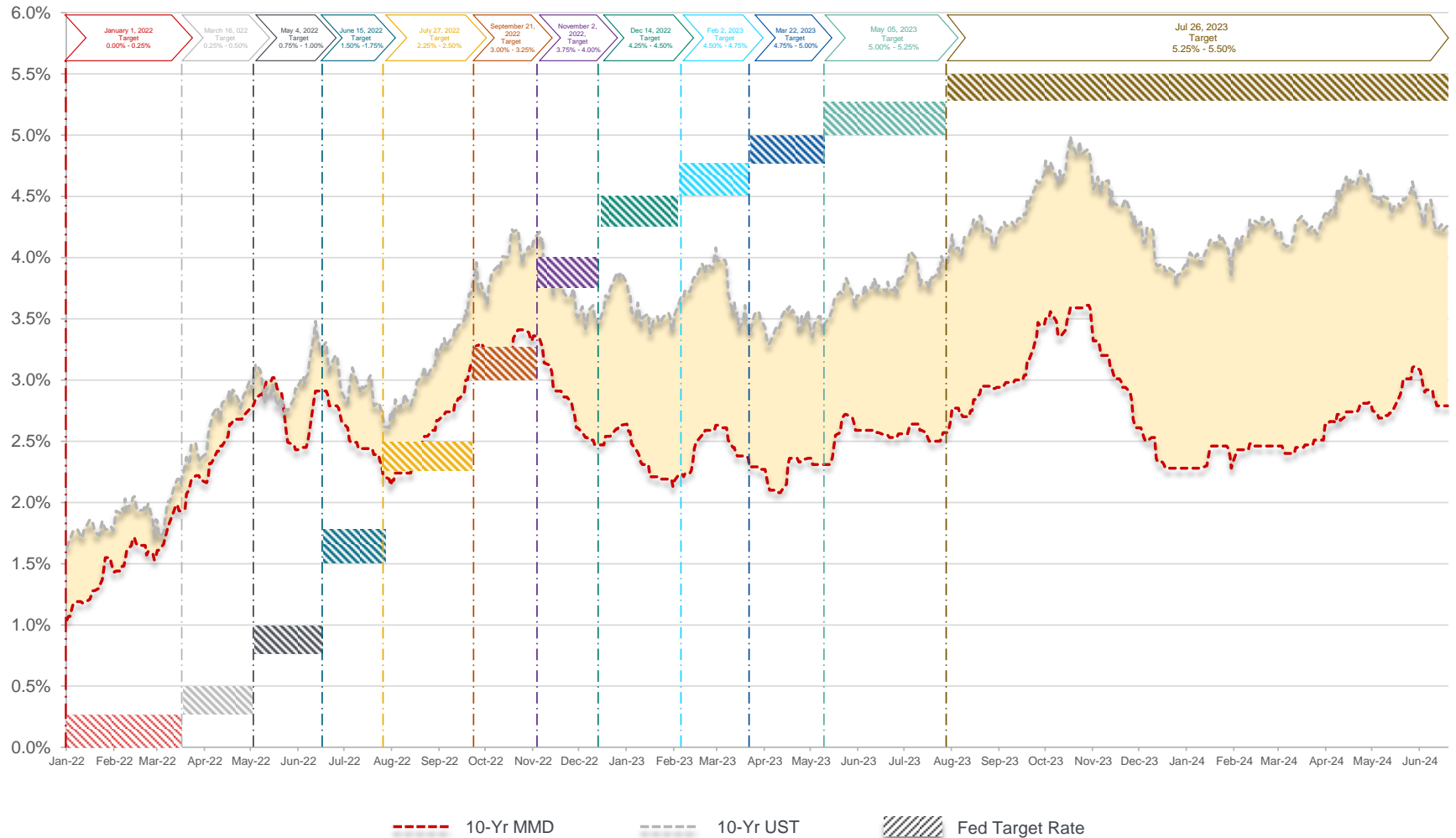
Current	3 months	6 months	9 months	1 year
2.75%	2.91%	3.38%	4.19%	4.76%

