ADMINISTRATIVE POLICY DEBT MANAGEMENT	Policy No.: 7.2.21
	Original Date: May 17, 2017
	Revision Date: New Policy
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	Owner: Financial and Administrative Services

1. PURPOSE; OBJECTIVES

The Port of Portland's (Port) Debt Management Policy (Policy) establishes management guidelines and restrictions for the issuance and management of the Port's long and short-term debt obligations. The Policy is intended to meet the following objectives:

- Establish debt issuance options and parameters that ensure compliance with all applicable laws and regulations and preserve a sustainable financial structure;
- Minimize the Port's cost of capital while preserving financial flexibility;
- Ensure the Port has adequate access to capital when needed; and
- Protect or enhance the Port's bond rating(s).

The Policy may be updated from time to time to reflect changes in law and market practices. Any modifications to this Policy shall be reviewed and approved by the Port's Executive Team.

2. PERSONS AFFECTED

Division Chief Executives and implementing staff, including Legal and Finance.

3. LEGAL AUTHORITY AND COMPLIANCE

3.1 Legal Authority

The Port's debt issuance practices are governed by the provisions in Chapter 777, 778 and 287A of the Oregon Revised Statues (ORS).

3.2 Bond Ordinances

The Port may issue General Airport Revenue Bonds (GARBs) for Portland International Airport (Airport) pursuant to Port Ordinance No. 155, enacted by the Port's Board of Commissioners (Commission) on November 10, 1971, as amended, restated and supplemented (Ordinance No. 155); Port Ordinance No. 323, enacted by the Commission on October 9, 1985, as amended, restated and supplemented (Ordinance No. 323); Port Ordinance No. 455-B, effective as of November 10, 2014, amending Ordinance No. 155 and Ordinance No. 323 (collectively, GARB Ordinances). The Port may issue Passenger Facility Charge (PFC) Bonds for Federal Aviation Administration (FAA) approved projects pursuant to Port Ordinance No. 395-B, enacted on June 10, 1999, as amended, restated and supplemented (Ordinance No. 395-B). (The GARB Ordinances and Ordinance No. 395-B, as well as any ordinances that amend the GARB Ordinances or Ordinance No. 395-B that are enacted or effective after approval or amendment of this Policy, are collectively referred to as Master Bond Ordinances.)

The Master Bond Ordinances established various funds and accounts for the payment of principal and interest on Port bond issuances, set out the priority of payments of all Airport obligations and established various covenants.

3.3 Compliance with Laws, Regulations and Airline Agreement

The Port will issue all debt obligations in accordance with applicable Federal and State laws, rules and regulations, including without limitation the Internal Revenue Code of 1986 (Code), the Securities Act of 1934 and the Securities Exchange Act of 1933, in each case as supplemented and amended, and with regulations promulgated pursuant to such laws.

The Port will issue debt that is secured by or that is repaid from PFC or Customer Facility Charge (CFC) revenues in compliance with all applicable laws, rules and regulations governing the use of such revenues.

The Port will issue Airport Revenue Bonds in accordance with the Majority-In-Interest (MII) disapproval process and other requirements under the current Airline Lease and Operating Agreement (Airline Agreement) between the Port and Signatory Passenger and Cargo Airlines. The current Airline Agreement includes an MII disapproval process for Airport capital improvement projects that have a total cost of $1 million or greater, with limited exceptions, and that directly impact the airline rate base.

4. TYPES OF DEBT INSTRUMENTS

4.1 Bonds

The majority of the debt issued by the Port will be in the form of publicly offered municipal bonds with a fixed interest rate.

4.2 Short-term Debt and Interim Financings

The Port may enter into agreements with commercial banks or other financial entities to acquire lines or letters of credit that provide the Port with access to credit under terms and conditions as specified in such agreements.

The Port may also issue short-term notes, defined as having a maturity of not more than five years, to provide interim financing in anticipation of subsequent definite sources of revenues. Examples include Commercial Paper, Revenue Anticipation Notes, Bond Anticipation Notes, and Grant Anticipation Notes.

The Port will evaluate interim financing solutions in anticipation of grant receipts, long-term debt funding or other funding sources that are not immediately available. Considerations include costs, benefits, and the availability of funds on hand that may be used to provide short-term funding.

4.3 Equipment Loans

The Port will evaluate equipment financing opportunities as needed, soliciting funding proposals competitively when doing so is in the Port’s best interests.

4.4 Government-Sponsored Financing Programs

The Port may, from time to time, elect to participate in federal and state programs intended to assist state and local governments in financing projects at lower borrowing costs and to stimulate the economy and create jobs.

