PORT OF SEATTLE

DEBT MANAGEMENT POLICY

TR-1- Revised December 17, 2020

General

The Port invests in long-term infrastructure necessary for the operations of its airport and its maritime businesses (including its interest in the Northwest Seaport Alliance (NWSA)). The use of long-term debt is considered an appropriate funding source for capital assets. Debt is only one source of funding for projects and the Port actively seeks other funding sources including grants, partnerships, passenger and customer fees, property taxes if appropriate, and cash from operations. The Port seeks to manage capital costs by balancing interest rates and risk. The Port at all times will comply with applicable laws and regulations including state law, tax code (IRS) and securities regulations.

Roles

Primary responsibility for debt management resides with the Corporate Finance and Budget department (F&B). Debt issuance is made in consultation with the operating divisions in support of their business and operational plans. In accordance with State law, Commission approval is required for any Port debt issuance. The Port will use a registered Municipal Advisor (MA) to assist with the sale of new debt and the management of existing debt and to advise on financial management in general.

Types of Debt

General Obligation (G.O.) - this debt is backed by the Port's full faith and credit including its taxing authority. G.O. debt may be used to fund investments based on three criteria: 1) a long lag exists between capital costs and project revenues or full payback from other sources of capital, or financial return is insufficient to support revenue bond financing (Internal Rate of Return ["IRR"] less than the current cost of debt); 2) the project generates significant regional [economic] benefits or supports a business that generates economic benefits, but does not generate sufficient cash flow to fund the project; or 3) the project supports the NWSA and is located in the North (Seattle) Harbor. Because General Obligation Bonds are paid from the tax levy, many projects that qualify for levy funding may also be G.O. bond funded.

Revenue Bonds – are used to provide funding for capital projects, particularly those that do not qualify for G.O. bonds. Projects should earn the current cost of debt (in IRR terms) or be be included in the aeronautical rate base to be eligible for revenue bond financing. Revenue Bonds are secured by the net operating revenues of the Port and are not a general obligation of the Port. By State law, the Port cannot use its tax levy to pay debt service on Revenue Bonds (although Revenue Bonds may be refunded with G.O. Bonds). Revenue Bonds may be issued on the following:

- First Lien – highest rating used primarily for maritime projects or when capital market conditions are unfavorable for lower rated debt
- Intermediate Lien – Used primarily for Airport projects
- Subordinate Lien – used primarily for variable rate debt backed by financial institutions (other forms of variable rate debt may require placement on a higher lien)

Special Revenue/Facility Bonds – are secured by a single revenue stream, e.g. Passenger Facility Charges (PFCs) or lease payment from a specific facility funded with this type of debt. No other revenues or resources of the Port are pledged to these bonds. Use of this financing is on a case-by-case basis. Criteria used to determine the appropriateness include:

- The pledged revenues are sufficient to fund debt service
- Revenues are available to be separately pledged and are not included in Gross Revenues pledged to Revenue Bond holders
- Project(s) to be funded are significant to justify the effort of a special financing
- There is a compelling business reason, e.g. segregation of risk to use this form of financing

The Port has generally used public offerings to issue debt. However, the Port may use Direct or Private Placement Debt – which are non-public offerings. They may be secured by the same credit as any other form of Port debt so long as all provisions of state law and outstanding bond covenants are met. Considerations for Direct Debt are market access, speed of execution or time required for execution, cost and terms.

Most Port bonds are issued to finance or refinance projects eligible for tax-exempt bonds. Tax-exempt bonds generally have a lower cost than taxable bonds. However, due to the greater flexibility and lower administrative costs, the Port will consider the use of taxable bonds when there is little or no additional cost or when the greater flexibility has a business benefit. Taxable bonds are required for projects not eligible for tax-exempt financing but may be utilized for any project.

Port bonds are traditionally used for funding capital investments, however, the Port maintains the flexibility to utilize debt for additional liquidity if needed. This type of debt would generally be short-term, e.g. commercial paper (CP) or a line of credit.
Under extreme circumstances the Port may need to expand the use of a particular type of debt beyond the criteria outlined above to access necessary capital.

Debt Structure

The Port manages its overall debt structure to appropriately balance risk and cost of capital and to provide for long-term financial resilience, market access and capacity for future capital needs. To this end, the Port issues debt that is primarily fixed rate and level amortization.

