

2013 Proposed General Obligation Bond Issue Frequently Asked Questions

July 8, 2013

Following are questions about the Port's proposed 2013 General Obligation Bond Issue which community members have asked at Port Commission meetings or by email, along with the Port's responses. Please see <http://www.portolympia.com/index.aspx?NID=239> for the Advisory and PowerPoint Presentation which are referenced in some of the answers below.

1. Will the proposed General Obligation Bond Issue raise taxes?

No, taxes do not need to be raised because of the proposed bond issue. The proposed bonds place a lien on the tax levy; they do not impose a tax on property owners.

2. Why don't customers that benefit from the facilities pay for them?

Customers that benefit from the facilities will be charged for them so that the Port will earn cash to repay the bonds.

3. Why do Thurston County residents have to subsidize the operations of the Port of Olympia while the Port continues to lose money on almost all of its operations?

On a cash basis, the Port has earned cash from operations each of the last five years. For details, please see the financial reports at <http://www.portolympia.com/Archive.aspx?AMID=45>, State Auditor's Reports. The Port plans to share its 2013 mid-year earnings results at the public Commission meeting on July 22, 5:30 p.m., at the LOTT Clean Water Alliance Board Room in Olympia.

4. Why doesn't the Port raise service costs to its clients, rather than raise taxes on Thurston County residents?

First, as indicated above, no taxes are raised on Thurston County residents as a result of the proposed bond issue. In addition, the Port has raised the rates that its customers pay to the Port for the services they use, and the Port has sought new business to contribute to Port revenues. Some of the new Marine Terminal business requires additional investment in equipment and facilities. While the Port is financing these investments, its customers will pay for them.

5. *Although it is not required by law, in fairness, why doesn't the Port let the taxpayers of Thurston County vote on the bonds directly (as we are a small community and it places too high of a burden on many of the residents who cannot afford further tax increases)?*

Again, the proposed bond issue will not raise taxes on Thurston County residents. But putting General Obligation Bonds to a public vote is a different type of public financing that would have different impacts on Thurston County residents. Under the law, a bond issue that is put to a public vote would raise the Port's debt limit and would raise taxes by an average \$2.1 million per year. In addition, offering the citizens a vote would cost an estimated \$100,000 to place the measure on the ballot. By issuing bonds without putting them to a public vote, the Port prevents Thurston County taxes from increasing as a result of the bonds.

6. *What will the bonds buy?*

a. Dredging	\$ 9.0 million
b. Stormwater Conveyance & Treatment Facility	\$ 9.0 million
c. Airport Facilities	\$ 2.4 million
d. Marine Terminal Storage Facilities	<u>\$ 2.7 million</u>
Total	\$23.1 million

7. *Who benefits from the projects financed by the bond issue?*

The Port intends that its customers will use and pay for the facilities financed by the bonds. The customers' increased business should benefit Thurston County citizens directly through jobs, local spending and a cleaner environment.

8. *If there is federal money for dredging, why do we have to foot the bill locally?*

Federal funds are only used for dredging federal navigation channels. Local ports must fund the dredging in front of their docks.

9. *Why is the Port funding Airport projects?*

The Olympia Regional Airport, part of the Federal Aviation Administration's (FAA) National Plan of Integrated Airport Systems (NPIAS), is a vital part of the national airport system. Airport land uses include general aviation, corporate aviation, commercial passenger service, and aviation and non-aviation related commercial and light industrial development. Airport projects maintain the safety of existing runways and taxiways and

fund revenue producing facilities.

Agencies using the Airport include the Washington State Patrol Aviation Section, Washington Department of Natural Resources Aerial Fire Fighting Section, Washington Department of Fish and Wildlife Enforcement Section, and Aerial Medivac Service. Airport tenants perform flight training, air charter, aerial photography and aircraft maintenance & repair services. The Airport and NewMarket Industrial Campus provide for 5,351 direct, indirect or induced jobs, \$247 million in personal income and \$810 million in business revenues annually.

10. Why is the public bond hearing on \$12 million when the total proposal for the General Obligation Bonds is \$23.1 million?

The federal Internal Revenue Service requires a public hearing from local governments when the project being financed benefits a private activity. This applies to the stormwater conveyance and treatment facility (\$9 million estimated) that will benefit Port customers that have a lease on the Marine Terminal. The Port used the \$12 million amount for the public hearing to be conservative and comply with the law.

The Port proposed to finance four projects totaling an estimated \$23.1 million. The Port estimates that it would issue \$19.7 million of bonds at a premium for net bond proceeds of \$23.1 million.

11. \$20.7 million of these funds are for investments at the Marine Terminal. The 2013 budget shows the Marine Terminal planned loss is \$360,122. It lost \$1.2 million in 2012 and it lost \$1.3 million in 2011. Why are we dumping over \$20 million in this losing operation?

The Marine Terminal has already exceeded expectations for 2013 by earning \$308,000 for the five months ending May 31, 2013. The Port plans to share its mid-year earnings results during its public meeting on July 22, 2013, 5:30 p.m., at the LOTT Clean Water Alliance board room in Olympia.