Current	3 months	6 months	9 months	1 year
3.30%	3.20%	3.10%	3.70%	3.30%



10-Year MMD, 10-Year UST, and Fed Target Rate

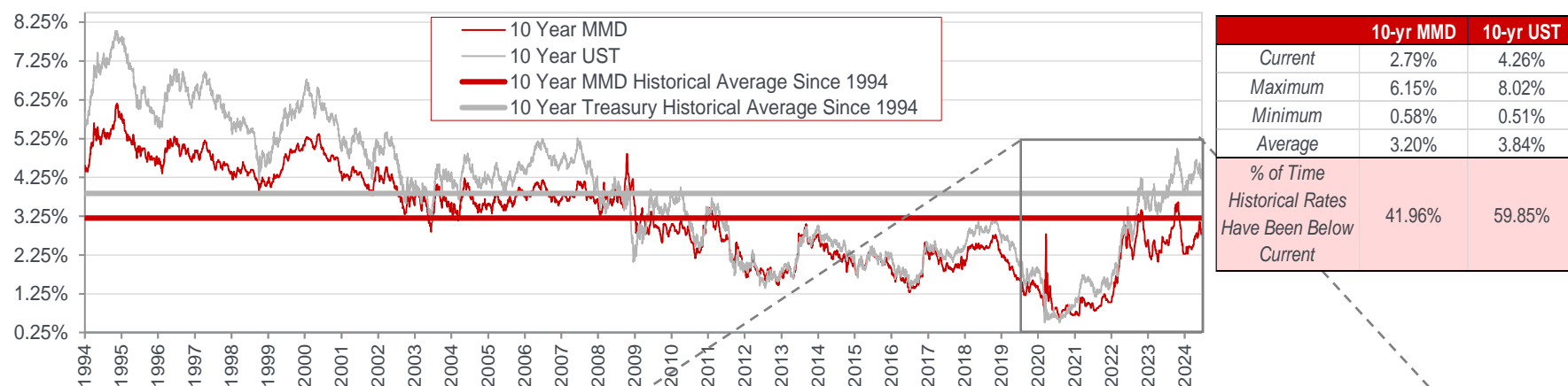
From Jan 2022



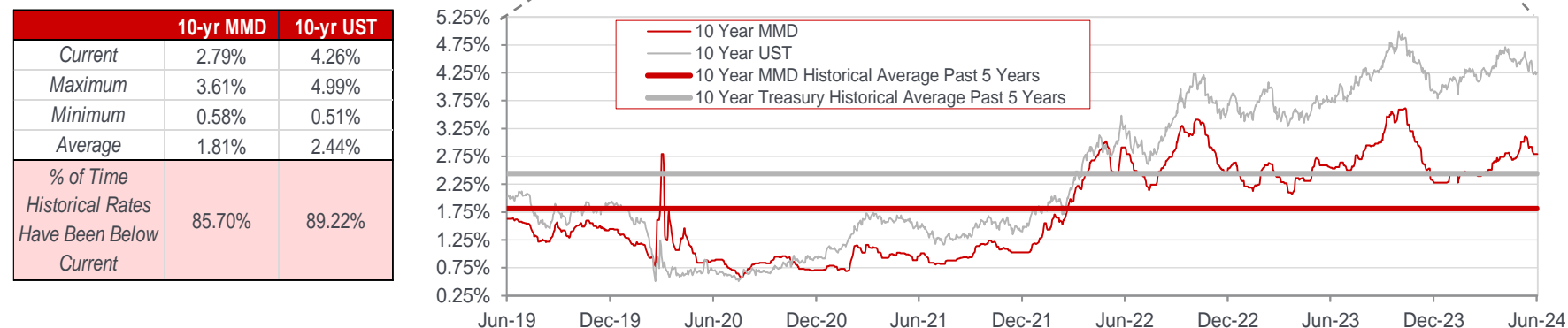
Tax-Exempt and Taxable Rates: Rates are low in the historical perspective

10-Year MMD and 10-year UST (1994 – Present)

- Since 1994, the 10-year MMD has been below the current rate only 41.96% of the time (and all of those occurrences were from 2020 to 2024 YTD).
- Rates were very volatile in March 2020 but then stabilized and reached all time lows by Summer 2020.



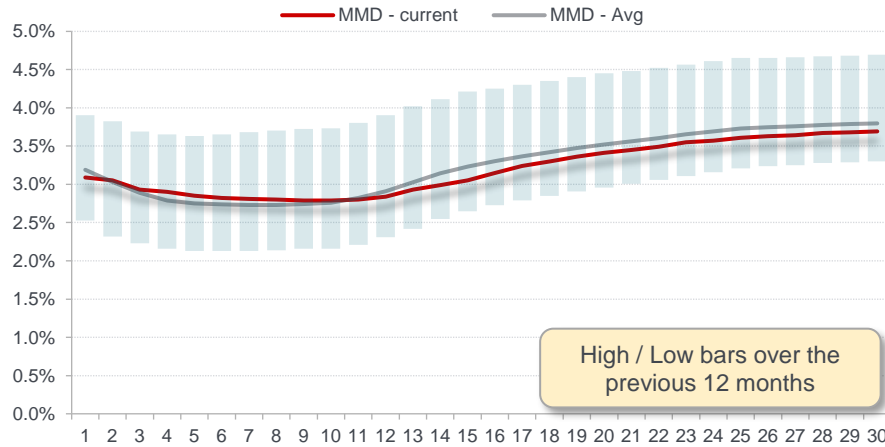
10-Year MMD and 10-year UST (Past 5 Years)



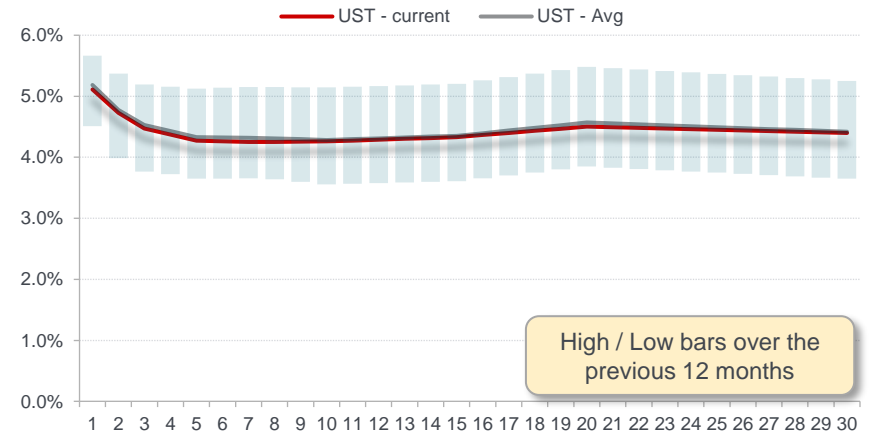
Source: KBCM & TM3.
Rates as of June 21, 2024