4.5 Variable Rate Debt

The Port may issue long-term variable rate debt to diversify the debt portfolio and mitigate interest rate risk. The most common variable debt instrument is variable rate demand obligations.

4.6 Interest Rate Exchange Agreements

Pursuant to Commission Policy No. 6.1.14, *Interest Rate Exchange Agreements*, the Port may enter into interest rate exchange agreements (Swap Agreements). Swap Agreements include a contract, an option, or a forward commitment to enter into a contract, which provides for payments based on levels of or changes in interest rates, or provisions to hedge payment, rate, spread or similar exposure, including but not limited to an interest rate floor, cap, or an option, put, or call. The Port will carefully evaluate the short and long-term risks and benefits of a Swap Agreement considering the Port's overall debt structure prior to executing such an agreement.

5. SECURITY FOR DEBT INSTRUMENTS

The Port can issue the following types of bonds:

5.1 General Obligation (GO) Bonds (Property tax-backed)

With the approval of voters residing within Port boundaries, the Port can issue general obligation bonds secured by ad valorem taxes levied on property within Port boundaries, all as provided by ORS 778.030 through 778.065. Proceeds of GO Bonds can be used to fund capital construction and improvements.

5.2 Full Faith and Credit Obligations

The Port has the authority to finance real or personal property by entering into financing or lease agreements secured by the full faith and credit of the Port, as provided by ORS 271.390.

5.3 Limited Tax General Obligation Bonds

Limited tax general obligation bonds are backed by limited property tax revenues collected by the Port. Limited Tax Pension Obligations were issued in 2002 and 2005 to fund the Port's estimated unfunded actuarial accrued pension liability and are paid out of property tax revenues deposited into the Port's General Fund.

5.4 Revenue Bonds

The Port has the authority to issue revenue bonds for any public purpose pursuant to ORS 287A.150. Revenue bonds are secured by any revenue source designated by the Port.

5.5 General Airport Revenue Bonds (GARBs)

The Port may issue GARBs to finance Airport capital improvement projects. GARBs are secured by a pledge of revenues generated at the Airport after Airport operation and maintenance costs are paid. Revenues include airline rates and charges, parking, rental car operations, terminal concessions, and other rents and Airport revenues. Under the current GARB Ordinances, the Port's GARBs are not secured by PFC or CFC Revenues, however the Port has the authority to issue Junior Lien Obligations (JLO) that may be secured by or repaid with PFC or CFC Revenues in the future.

5.6 Passenger Facility Charge Bonds (PFC Bonds)

PFC Bonds are limited obligations of the Port secured by the pledge of PFC Revenues. PFC Bonds can be used to finance projects approved by the FAA as PFC-eligible. The Port can issue First Lien and Subordinate Lien PFC Bonds, as defined in Ordinance No. 395-B.

5.7 Customer Facility Charge Bonds (CFC Bonds)

CFC Bonds are limited obligations of the Port secured by the pledge of CFC Revenues. CFC Bonds can be used to finance rental car-related projects.

5.8 Conduit Bonds

Under Commission Policy No. 6.1.10, *Private Activity Bonds*, the Port can issue industrial development revenue bonds for projects undertaken by certain tenants on the Port's property. In such cases, the Port serves as a conduit issuer, the third-party borrower assumes the responsibility to repay the debt, and the obligations are neither a liability nor a contingent liability of the Port.

6. DEBT STRUCTURE

6.1 Term

6.1.1 Long-term Bonds

The Port may issue bonds with maturities greater than five years provided that the average life of each Port bond issuance should not exceed the useful life of the assets financed, and must be in compliance with Internal Revenue Service (IRS) restrictions related to tax-exempt debt.

6.1.2 Short-term Bonds

The Port may issue bonds with shorter-term maturities, including commercial paper and grant, revenue and bond anticipation notes, (i) to provide interim financing for projects in anticipation of the issuance of long-term bonds and/or the receipt of grant moneys or other funds; (ii) to purchase, refund or otherwise restructure or refinance outstanding bonds; or (iii) for other purposes. Short-term bonds shall consist of bonds with a final maturity of less than five years. The total amount of such a commercial paper program or other short-term bonds outstanding shall not exceed 25% of the aggregate principal amount of long-term bonds outstanding.

6.2 Rate

The Port can issue its long-term bonds either as fixed or variable-rate debt obligations. When structuring a new bond issue, the Port will evaluate market conditions and calculate the benefits, costs, and risks associated with fixed and variable rate bonds.