The dredging investment will allow the Port to have vessels at each of its three berths, which it has not been able to do for years. Lack of dredging over the past 30 years meant no more than two ships could berth at the same time.

The stormwater facility is required by the Port's Industrial General Stormwater Permit. The Permit requires that the Port install treatment for the majority of Marine Terminal stormwater by the end of September 2014.

The Marine Terminal storage facilities are necessary to serve our customers' break bulk cargo. Customers will pay for this new facility through their rate per ton.

12. I am not finding the full draft amended Capital Investment Plan anywhere on the website. Is there a copy of the CIP that includes all of the proposed changes?

No, the proposed amendment highlights the changes. Staff will prepare an amended CIP report after the Port Commission approves the change.

13. I read about the June 24th public hearing regarding the \$12,000,000 in bonds. I heard that this is part of a larger bond issue of something like \$23 million. Are there any staff reports or other documents prepared so that I can learn more about this before the public hearing?

Yes. Port staff prepared the 2013 General Obligation Bond Advisory and posted it to the Port's website on June 3rd. See the June 10, 2013 General Obligation Bond Advisory and PowerPoint Presentation at <http://www.portolympia.com/index.aspx?NID=239>. At the June 10th Commission Meeting, staff presented the Advisory which staff repeated on June 24th at the public hearing for the proposed bond issue. Additionally, the Port held a public hearing on June 24th to change its Comprehensive Scheme of Harbor Improvements with an increase to its Capital Investment Plan. Both of these items are on the Commission Agenda for the July 22nd meeting so that the Commission has time to consider the public comments before they make a decision.

14. Do I understand correctly that the Port of Olympia is about to borrow \$23 million to complete the projects identified for the bond issue and the debt will be paid off by the citizens with property taxes? These projects benefit very narrow special interest groups. I see no circumstances where this should occur in our community.

The Port plans to borrow \$19.7 million in General Obligation Bonds. The bonds will be issued at a premium so that the net proceeds will be \$23.1 million. The Port plans to charge its customers for the use of the facilities paid for by the bonds. While the proposed bonds place a lien on the tax levy, the Port can repay them from any source it chooses. The Port plans to earn the cash to repay the bonds from its tenants and customers.

15. What is the financial return on this investment of \$23 million?

Port staff has not prepared an overall financial analysis, so we cannot completely answer your question. The information provided in the bond presentation outlines and supplies the standard criteria, estimates, facts and other essential data commonly provided to facilitate informed decision-making on the part of the Port Commission. The Port is proposing four projects to be financed by this bond issue.

<u>Project</u>	<u>Estimated return</u>
Dredging	Not calculated
Storm water conveyance & treatment facility	4.8%
Airport facilities	Not calculated
Marine terminal storage facilities	5.6%

16. The Port's General Obligation Bond presentation slide 8

(<http://www.portolympia.com/index.aspx?NID=239>) says "customers pay their share" of the stormwater facility. What is the total cost of the facility? What are customers' shares? Why do the residents have a share at all? Please justify why the residents of Thurston County are paying \$9 million for this.

The estimated cost of repairing and reconfiguring the Port's stormwater conveyance system and the design and construction of a stormwater treatment facility is \$9 million. Each month, 82% of the stormwater facility costs will be directly charged to customers based upon leased area served. The remaining 18% (serving public wharfs) will be recovered from customers as ships call at the Port. The Port plans to fully recover the cost of this facility.

General Obligation Bonds are the lowest interest cost financing available to the Port. The principal and interest payments are a use (lien) of the tax levy. The tax levy amount does not need to increase because of this bond issue.

17. Will the dredging include a confined in-water disposal area near berth 4 or anywhere else?

The Port will dispose of the materials dredged as part of this project at an approved upland disposal facility. The successful bidder will choose the upland disposal site and the method of transporting the dredge material. As part of future cleanup or federal dredging activities, the Port is exploring whether it is feasible to create a confined in-water disposal area near berth 4.

18. Is funding the fuel dock included in the bond issue? What is the current status of the fuel dock? Who is paying for the fuel dock?

No, the fuel dock is not funded by the bond issue. The Port Commission has not made a decision about the fuel dock. The Port has held several public meetings to receive public comment about the proposed fuel dock. If the project proceeds, the Port plans that users of the fuel dock would pay for it.

19. Is the Port required to do the environmental projects in response to a Court Order?

There is only one court order that applies to any Port environmental projects and that is the Consent Decree in the Olympians for Public Accountability (OPA) versus Port of Olympia lawsuit, which involved the Port's compliance with the requirements of the Industrial General Stormwater Permit (ISGP). The requirements in that court order incorporate the Port's requirements under the ISGP.

The Port has undertaken a number of environmental projects voluntarily, including:

- East Bay cleanup and redevelopment
- Budd Inlet cleanup
- Cascade Pole cleanup
- Participating in creosote piling removal throughout Budd Inlet
- Assisting the Washington Department of Fish & Wildlife with water quality studies
- Installing solar panels and a new environmentally-friendly roof on the Marine Terminal warehouse
- Installing energy efficient lighting in the warehouse and throughout the Marine Terminal
- Buying low emission equipment and machinery for use on the Marine Terminal
- Maintaining the public trails along the waterfront and installing native plant pocket gardens throughout
- Using integrated pest management to minimize the use of pesticides in Port landscaping
- Setting aside habitat for the protection of sensitive species near the Airport
- Developing a tenant education program to assist Port tenants throughout Olympia and Tumwater with environmental compliance

20. Does the Weyerhaeuser lease require Weyerhaeuser to pay for the stormwater facility and their share of the dredging expense?