Capital Markets Yield Environment

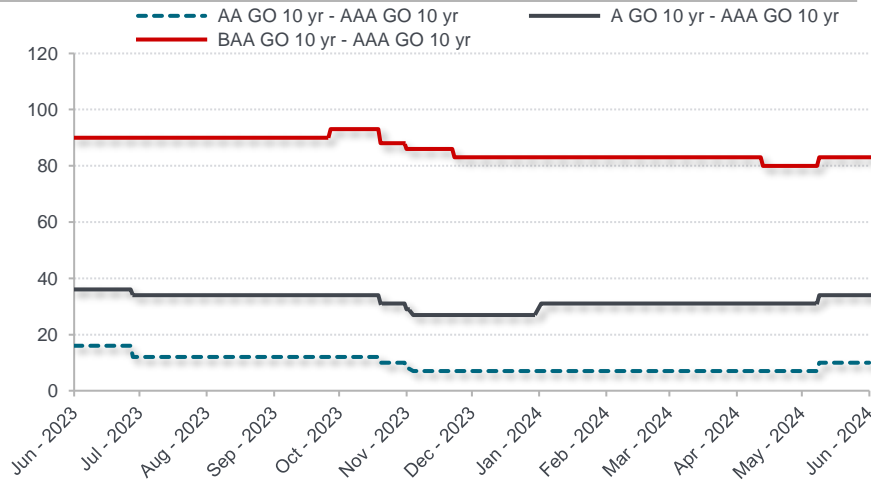
Tax-Exempt AAA MMD Yield Curve



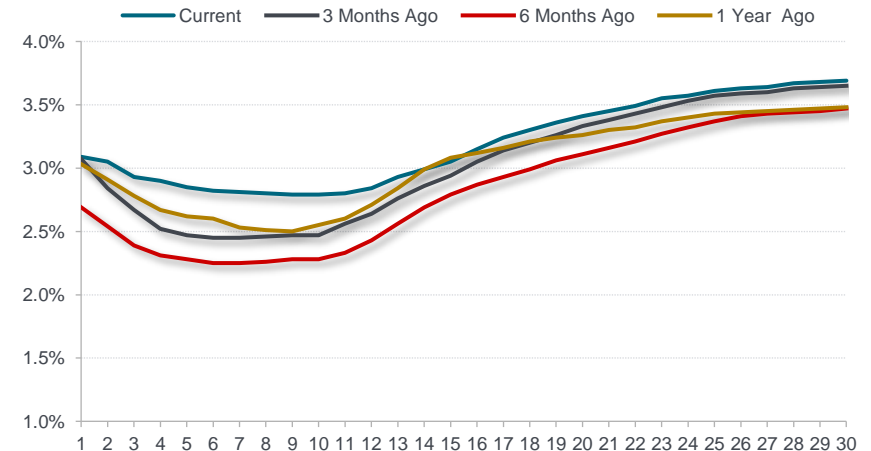
US Treasury Yield Curve



10-Year Spot Credit Spreads Over the Past Year



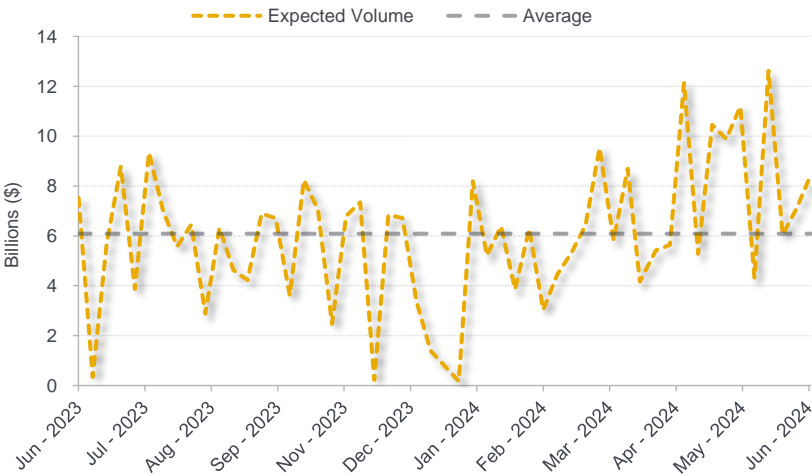
MMD Yield Curve Over Time



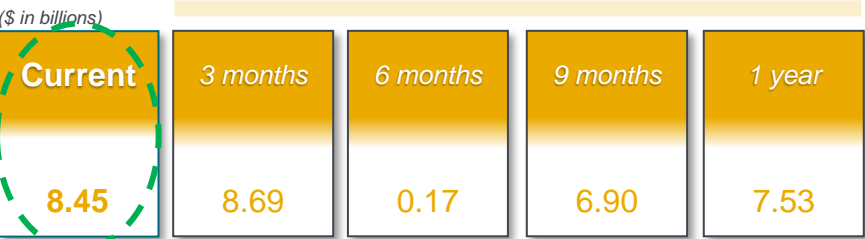
Municipal Bond Supply & Demand

Issuance Volume (weekly supply)

Volume of primary negotiated market new issue supply for the coming week totals **\$8.45 billion** – above the average primary market weekly supply for the year.

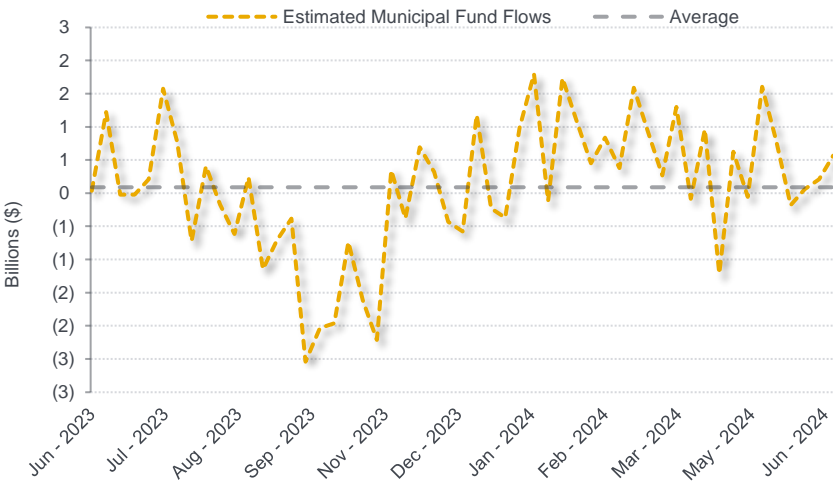


Lagged 3 months to 1 year

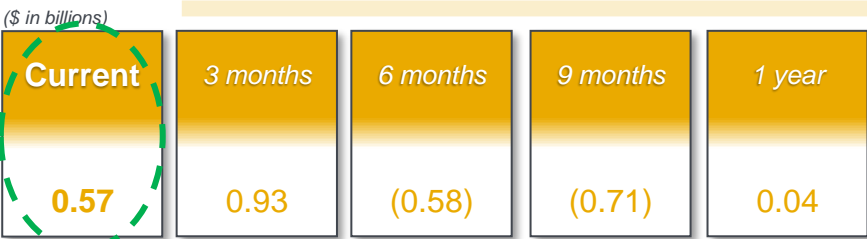


Municipal Investor Fund Flows (weekly demand¹)

Investor funds inflow of municipal investments for the week totaled **\$0.57 billion**.



Lagged 3 months to 1 year



Takeaways

- Long term rates unlikely to change significantly, short term rates predicted to drop when inflation is fully under control
- Refinancings can still make sense, just not at the same magnitude as before
- Bank market not fully recovered – does not provide the demand seen pre-March 2023
- Presidential Election could cause market volatility in late 2024
- TIF financings beginning to come to market (all LTGO thus far)

KeyBanc Capital Markets Disclosure

KeyBanc Capital Markets Inc. ("KBCM") is not recommending an action to you as the municipal entity or obligated person; KBCM is not acting as an advisor to you and does not owe a fiduciary duty pursuant to Section 15B of the Exchange Act to you with respect to the information and material contained in this communication; KBCM is acting for its own interests; you should discuss any information and material contained in this communication with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material; and KBCM seeks to serve as an underwriter on a future transaction and not as a financial advisor or municipal advisor. The information provided is for discussion purposes only in anticipation of being engaged to serve as underwriter. The primary role of an underwriter is to purchase securities with a view to distribution in an arm's-length commercial transaction with the issuer. The underwriter has financial and other interests that differ from those of the Issuer.

