

# Subordinate Lien Revenue Debt Refresh

March 24, 2026

# Commission Actions

- Adoption of the Subordinate Lien Master Resolution No. 3845
    - Establishes key credit provisions that will apply to all Subordinate Lien Revenue Bonds
  - Amendment of the two Series Resolutions for currently outstanding Subordinate Lien bonds
    - Incorporates changes in the Master Resolution
- Note:** Actions today do not include any new bond issue authorization
- Likely Commission request for new bond(s) later this year

# Background

- Subordinate Lien was established in 1992
  - Debt service obligations on Subordinate Lien bonds are paid from the Port's net revenues *after* payment of First Lien and Intermediate Lien obligations
- Beginning in 1997, the Subordinate Lien has been used primarily for variable rate debt backed by bank credit
- Only ~4% of the Port's total debt portfolio is variable rate (all on the Subordinate Lien):
  - Commercial Paper Notes – total authorized, \$400 million (\$120 million outstanding)
  - 2008 Variable Rate Demand Bonds - \$110 million outstanding

# Purpose

- Staff is proposing updates that will make the subordinate lien more usable and easier to manage
  - Certain provisions are now out of date or inconsistent with other liens
- Refresh will help pave the way for *future* issuance of Subordinate Lien variable rate debt
  - The Port can improve its overall debt management by issuing more variable rate debt – see appendix for additional details on variable rate

# Key Updates

Topic	Current	New	Purpose
<b>Legal Structure</b>	Each series of bonds is governed by its own bond resolution	Similar to the First and Intermediate Liens, a Master Resolution will govern material provisions, and a series resolution will govern the mechanics of each series of bonds	Clear consistency of primary credit provisions
<b>Debt Service Coverage</b>	1.0x based on the subordinate lien alone (income after First and Intermediate Lien bonds are paid) divided by the subordinate lien debt service	1.0x based on aggregate coverage – net income of the Port divided by the debt service of all liens	Aggregate coverage provides a clearer and more meaningful calculation
<b>Debt Service Offsets</b>	PFCs and CFCs did not exist when lien was formed	The Port may use off sets such as PFCs and CFCs to reduce debt service in the coverage calculation	Flexibility to use off sets
<b>Additional Bonds Test</b>	1.5x coverage based on the subordinate Lien only	1.05x aggregate coverage or 1.10x if debt service off sets are pledged	More flexibility to issue new debt

# Process

Step	Status
Input from Port's investment banking team on recommended changes to the subordinate lien	Completed
Consent by Bank of America and Sumitomo – Letter of Credit providers on the Port's outstanding Subordinate Lien bonds and notes	In Progress
Commission Authorization	March/April
Confirmation from Rating Agencies	April
Extension of Letter of Credit on Series 2008 Bonds	April

# Commission Action

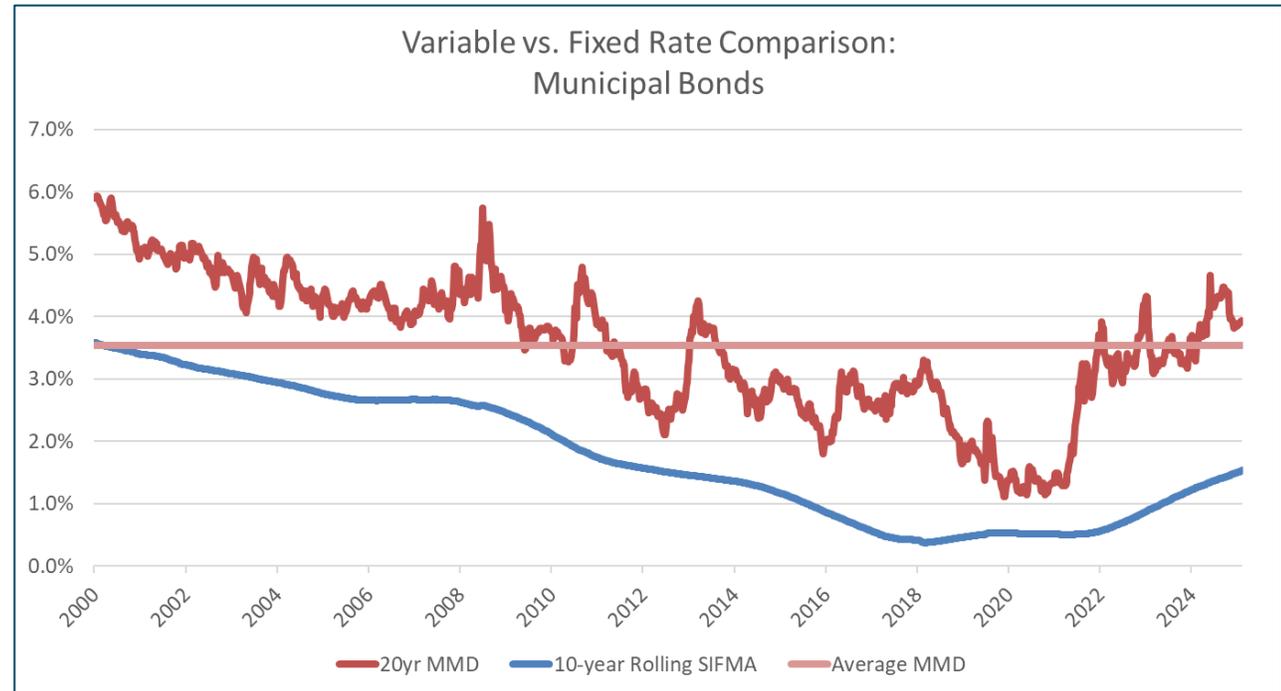
- Request Introduction on March 24, 2026
- Request Adoption on April 14, 2026
  1. Adopt new Subordinate Lien Master Resolution No. 3845
  2. Adopt Series Resolution No. 3846 - Commercial Paper Notes
    - Amends Subordinate Lien Series Resolution No. 3456 (as previously amended by Resolution No. 3777)
  3. Adopt Series Resolution No. 3847 - 2008 Variable Rate bonds
    - Amends Subordinate Lien Series Resolution No. 3598