Yes, Weyerhaeuser's lease with the Port provides for the company to pay a proportionate share of the stormwater treatment facility, which includes the capital costs, operation and maintenance expenses. Weyerhaeuser or the shipping companies that carry its logs pay for the dredging costs through dockage and wharfage charges.

21. Are the customers paying their "share" of the dredging and the new warehouse?

The Port charges customers for their "share" of the dredging and the berth costs through dockage and wharfage charges. The Port has established a public tariff rate for dockage and wharfage charges. The Port estimates that the proposed new warehouse should yield a 5.6% return based upon estimated volumes and current shipping rates. The Port plans that customers would pay for the new warehouse in about 9 years.

22. The Port is required to complete additional stormwater control and treatment directly due to the Weyerhaeuser log export facility. The estimate made in

November 2012 was \$800,000 and the new estimate is \$9 million. What is the reason for this large cost increase?

The Port is required to implement stormwater treatment as a result of all the industrial activity on the Marine Terminal. The estimate of \$800,000 was for planning and design of the facility. The increase is for the construction of the stormwater facility and its conveyance system. The Port needed to complete the research and engineering in order to estimate what should be built. The benchmarks in the Industrial General Stormwater Permit that all industries must strive to meet are stringent, and facilities are just beginning to design treatment systems that can achieve the stormwater permit goals. Additionally, the Port determined that its underground stormwater pipes had to be repaired and rerouted to direct the stormwater to the new facility.

23. You have said that Weyerhaeuser will pay their “share”. Is there specific money coming from the lease to pay back the bonds so that the residents of Thurston County are not paying this? If so, will this be accounted for on the books of the Marine Terminal so that there is total transparency on the payment of this debt?

Yes, the Port’s lease with Weyerhaeuser provides that the company will pay a proportionate share of the stormwater treatment facility, which includes the capital costs, operation and maintenance expenses.

The Port may create a separate revenue and expense cost center for the stormwater facility so that it may correctly charge each of the customers using it. The Port will continue to follow generally accepted accounting principles when reporting its financial position and the results of its operations. A separate accounting of this stormwater facility comparing its earnings to its share of the debt payments is not required.

24. How long will it take Weyerhaeuser to pay its share of the stormwater facility?

Weyerhaeuser and other Marine Terminal tenants will pay for the stormwater conveyance and facility. The stormwater facility bonds will be paid in 11 years by December 1, 2024. These Port customers will pay over the life of the facility which may be from 30 to 40 years depending upon rates, usage and estimates.

25. Where is the money for the dredging coming from?

The money for the dredging is coming from the bond issue. The bond issue may be repaid from Port operations and from the tax levy. The Port charges Marine Terminal customers for their “share” of the dredging and the berth costs through dockage and wharfage charges.

26. These costs are directly associated with the Marine Terminal. It is \$9 million now and another \$20 million in a few years, correct? If so, is there money from the operation of the Marine Terminal that will cover the dredging expense without taking money from somewhere else?

Yes, those are the Port's current dredging cost estimates. No, while the Port's goal is to charge the market price for all of its facilities and services, the Port may not recover all of its dredging costs through user fees. A significant portion of the dredge cost pays for the upland disposal cost of the dredge material. This added cost is due to the polluted dredge material not being suitable for normal in-water disposal. The dredging investment will allow the Port to have partially loaded vessels at each of its three berths. Lack of dredging for 30 years resulted in limited use of the Port's berths.

27. From the June 24th bond issue presentation to the Commission, the Port has \$15 million of the funds needed for the \$35 million in the Capital Investment Plan. Is there any reason you can't use those funds for the required stormwater work, delay the other projects, and not go into debt at this time? That would allow for a wider public discussion on this expenditure and debt.

Yes, the Port has many capital investment projects in progress at this time for which it has committed to construction contracts. The immediate need is for the dredging to be completed and that is driving the timing of the proposed Bond Issue. Dredging must be completed within a certain season so that migratory fish are not disturbed. The Port is sizing the proposed bond issue so that it would just issue once in the next two years, thereby minimizing bond issue costs.

28. According to the revision to the Capital Improvement Plan, the new warehouse will cost \$2.6 million. Is that the full cost? How long will it take to pay off the new warehouse? Do you currently have customers lined up to use the space?

\$2.7 million is the current estimated full cost of the new warehouse. See slide 9 of the PowerPoint Presentation: <http://www.portolympia.com/index.aspx?NID=239>. Slide 6 shows \$2.6 million plus \$0.1 million for Marine Terminal Storage Facilities (design). The Port estimates that it may take 9 years to pay off the new warehouse. Yes, the Port has two customers lined up to use the new warehouse space.