6.2.1 Fixed-rate Bonds

Fixed-rate bonds consist of bonds with a fixed interest rate until the maturity date. Fixed-rate bonds shall be the primary type of bonds issued by the Port.

6.2.2 Variable-rate Bonds

Variable-rate bonds can provide the Port with a lower borrowing rate than fixed-rate bonds but bear additional risks. In addition to the limit on short-term bonds stated in Section 6.1.2 above, the Port shall limit the amount of long-term variable rate debt it has outstanding, including variable rate bonds hedged by an interest rate swap agreement or other product, to no more than 25% of the aggregate principal amount of long-term bonds. Furthermore, the Port shall limit the amount of unhedged variable rate debt it has outstanding to no more than 15% of the aggregate principal amount of long-term bonds outstanding.

6.3 Liens

The Port has covenanted in the GARB Ordinances not to issue any obligations payable from Airport revenues or money in the general account that have a claim prior to the claim of the Subordinate Lien Bonds (SLBs), which is the most senior lien remaining. The Port can issue First Lien and Subordinate Lien PFC Bonds.

The Port has the authority to establish additional liens, such as for the issuance of CFC Bonds and GARB debt issued as JLOs. Ordinances enacted for those liens will establish the legal debt limits for the issuance of bonds on those liens.

6.4 Tax Status

The Port will seek the most favorable tax status for the issuance of new debt based on the facilities being financed and IRS tax regulations in place at the time of issuance. In certain instances, when flexibility is warranted, the Port may choose to issue bonds with a less restrictive tax status upon consultation with the Port's financial advisor and bond counsel on the costs and benefits.

6.4.1 Non-AMT Bonds

For debt obligations to qualify for tax-exempt status, the Code requires, among other things, that the facilities financed by the debt must not have excessive "private business use." Tax-exempt debt that finances facilities without excessive private business use will be considered "governmental" debt and in general will not be subject to the alternative minimum tax (AMT).

6.4.2 AMT Bonds

For debt obligations to qualify for tax-exempt status, the Code requires, among other things, that the facilities financed by the debt must not have excessive "private business use," or the debt must qualify as "exempt facility" debt. Tax-exempt debt that qualifies as "exempt facility" debt will be considered "private activity" debt and, with certain exceptions, will be subject to the AMT.

6.4.3 Taxable Bonds

When a facility is considered to have excessive "private business use" and does not qualify as an "exempt facility" then taxable bonds must be issued. The Port may consider issuing taxable bonds for other purposes if tax-exempt financing is unavailable.

6.5 Debt Service Reserve Funds

The Master Bond Ordinances require the Port to maintain a debt service reserve equal to the maximum debt service requirement for all outstanding bonds in any future fiscal year.

The Port prefers to fund the required debt service reserves with cash. Required cash deposits to the debt service reserve funds may be funded with bond proceeds or other available funds.

6.5.1 Subordinate Lien Bonds

Notwithstanding the Port's preference to fund the debt service reserve funds with cash, the GARB Ordinances allow the Port to use insurance policies in lieu of cash to meet the required debt service reserve requirement, provided they are issued by a company rated in the highest rating category by Standard & Poor's, Moody's Investor Services, Fitch Ratings, A.M. Best Company or any comparable service at the time the bonds are issued.

6.5.2 Passenger Facility Charge Bonds

Notwithstanding the Port's preference to fund the debt service reserve funds with cash, Ordinance No. 395-B allows the Port to use letters of credit and/or insurance policies in lieu of cash to meet the required debt service reserve requirement, provided they are issued by a company rated in one of the two highest rating categories by Standard & Poor's, Moody's Investor Services, Fitch Ratings, A.M. Best Company or any comparable service at the time the bonds are issued.

6.5.3 Additional Liens

As stated previously in 6.3, The Port may establish additional liens, such as for the issuance of CFC Bonds and GARB debt issued as JLOs. Ordinances enacted for those liens will establish the debt service reserve requirements and the means by which debt service reserve accounts may be funded.

6.6 Use of Derivatives

Use of derivatives in connection with debt must comply with the terms of Commission Policy No. 6.1.14, *Interest Rate Exchange Agreements*. The Port will seek opinions of bond counsel and the Port's financial advisor when considering whether to enter into any Swap Agreement or other derivative contract.

6.7 Call Provisions

Call Provisions will be established on a case-by-case basis, taking into consideration market conditions and the value of a call option prior to the issuance. As a general rule, the Port prefers to include a call feature no later than 10 years from the bond issuance.