Interest rates used herein are hypothetical and take into consideration conditions in today's market and other factual information such as the issuer's credit rating, geographic location and market sector. Interest rates applied herein are hypothetical, based on current market facts and should not be viewed as rates that KBCM expects to achieve for you should we be selected to act as your underwriter or placement agent. Information about interest rates and terms for SLGs is based on current publicly available information and treasury or agency rates for open-market escrows are based on current market interest rates for these types of credits and should not be seen as costs or rates that KBCM expects to achieve for you should we be selected to act as your underwriter or placement agent.

Disclosure of MSRB Rule G-23

KeyBanc Capital Markets Inc. (KBCM) is providing the information contained in this document for discussion purposes only in anticipation of serving as underwriter or placement agent to you. The primary role of KBCM, as an underwriter or placement agent, is to purchase securities, for resale to investors, or place securities with investors, on an agency basis, in an arm's-length commercial transaction between you and KBCM and that KBCM has financial and other interests that differ from your interests. KBCM is not acting as a municipal advisor, financial advisor or fiduciary to you or any other person or entity. The information provided is not intended to be and should not be construed as "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934. You should consult with your own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent you deem appropriate. If you would like a municipal advisor in this transaction that has legal fiduciary duties to you, then you are free to engage a municipal advisor to serve in that capacity.

Disclosure of Trading Party, Dual Employee Status and Related Matters

KeyBanc Capital Markets is a trade name under which the corporate and investment banking products and services of KeyCorp and its subsidiaries, KeyBanc Capital Markets Inc., Member FINRA/SIPC, and KeyBank National Association ("KeyBank N.A."), are marketed. Securities products and services are offered by KeyBanc Capital Markets Inc. and by its licensed securities representatives. Banking products and services are offered by KeyBank N.A.

A number of our corporate and institutional team members are employed by both KeyBanc Capital Markets Inc. and KeyBank N.A. These "dual employees" are licensed securities representatives of KeyBanc Capital Markets Inc., and they are there to better serve your needs, by making available both securities and banking products and services.

Further, in connection with our effort to deliver a comprehensive array of banking and securities products and services to you in a seamless manner, from time to time KeyBank N.A. and KeyBanc Capital Markets Inc. will share with each other certain non-public information that you provide to us. Of course, as always, this information will not be shared or otherwise disclosed outside of the KeyCorp organization without your express permission. Please also be assured that, as with other banks and broker-dealers, KeyBank N.A. and KeyBanc Capital Markets Inc. adhere to established internal procedures to safeguard your corporate information from areas within our organization that trade in or advise clients with respect to the purchase and sale of securities.

THE OBLIGATIONS OF KEYBANC CAPITAL MARKETS INC. ARE NOT OBLIGATIONS OF KEYBANK N.A. OR ANY OF ITS AFFILIATE BANKS, AND NONE OF KEYCORP'S BANKS ARE RESPONSIBLE FOR, OR GUARANTEE, THE SECURITIES OR SECURITIES-RELATED PRODUCTS OR SERVICES SOLD, OFFERED OR RECOMMENDED BY KEYBANC CAPITAL MARKETS INC. OR ITS EMPLOYEES. SECURITIES AND OTHER INVESTMENT PRODUCTS SOLD, OFFERED OR RECOMMENDED BY KEYBANC CAPITAL MARKETS INC., IF ANY, ARE NOT BANK DEPOSITS OR OBLIGATIONS AND ARE NOT INSURED BY THE FDIC.



WPPA Finance Seminar

Bond Market Update

June 27, 2024

Bond Issue or Bank Loan?

- **Bond Issue (Publicly Issued)**
 - Have lower interest rates but higher up-front costs
 - Work better for larger amounts of money and longer periods of time
 - Allow for interest-only payments and various repayment structures
- **Bank Loan**
 - Works well for interim, variable rate financing
 - A lot of banks will provide fixed rate financing for short terms; fewer banks will fix the interest rate for a long term (10+ years)
 - Banks often work better for less robust credits



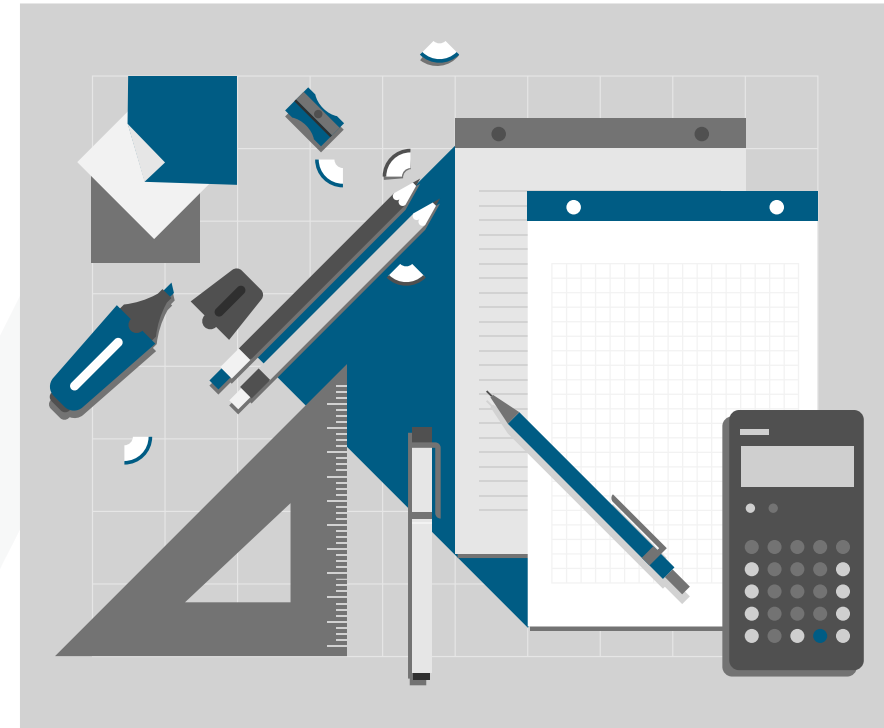
Bank Market

- Bank lending has always been an important part of a Port's financing for capital projects
 - Lines of credit
 - Drawdown financing
 - Prepayment alternatives
 - Smaller borrowings
- In 2015, our firm started to see bank lending as a viable alternative to publicly issued bonds for longer term financing
 - Rates were competitive with bond market rates
 - Prepayment flexibility
 - More straightforward process
 - *Issue an RFP for bank lending*
 - *No Official Statement*
 - *No bond rating*