# Appendix – Variable Rate Debt

# Variable Rate Debt Can Lower the Port's Cost of Capital

- Variable interest rates reset frequently, e.g. each week
- Short-term municipal rates on average are lower than long-term rates

Average Rates 2000-2025	
<b>SIFMA</b>	<b>MMD</b>
1.48%	3.54%

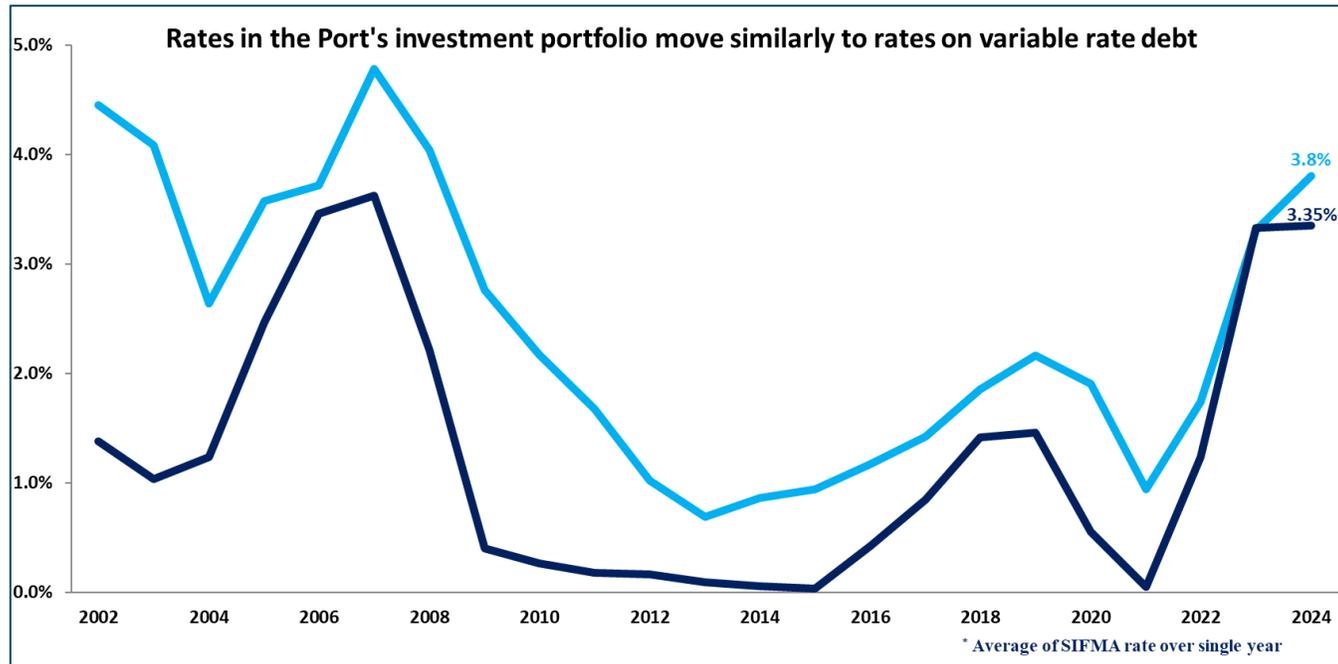


- SIFMA: Securities Industry and Financial Market Association Index of municipal short-term rates
- MMD: Municipal Market Data index of long-term rates