Fixed Rate Debt
Unless asset life warrants a shorter term, bonds are generally issued with a maximum maturity of 25-30 years. Bonds term should be no longer than the life of the bond funded assets and the average life of tax-exempt bonds must be in compliance with IRS restrictions. The Port prefers to have an optional call on maturities longer than ten years in order to accommodate opportunities for economic refundings or to facilitate the restructuring of debt.

Variable Rate Debt
Variable rate debt can be issued in a number of different forms including put bonds (Variable Rate Demand Bonds – VRDB), floating rate notes and CP. In addition to a variable rate of interest, most variable rate debt has a put or tender feature prior to the final maturity date of the bonds. Both the variable interest rate and the put/tender feature provide benefits and risks that differ from those of fixed rate bonds.

Variable rate debt has the following benefits:

- Low interest rates on average over time
- Greater flexibility to restructure or pre-pay
- Flexible principal payments if issued as a bullet maturity
- Natural hedge to fluctuating rates on Port investments

Variable rate debt has the following risks:

- Interest rate fluctuations due to market conditions
- Some variable rate debt products are subject to interest rate fluctuations due to changes in credit quality of the Port or the credit enhancement provider
- Remarketing risk meaning that they are subject to periodic (?) tender or put and must be remarketed. It may be difficult or impossible to remarket the bonds for reasons ranging from market disruption to changes in the Port's credit quality and if the bonds cannot be remarketed the Port could be subjected to a higher penalty rate on those bonds.
- Exposure to and renewal risk associated with credit/liquidity providers if issued as variable rate debt obligations (VRDOs)
- Market access risk if necessary to restructure

To balance the benefits and risks of variable rate debt, the amount outstanding should be managed primarily as an asset-liability management tool and secondarily as an interest rate reduction tool. Therefore, variable rate debt may be outstanding in an amount that is reasonable within the context of the amount in the Port's investment pool, and more specifically, amounts in the pool that are relatively stable e.g. the Port's minimum operating fund balances. However, depending on the Port's assessment of the benefits and risks the Port may determine to use little or no variable rate debt and will limit the total amount to no more than 25% of total Port debt.

The Port will carefully evaluate the risks associated with variable rate debt and take appropriate measures to mitigate risks. These may include using a variety of variable rate products with different risk profiles, using a variety of credit enhancement providers, and staggering expiration or put dates. Given the risks associated with variable rate bonds, the Port will seek appropriate time windows in which to manage risks. For example, bonds that are subject to mandatory put should provide for optional redemption by the Port at least six months prior to any put date in order to provide a window for the Port to refinance. Similarly, the Port will seek a minimum six-month window prior to any term-out under a reimbursement agreement.

Commercial Paper

The Port uses its CP program primarily as an interim funding mechanism to be repaid by long-term funding such as bonds or grants. If CP is used as a longer-term source of funding, the amount outstanding will be included in the limitations on the use of variable rate debt noted above.

Capitalized Interest

The Port may issue bonds to pay for interest during construction pursuant to IRS limitations and to the extent deemed prudent to match revenues to debt service payments. For example, if revenues associated with a project do not begin until the asset is in use, capitalized interest may be utilized.

Interest rate swaps

The Port may consider the use of interest rate swaps. Swaps are separate contracts that can be added to a bond issue at any time to modify the interest rate. The Port will carefully evaluate the short and long-term risks and benefits of a swap agreement to ensure that it is in keeping with the Port's overall debt structure and management. The Port Commission must authorize the use and terms of swap agreements and the agreements must comply with the Port's swap policy.

Fixed to Variable Swaps (Port is Fixed Receiver)

A swap can be used to add interest rate variability to fixed rate debt with a fixed to variable rate swap. This has the potential of lowering the cost of capital, but will add counterparty exposure and mark-to-market valuation exposure on the swap contract.

Variable to Fixed Swaps (Port is Fixed Payer)

A swap can be used to reduce interest rate variability on variable rate debt with a variable to fixed rate swap. This swap reduces interest rate variability to basis fluctuations (under

adverse circumstances these can be considerable), but adds counterparty risk. Variable to fixed rate swaps are also subject to mark-to-market changes in value.

The Port may consider new or non-traditional structures when appropriate. These should be carefully reviewed and the risks thoroughly understood prior to issuance.