Bank Market

- This condition lasted until 2022, when interest rates started to rapidly rise from historical lows. Why?
- Banks are maturity transformation machines. They:
 - Borrow short: They raise capital by taking deposits that must be available on short notice
 - Lend long: They loan out money with long-term maturities
 - This practice can expose them to interest rate risk due to the duration mismatch between their assets and liabilities
 - Rising interest rates put pressure on banks' balance sheets
- While this dynamic affects all banks, smaller banks that played a role in lending were particularly hurt
- Banks continue to be an option for your borrowing, particularly if the rate isn't the primary concern
 - Long-term bank financing has been more expensive than what we see in the bond market
 - A local bank or the bank that handles your deposits may be an option



Rating Agency

- Ratings are essential to most Bond Issues
- Three primary rating agencies
 - Moody's Investors Service
 - S&P Global Ratings
 - Fitch Ratings
- Insurance may be used to enhance the rating
- Banks may not require a rating
 - Rating agencies would like to be made aware of additional borrowing
- Meetings with analysts
 - Virtually via Teams/Zoom
 - In-person visit
 - Conference call
- Rating analysts are the main contacts to the rating agencies

**Investment Grade
Rating Categories**

Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-

Rating Agency: Port Bond Ratings

- Typically, a rating from a single rating agency is sufficient to sell bonds
- More frequent issuers and/or those with a large amount of outstanding debt can benefit from having two rating on their bonds
- Most Washington Ports have ratings from Moody's or S&P
- Some Ports have ratings from both
 - Port of Seattle also has ratings from Fitch

Issuer	Security	Moody's	S&P
Port of Anacortes	GO	Aa3	
Port of Bellingham	GO	Aa2	
	Revenue	A2	
Port of Benton	GO	Aa3	
Port of Brownsville	GO		AA-
Port of Camas-Washougal	GO	Aa3	AA-
	Revenue	A1	
Port of Everett	GO	Aa2	
	Revenue	A2	
Port of Grandview	GO		AA-
Port of Manchester	GO		A
Port of Olympia	GO	Aa2	
Port of Pasco	GO		A
	Revenue		A
Port of Port Townsend	GO	Aa3	
Port of Seattle	GO	Aaa	AA
	Revenue	Aa2	AA
	2nd Lien	A1	AA-
Port of Skagit	GO	Aa2	
Port of South Whidbey	GO		A+
Port of Tacoma	GO	Aa2	AA
	Revenue	Aa3	AA
	2nd Lien	A1	AA-
Port of Vancouver	GO	Aa2	
	Revenue		A+

Source: S&P Global Ratings, Moodys.com, MSRB.EMMA.ORG

U.S. Not-For-Profit Transportation Infrastructure 2022 Medians

Port | Financial performance | Historical performance

Disclaimer

Overview

Airport

Mass transit

Toll road

Port

Parking

All sectors

Criteria and financial
metric ranges

Select metric category

Financial performance

Debt

Liquidity

Operating metrics

View by

By rating category

By historical performance

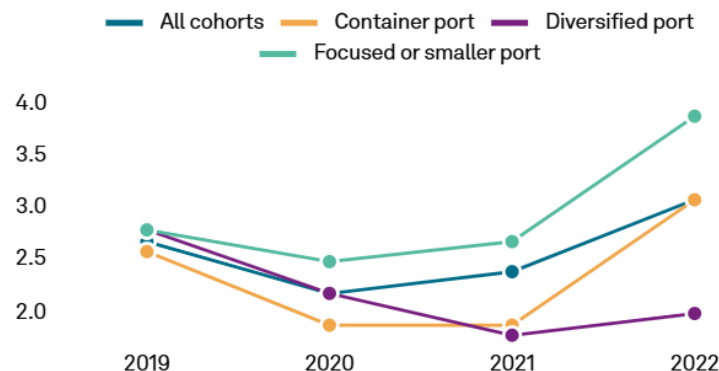
24 issuers

transportation infrastructure

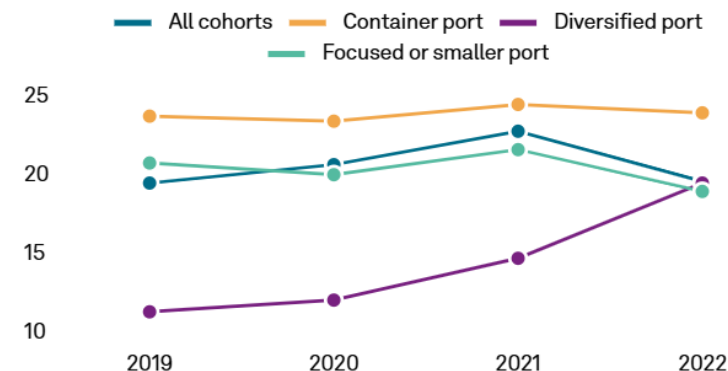
Key takeaways

- Record levels of containers and cargo imports and revenue growth resulted in steady improvement in DSC in fiscal 2022.
- Median operating expenses increased across all port cohorts.
- Median coverage for smaller ports has historically been above the median for all ports due to their preference to offset greater concentration in volatile commodities.