6.8 Capitalized Interest

Capitalized interest (the payment of interest from bond proceeds) should be limited to two years unless the project construction period specifically calls for a longer time period. Capitalized interest should be avoided on PFC Bonds and CFC Bonds where the revenue streams are not dependent upon the completion date of the project.

6.9 Credit Enhancement

The Port will evaluate the use of credit enhancements, such as bond insurance or letters of credit, on a case-by-case basis, depending on the type of debt instrument, and an economic benefit versus cost analysis for each case.

7. DEBT LIMITS

7.1 Legal Limits

7.1.1 General Obligation (GO) Bonds

The Port's GO bonds are subject to statutory debt limits. According to ORS 778.030, the Port's GO bonds outstanding at any one time shall never exceed in the aggregate 1.75% of the real market value of all taxable property within the limits of the Port, computed in accordance with ORS 308.207.

7.1.2 Airport Revenue Bonds

Under the GARB Ordinances, the Port can issue additional SLBs if it can demonstrate that it can meet a debt service coverage requirement equal to 130% for three fiscal years after the bond-funded projects are completed or after the capitalized interest period ends, whichever is earlier.

7.1.3 PFC Revenue Bonds

Under Ordinance No 395-B, when issuing additional PFC Bonds, the Port must comply with certain provisions contained therein:

- PFC debt must be sold in conformance with the FAA Final Agency Decision that authorizes the use of PFCs for such projects;
- The additional bonds must meet a test projecting coverage, defined as the ratio of PFC Revenues divided by PFC debt service (net of interest on the debt service and debt service reserve funds), of not less than 150%; and
- At all times the Port must satisfy the First Lien Sufficiency Covenant, unless the PFC Authority has been terminated. "First Lien Sufficiency Covenant" means that the result of the following calculation shall exceed 1.05 at all times:

PFC Authority:
Less: Costs paid to date of PFC Pay-as-You-Go Improvements
Less: Pay-as-You-Go Contractual Commitments
Less: Debt service paid to date on all PFC Bonds
Less: Projected Aggregate Subordinate Lien Debt Service
Plus: Funds on deposit in the Subordinate Lien Obligations Account and the Subordinate Lien Obligations Reserve Account and any Additional Pledged Revenue
Divided by:
Projected Aggregate First Lien Debt Service, less funds on deposit in the First Lien Bond Account and the First Lien Reserve Account.

7.2 Financial Limits

The Port has established management targets that are not tied to legal requirements. For example, the Port seeks to balance debt coverage with desired levels of liquidity in order to balance credit security with operational flexibility. The specific management targets include:

- Administrative Policy 7.2.14, *Debt Service Coverage Level for the General Fund*, states that the annual projected tax levy amount should be no less than 1.4x greater than the annual payment amount made to various General Fund debt service obligations.
- The Airport must provide net revenues equal to or greater than 1.7x total SLB debt service in any given year. Additionally, net Airport revenues plus PFC Revenues should be equal to or greater than 1.25x all Airport-related GARB debt service, including SLB and JLO debt, plus all PFC Bonds debt service.
- The Port aims to keep PFC debt service coverage at or above 2.0x.
- Administrative Policy No. 7.2.12, *Minimum Reserve*, instructs the Port to build up a reserve balance equal to six months of operating and maintenance expenses in both the General Fund and the Airport Revenue Fund.
- In addition, the Port has set a liquidity target of at least 300 days cash-on-hand for Airport Revenue Fund unrestricted cash.

8. DEBT ISSUANCE PRACTICES

The Port will engage bond counsel to advise on debt issuances and related matters.

The Port will engage a financial advisor, to advise on, among other matters, the advantages, disadvantages and risks associated with the financial structure of proposed debt issuances and to help the Port negotiate transactions with investment bankers.

The Port will select senior managing underwriters and co-managing underwriters through a competitive process.

9. METHODS FOR SALE OF DEBT

There are three primary methods for the initial sale of debt: (i) competitive; (ii) negotiated; and (iii) private placement. The Port will select the method for sale on a case-by-case basis, depending on: (a) the most advantageous interest cost with respect to the debt; and (b) the flexibility necessary or desirable in connection with the structuring, timing, or terms of the debt.