Debt Limits

General Obligation Bonds - are subject to statutory debt limits pursuant to RCW 53.36.030. According to statute, the Port may have outstanding G.O. bonds in an amount not to exceed 0.25% of assessed value in King County. The Port, with voter approval may have an amount not to exceed 0.75% of assessed value. The statutory limitation calculation is updated and included in the disclosure document for any G.O. bonds and is updated as part of the budget process. In addition to this legal limitation, the Port maintains a policy that G.O. bond debt service be no greater than 75% of its annual tax levy.

Revenue Bonds - are subject to the debt service coverage limitations that must be met annually and limitations that must be met in order to issue additional bonds. These limitations are pursuant to the authorizing resolutions as detailed below.

Revenue Bond Lien	Annual Coverage Requirement	Additional Bond Coverage Requirement
First	1.35	1.35
Intermediate (1)	1.25	1.10
Subordinate	1.00	1.50

(1) At least 1.10 x provided by cash flow and 0.15x provided by either cash flow or operating fund balance

In addition, the Port has established financial management targets that are not tied to the legal bond requirements for specific liens. Specifically, the Port has established debt service coverage targets and liquidity targets for the airport and maritime businesses; the different targets reflect the different risk profiles of those businesses. The Port's future debt capacity is constrained by the forecasted need to maintain liquidity targets and the forecasted ability to meet targeted cash flow coverage. These business specific targets are intended to provide debt service coverage that collectively meet or exceed the legal requirement.

The specific management targets include:

- The airport provides net revenues equal to 1.25x all airport related revenue bond debt service and maintains the eighteen months of airport related operating and maintenance expense in the Airport Development Fund (to be achieved by 2025).
- The maritime businesses collectively provide net revenues equal to 1.80x related revenue bond debt service. The Port's General Fund maintains a balance equal to twelve months of operating and maintenance expense related to the maritime businesses.

In addition, management has set a target of at least 1.8x for First Lien coverage. These management coverage targets are intended to be more restrictive than the legal requirements. The Port does not have a formal target for aggregate revenue bond debt service coverage. As the relative size of the businesses changes, the aggregate, Port-wide coverage will also change.

The Sale of Bonds

Bonds can be sold through either a negotiated or competitive process. Under a negotiated process, one or more investment banks are chosen in advance to manage the sale of bonds at a negotiated price. Under a competitive sale, banks bid on a bond offering and the sale is awarded to the bank offering the lowest interest rate.

The Port utilizes a finance team to manage negotiated sales. The finance team is competitively selected every –five to seven years and senior managers are chosen based on overall performance rather than strict rotation; relative compensation among firms may also being taken into consideration. Performance is evaluated based on management and pricing of transactions and on the value added to the Port between transactions or any specific capabilities that are deemed useful to a particular transaction. This approach allows for significant competition. Moreover, there is sufficient evidence to indicate that competitive sales do not necessarily provide the best pricing and that negotiated sales can often provide more flexibility.

The Port will utilize a municipal advisor (MA) to assist the Port with determining whether a sale is negotiated or competitive and, in addition to overall management of the transaction, the MA will ensure fair market pricing. If negotiated, the MA will advise on negotiation of the underwriter fees and benchmarks for the overall pricing. If the sale is competitive, the MA manages the sale process.

Based on the above, the Port tends to utilize negotiated sales which provide the following benefits to the Port:

- Utilization of finance team resources for no extra cost
- Pre-marketing which is useful for a complex credit story like the Port’s
- Flexible timing and ability to adjust structure to meet market demand

The Port uses competitive sales when they are appropriate both for a specific transaction and in the context of overall finance team management. Transactions that are most suited to competitive sale are those with:

- A simple credit structure, e.g. General Obligation bonds
- No external complications e.g. problems with the airport or seaport industries
- Broad market appeal e.g. high rating, non-AMT
- Stable market environment

New Money Debt Issuance

New money needs are first identified during the business planning and budget process. The operating divisions develop long-term, multi-year capital budgets that are consistent with projected available funding resources including bond proceeds. The amount of debt funding available for projects is based on the debt limits noted above. The operating divisions and F&B evaluate funding needs, the timing of project spending and determine the appropriate funding source(s) for specific projects. Projects that utilize debt funding must meet the criteria for General Obligation or Revenue Bonds noted above.