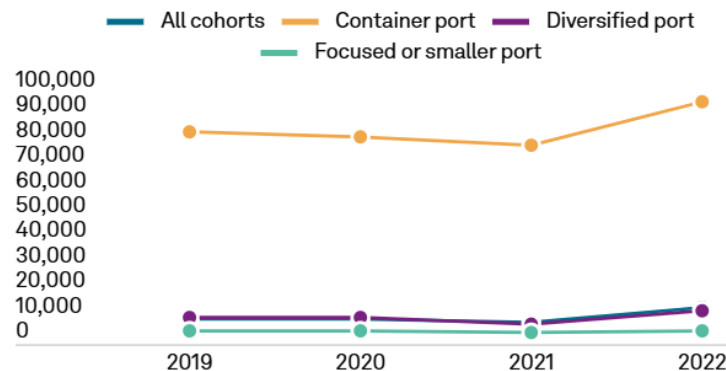
Median coverage (x)



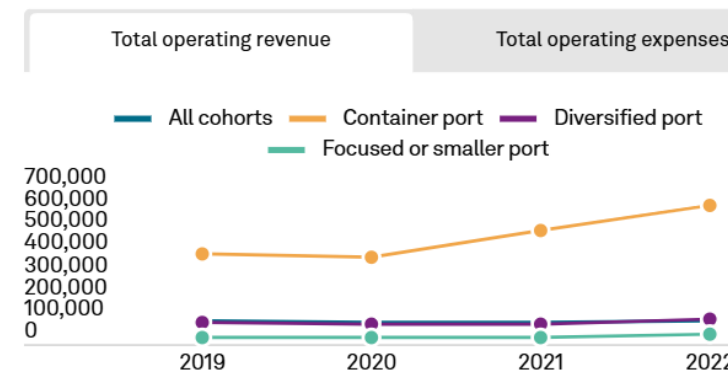
Median total DS as % of total fixed costs



Median debt service ('000s \$)



Median operating revenue and expenses ('000s \$)



U.S. Not-For-Profit Transportation Infrastructure 2022 Medians

Port | Debt | Historical performance

Disclaimer

Overview

Airport

Mass transit

Toll road

Port

Parking

All sectors

Criteria and financial
metric ranges

Select metric category

Financial performance

Debt

Liquidity

Operating metrics

View by

By rating category

By historical performance

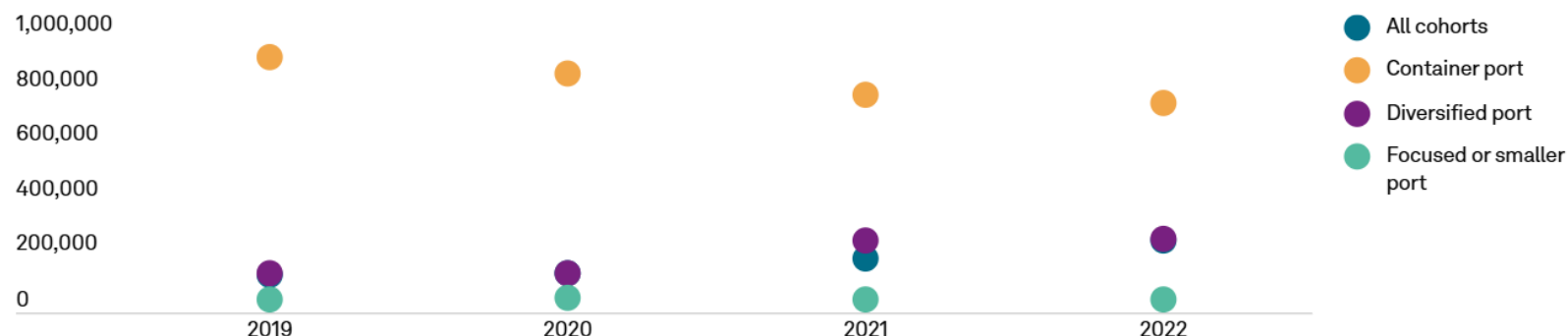
24 issuers

transportation infrastructure

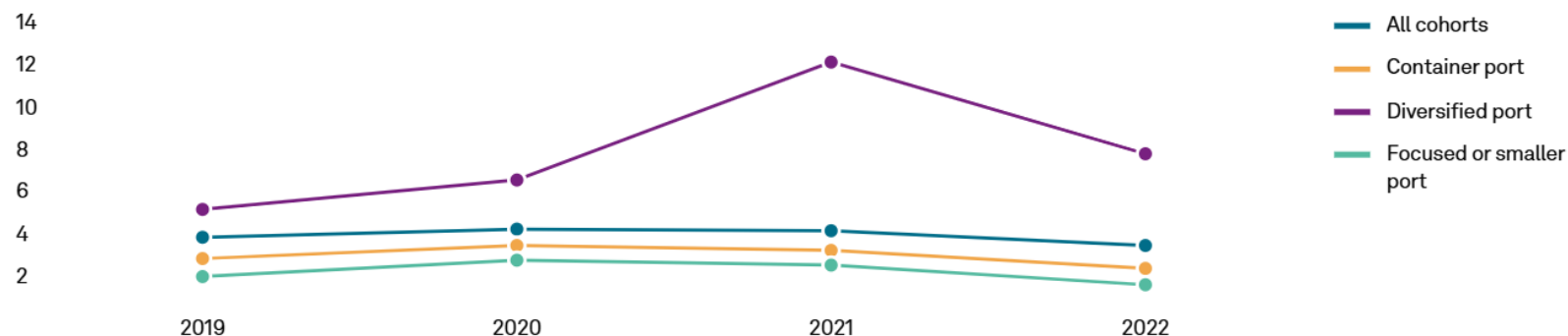
Key takeaways

- Strong revenue growth offset increased debt burdens in 2021 and 2022, supporting extremely strong-to-very strong debt to net revenue.
- Container ports had the greatest amount of debt outstanding but still had extremely strong debt to net revenues.

Median outstanding debt ('000s \$)



Median debt to net revenue (x)



Debt to net revenue ranges from extremely strong (below 5.0x) to highly vulnerable (above 30x), see [criteria tab](#) for more details.