10. DEBT MANAGEMENT PRACTICES

10.1 Refundings

10.1.1 Refundings for Debt Service Savings

The Port may issue refunding bonds to refund outstanding bonds in order to achieve debt service savings. Refunding bonds issued solely to achieve debt service savings shall target estimated net present value savings that are (i) equal to at least 3% of the principal amount of the refunded bonds in aggregate; and (ii) equal to at least 1% of such principal amount on a maturity-by-maturity basis. The Port may consider refunding opportunities that are below these thresholds on a case-by-case basis if overall the Port's Chief Financial Officer determines the refunding makes fiduciary sense, is economically beneficial, and if it is unlikely that a future refunding would realize greater savings. In addition to debt service savings, the Port will consider the opportunity cost of refunding the bonds, the potential loss of call option flexibility, and the potential of refunding the bonds for greater savings in the future when evaluating refunding opportunities.

The Port may issue advance refunding bonds in certain cases when market conditions are advantageous to do so and when so permitted by tax law. Because of the additional opportunity cost, an advance refunding should result in net present value debt service savings of at least 5% in aggregate, calculated in accordance with Oregon Administrative Rules on Advance Refundings. Additionally, the Port should work to minimize the cost of "negative arbitrage" on the interest earnings on the refunding escrow.

The Port, its financial advisors, and its underwriters will monitor market conditions and interest rates on an ongoing basis for opportunities to refund its outstanding debt for debt service savings. Savings targets are based upon the net present value debt service savings as a percentage of the refunded bond par amount.

10.1.2 Refundings for Other Purposes

Refunding bonds may also be issued in certain circumstances, including but not limited to: (i) restructure scheduled debt service; (ii) convert from or to a variable or fixed interest rate structure; (iii) terminate Swap Agreements with tax-exempt bond proceeds, (iv) change or modify the source(s) of payment and security for the refunded bonds; (v) amend the Master Bond Ordinances; (vi) restructure or refinance bonds that are in a state of distress due to market conditions, credit issues,

issues with bond insurers or credit facility providers; or (vii) for other reasons that may eliminate or reduce risk.

10.1.3 Defeasance Through Open Market Purchase of Securities

The Port may elect to defease outstanding bonds through purchases of the securities directly from investors on the open market when market conditions or other factors warrant such an approach. Open market purchases of bonds can be executed for the same reasons listed above in this Section 10.1 for more traditional refunding transactions. The debt service savings thresholds should be the same for open market purchases, and furthermore the Port should work with its financial advisors and underwriters to ensure that an open market purchase is more advantageous than a traditional refunding transaction.

10.2 Variable Rate Debt

The Port monitors the performance of variable rate debt and the associated letter of credit providers and remarketing agents. The Port has generally used direct pay letters of credit to provide credit and liquidity support for variable rate debt. 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 of credit, finding a new letter of credit or using an alternative variable rate structure. Factors considered include: risk, all-in cost (inclusive of ongoing fees) and the Port's desired debt structure.

10.3 Investment of Bond Proceeds

The Port will comply with all appropriate regulations, policies and agreements regarding investment of bond proceeds, including but not limited to ORS 294.035, ORS 294.052, and Commission Policy No. 6.1.2, *Investments*, which the Commission reviews annually. Generally, the Port will invest proceeds in accounts established for the investment of those proceeds and interest earnings will be allocated to bond proceed accounts monthly.

10.4 Compliance

The Port establishes procedures to comply with various legal, regulatory and contractual requirements, as described in Administrative Policy No. 7.2.15, *Post-Issuance Compliance for Tax Exempt and Tax-Advantaged Obligations and Continuing Disclosure*.

10.5 Investor Relations

The Port maintains information for the benefit of investors on its internet web site including Master Bond Ordinances, credit reports, audited financial statements, official statements, continuing disclosure statement, strategic plan and budget.

10.6 Exceptions to Policy

The Port's Executive Team may consider exceptions to provisions within this Policy in order to take advantage of unforeseen favorable financing opportunities. Should exceptions be made, the Policy will be revised as soon as possible thereafter, as appropriate.

11. RELATED POLICIES, PROCEDURES, STANDARDS, AND GUIDELINES

Commission Policy No. 6.1.10, *Private Activity Bonds*

Commission Policy No. 6.1.14, *Interest Rate Exchange Agreements*

Commission Policy No. 6.1.2, *Investments*

Administrative Policy No. 7.2.12, *Minimum Reserve*

Administrative Policy No. 7.2.14, *Debt Service Coverage Level for the General Fund*

Administrative Policy No. 7.2.15, *Post-Issuance Compliance for Tax-Exempt and Tax-Advantaged Obligations and Continuing Disclosure*

Administrative Policy No. 7.2.21: Debt Management	
Date	**Description of Modification**
05/17/2017	New Policy – Debt Management policy approved by Executive Team on 5/17/2017

Reviewed ______________________
Chief Financial Officer

Reviewed ______________________
General Counsel

Approved ______________________
Executive Director