Projects that are eligible for debt funding may use interim funding sources including cash or commercial paper and these sources may be reimbursed with bond proceeds within the limits of IRS regulations including adoption of a Declaration of Intent to Reimburse.

Debt Management

Refunding

The Port monitors interest rates and looks for opportunities to refund debt for savings. Savings targets are based on aggregate savings for the refunding of an entire series of bonds. The Port may choose to refund only selected maturities, but would then expect a higher aggregate savings rate. Savings rates are based on net present value debt service savings as a percentage of the refunded bond par amount assuming level savings and similar structure and call provisions. The table below shows the savings targets for current and advance fixed rate refundings.

Minimum Savings to Initiate Refunding

Years to final maturity	Current Refunding	Advanced Refunding Call date < 5 years	Advance Refunding Call date > 5 years
0-5	2%	3%	N.A.
5-10	3%	4%	5%
>10	4%	5%	6%

In addition to traditional current and advance refunding, the Port may consider other types of refundings including forward delivery bonds and fixed payer swaps. The savings threshold for a forward refunding is higher than for an advanced refunding, typically an additional one percentage point (1%), to account for the risk associated with the longer period between sale and closing. Refunding accomplished through a fixed payer swap includes risks that are not associated with a traditional fixed rate bond refundings, therefore higher savings levels are expected for a swap-based refunding. The Port will take into account the swap-related risks associated with specific transaction and adjust savings thresholds accordingly. When considering an advanced refunding the Port will conduct a break-even analysis on the change in rates necessary to break even on a delay to the refunding.

Variable Rate Debt

The Port has generally used direct pay letters of credit to provide credit and liquidity support for variable rate debt which is typically issued on the Port's Subordinate Lien. For this type of variable rate debt, the Port monitors the performance of variable rate debt relative to the associated letter of credit providers and remarketing agents. When a letter of credit is due to expire, the Port evaluates its options which may include converting to fixed rate debt, extending the letter, finding a new letter of credit or using an alternative variable rate structure. Alternative variable rate products may include floating rate notes, laddered short-term/put bonds, fixed to floating swaps and variable rate direct purchases. Like letters of credit, these products generally have features that expose the Port to termination prior to the final maturity of the bonds and therefore, carry renewal or put risk. In evaluating variable rate products, factors considered include: risk, cost, and the Port's target debt structure (see above).

Commercial Paper

The Port manages a commercial paper program for the purpose of providing interim funding in anticipation of grant receipts, long-term debt funding or other funding sources that are not immediately available. The Port also may use CP to provide additional liquidity if needed.

Investment of Bond Proceeds

The Port will comply with all appropriate regulations and agreements in the investment of bond proceeds. Generally, the Port will invest proceeds in the Port's investment pool and interest earnings are allocated to bond proceeds accounts monthly. If appropriate, the Port may invest bond proceeds separately. If required, the Port will restrict the yield on bond proceeds.

Compliance
The Port establishes procedures to comply with various legal, regulatory, and contractual requirements and provides training to appropriate staff for the following:

Disclosure
The Port prepares an annual disclosure report as required in bond resolutions and publishes on EMMA along with the Port's audited financial statements for the purpose of complying with SEC 15(2)-12. The Port monitors for Material Events and provides notice as appropriate.

Arbitrage Rebate
At least annually, the Port will calculate estimated arbitrage rebate liability for financial reporting purposes. If an issue is expected to incur a rebate liability, the Port may retain an arbitrage consultant to make the calculations for IRS reporting.

Use of Proceeds
F&B reconciles the use of proceeds as reported in the Port's accounting system with the total amount of bond proceeds. F&B works with the operating divisions to monitor the use of bond funded property and facilities and to advise on limitations regarding private use and sale or transfer of those facilities. Immediately upon awareness of violation of these limitations, F&B staff will consult with Bond Counsel on appropriate remedial action.

Investor Relations
In addition to filing on EMMA, the Port maintains investor information on its internet web site including its audited financial statements, annual disclosure and official statements. The investor information page is designed for specific information related to publicly sold bonds. The Port also provides financial and statistical information that may be of interest to investors on the Port's financial information page. The SEC requires that material operating and financial information that is shared with investors must be shared broadly to the market. Therefore, the Port provides financial reports on its financial information page which is available to all investors. Communication with any specific investor must be limited to information that is publicly available.

Dan Thomas

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Dan Thomas
Chief Financial Officer

Dec 18, 2020
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Date