U.S. Not-For-Profit Transportation Infrastructure 2022 Medians

Port | Liquidity | Historical performance

Disclaimer

Overview

Airport

Mass transit

Toll road

Port

Parking

All sectors

Criteria and financial
metric ranges

Select metric category

Financial performance

Debt

Liquidity

Operating metrics

View by

By rating category

By historical performance

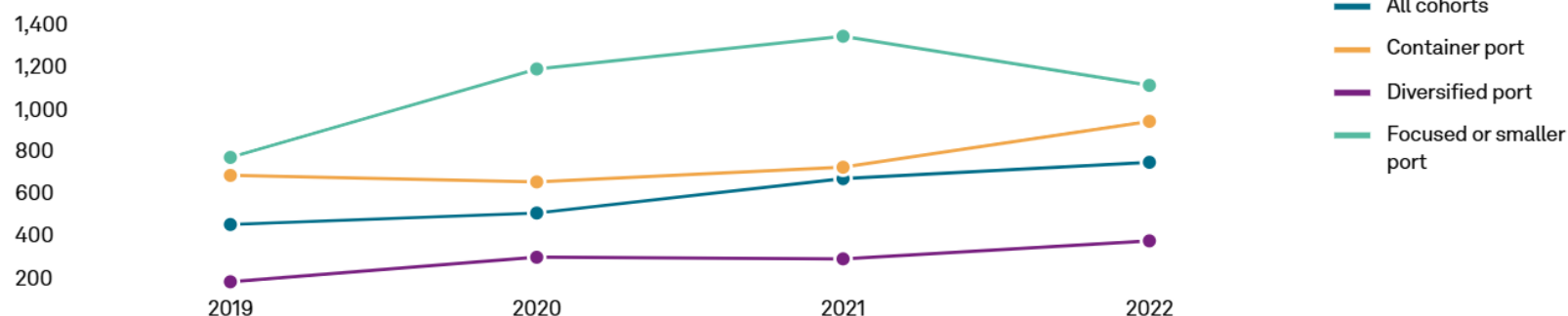
24 issuers

transportation infrastructure

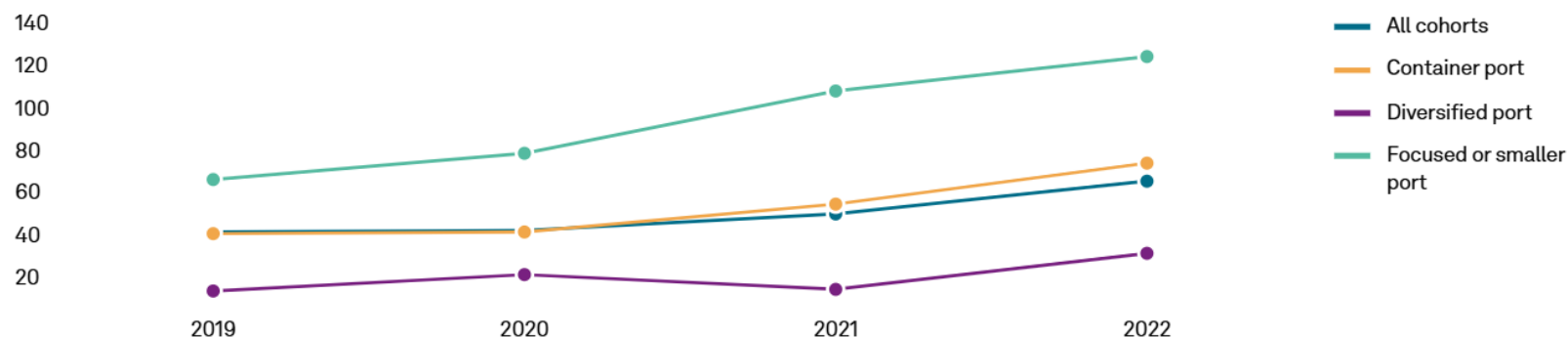
Key takeaways

- Strong demand and revenue performance allowed issuers to build cash reserves, with fiscal 2022 growth in unrestricted cash offsetting higher operating expenses.
- Days' cash on hand improved to extremely strong for most ports as median unrestricted cash and investments increased.
- Median liquidity metrics for focused or smaller ports has historically been above the median for all ports due to their preference to mitigate a larger concentration in volatile commodities.

Median unrestricted days' cash on hand (no. of days)



Median unrestricted reserves to debt (%)



Unrestricted reserves to debt ranges from extremely strong (above 85%) to highly vulnerable (below 3%), see [criteria tab](#) for more details.