# Other Benefits

## Asset-Liability Management

- Reduce interest rate risk by hedging interest expense and interest earnings

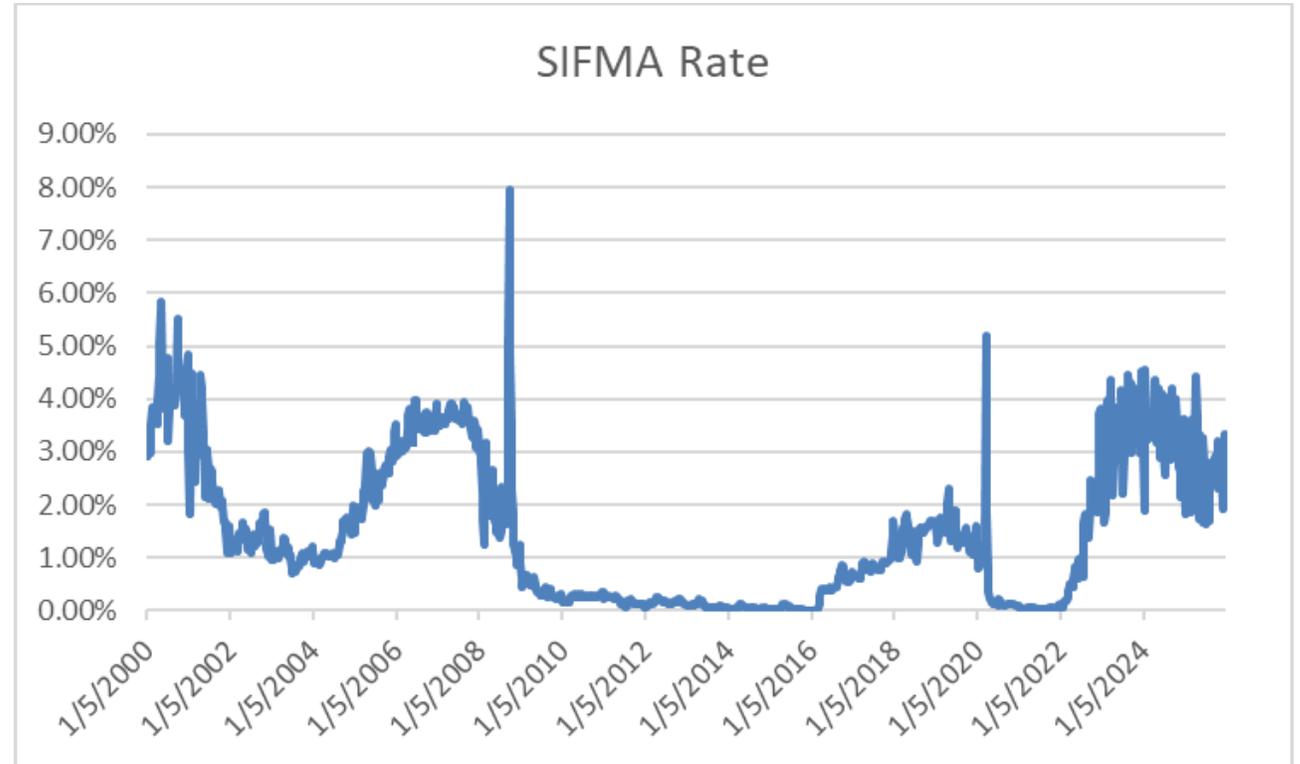


## Flexible Structure

- Some variable rate products provide for flexible principal payments

# Rate Volatility is a Risk

- The Port retains interest rate risk, but manages that by off-setting variable rates on its investment portfolio



# The Port Retains Credit and Liquidity Risk

## Risk

- The Port's variable rate is backed by a bank letter of credit
- Problems with the market or problems with the bank's credit can result in higher rates or in a lack of investors
  - The Port experienced this during the credit crisis in 2008

## Mitigation

- The Port negotiates agreements with the bank(s) to minimize the increase in rates and to provide time to cure the underlying problem
- Diversify bank exposure