U.S. Not-For-Profit Transportation Infrastructure 2022 Medians

Port | Operating metrics | Historical performance

Disclaimer

Overview

Airport

Mass transit

Toll road

Port

Parking

All sectors

Criteria and financial
metric ranges

Select metric category

Financial performance

Debt

Liquidity

Operating metrics

View by

By rating category

By historical performance

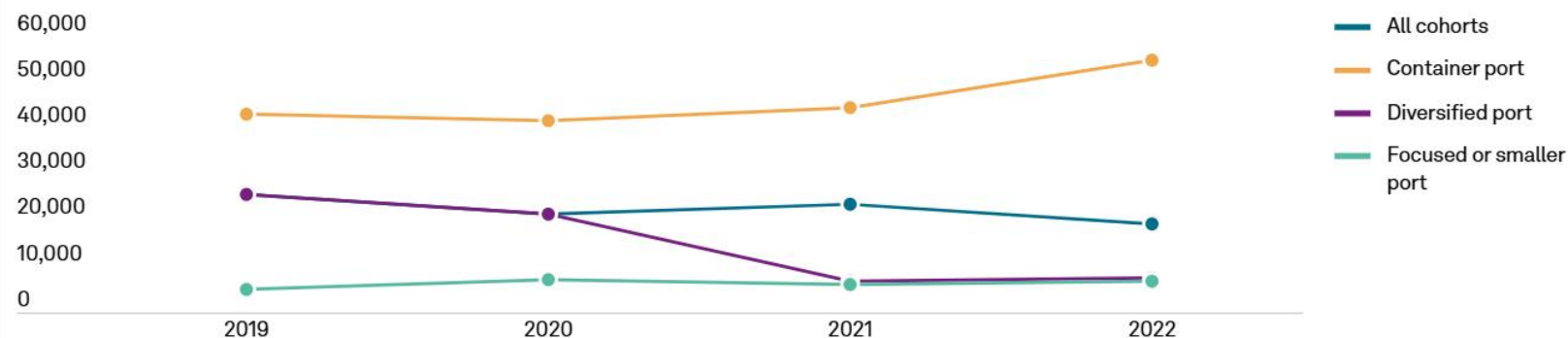
24 issuers

transportation infrastructure

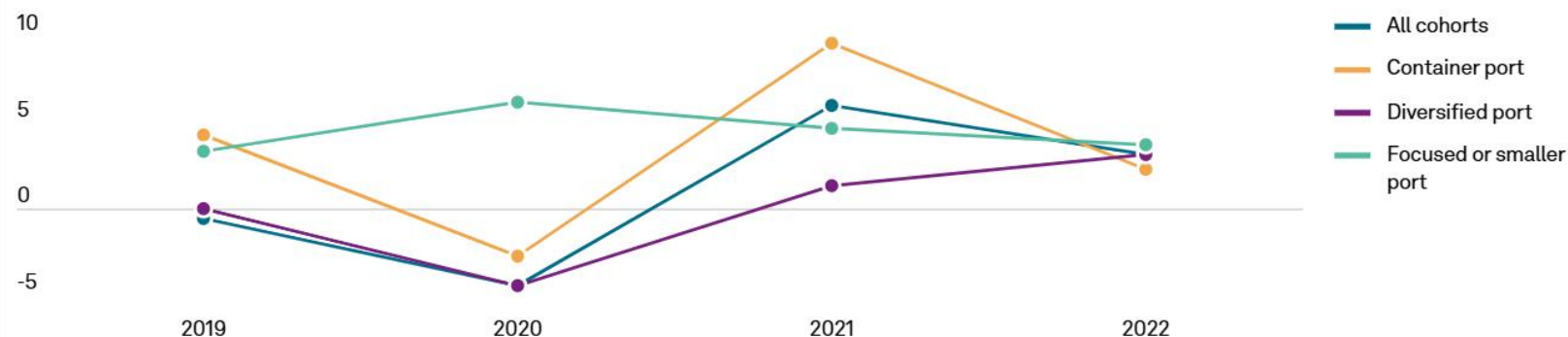
Key takeaways

- Many U.S. ports saw new record-highs of containers and cargo imports, with median tonnage growth across all cohorts in 2022.
- Median tonnage for diversified ports decreased in 2022, remaining below 2019 levels due to economic and supply chain issues resulting in fluctuations in heavier commodities such as iron, steel, and breakbulk tonnage.
- Activity slowed in late 2022, likely because inflationary pressures and the increasing possibility of a recession in 2023 hurt consumer purchasing power and demand for goods.

Median total tonnage ('000s)



Median total tonnage growth (%)



Rating Agency: Timeliness of Audits

- Audited financial statements are needed for obtaining and maintaining bond ratings from S&P and Moody's
- Generally, the rating agencies expect audited financial statements within 12 months of fiscal year end
- The rating agencies know that Washington state local governments' may not be completed within a year
- S&P issued a report on February 5, 2024: How S&P Global Ratings Assesses Information Sufficiency and Timeliness for Washington Local Governments

S&P Global
Ratings

RatingsDirect®

Credit FAQ:

How S&P Global Ratings Assesses Information Sufficiency And Timeliness For Washington Local Governments

February 5, 2024

S&P Global Ratings views annual generally accepted accounting principles (GAAP)-basis financial statements to be the industry standard, providing a form of transparent and comparable financial reporting that is consistent across the U.S. The State of Washington does not require annual audits, allowing local governments (LGs) to complete them every three years, creating gaps in the timeliness of audited information. However, using unaudited annual financial reports prepared by LGs in Washington allows S&P Global Ratings to assess the credit quality of rated entities in the interval between audits.

We believe Washington LGs' unaudited annual financial reports (including the schedules and notes) provide necessary transparency in the absence of an audit. This combination creates a holistic and comprehensive view of an issuer's financial condition and outstanding obligations that generally align with national standards. Of the 173 Washington LGs with tax-secured debt that we rate, 51% report their annual financial statements on a GAAP basis or using modified accrual. For the other 49%, the audited financial statements are reported using the state's regulatory cash basis of accounting, with interim disclosures coming in the form of the unaudited annual financial reports.

This FAQ outlines our understanding of the local government financial reporting framework in the state, and our expectations for disclosure in a manner that is consistent across all U.S. public finance (USPF). For more information on our approach to information sufficiency in USPF, please see "How Quality And Timeliness Of Information Are Incorporated Into U.S. Public Finance's Rating Process" (published Dec. 6, 2021, on RatingsDirect).

PRIMARY CREDIT ANALYST
Cenisa C Gutierrez
San Francisco
(510) 205-8913
cenisa.gutierrez@spglobal.com

SECONDARY CONTACTS
Amahad K Brown
Dallas
+ 1 (214) 765 5876
amahad.brown@spglobal.com
Chris Morgan
San Francisco
+ 1 (415) 371 5032
chris.morgan@spglobal.com

Frequently Asked Questions

What types of entities does S&P Global Ratings consider to be local governments?

We consider counties, municipalities, special districts, and school districts to be local governments.

www.spglobal.com/ratingsdirect

February 5, 2024 1

Rating Agency: Timeliness of Audits

- Takeaway from S&P's February report
- "[S&P's] expectations for completion and receipt of audited and unaudited information are as follows:
 - Issuers will provide a financial audit or unaudited annual financial report completed within 365 days (about 12 months) of the most recent fiscal year-end.
 - Local Governments will provide their unaudited annual financial report with certification letter (if available), summary report, and supporting schedules including debt and pension disclosures.
 - Issuers will produce a financial audit that covers at least one of the three most recently completed fiscal years.

ANNUAL REPORT CERTIFICATION

(Official Name of Government)

MCAG No.
Submitted pursuant to RCW 43.09.230 to the Washington State Auditor's Office
For the Fiscal Year Ended 12/31/2023
GOVERNMENT INFORMATION:

Rating Agency: Timeliness of Audits

- If you are audited annually and have a bond rating, make sure the SAO knows you have outstanding bond ratings and you need the audit within 12 months to maintain the rating
 - If you are audited less frequently, be sure to provide unaudited financial statements with the “Annual Report Certification” cover page and your audit is provided timely
- If the rating agencies do not receive information in a timely manner, your rating may be withdrawn
 - Reinstating the rating may cost money
 - Will decrease the value of your outstanding bonds, affecting bondholders
 - If bondholders lose value on your bonds due to a rating withdrawal, they may be reluctant to purchase your bonds in the future
- Reach out to the rating agency analyst if you anticipate a change in your financial statement timeliness or frequency



Takeaways

- Banks continue to be an important component for a Port's financing
 - Short-term notes, lines of credit, challenging credits
 - Increases in the Fed Funds rate have increased banks' cost of capital
 - Long-term financing via a bank has become more expensive post-pandemic compared to the public bond market
- Timeliness of audits has become a concern for the rating agencies
 - If you have outstanding bond ratings, be sure SAO is aware
 - If there is a change in the typical timing of your audit, reach out to the rating analyst