

Harbors Fishing for Money: How to Land Capital Projects Financing

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Real World Reasons We Go Fishing for Money

Some example scenarios...

- In 5 years, some of our marina infrastructure will be reaching the end of its service life. It's predictable and something we can plan for.
 - Evaluate available capital funds and ensuring sufficient reserves.
 - Is there a grant available?
 - Can we leverage grant funds with borrowed funds?
- Our harbor was hit by a tsunami and we have significant damage and our insurance is not going to cover the full extent of damage and/or loss of revenue.
- I have existing financing and I want to look at refinancing options to increase my debt capacity.
- I have improving cash flow (or expect improving cash flow – perhaps related to completing a project) – what vehicles offer the most flexibility?
- We are interested in a bond but don't have the internal resources to issue.



Broad Harbor and Port District Law

Many coastal agencies are organized under:

- Harbor Districts Principal Act (§6000 et seq.)
 - Examples: Santa Cruz Port District, Humboldt Bay Harbor District.
- Special legislative acts creating specific ports or harbor agencies.
 - Examples: Port of San Diego, Port of Long Beach, Port of Los Angeles.
- City- or county-operated harbors rather than independent harbor districts.
 - Examples: Dana Point Harbor (Orange County), Marina del Rey (Los Angeles County), Redwood City Marina (City of Redwood City).
- For evaluating municipal finance opportunities, it is often useful to distinguish among:
 1. Independent harbor districts
 2. Port districts
 3. County-operated harbors
 4. City-operated marinas

Their financing powers, revenue sources, and debt issuance authority can differ significantly



Broad Harbor and Port District Law (Cont'd.)

Important Powers

- Under the Harbor Districts Principal Act, a harbor district may:
 - Acquire, construct, improve, maintain, and operate harbors, marinas, wharves, docks, and related facilities.
 - Levy taxes (subject to constitutional limits).
 - Issue general obligation and revenue bonds.
 - Enter into leases, permits, and operating agreements.
 - Manage tidelands and harbor facilities within its jurisdictions.



California Harbor Financing Landscape

- California port/harbor projects are funded in a variety of ways:
 - Agencies themselves (available funding)
 - Tenant funding
 - Grants
 - Financing
 - Hybrid of the above



California Harbor Financing Landscape

- Financing vehicles can include:
 - Revenue bonds
 - Certificates of Participation
 - State loans
 - Enterprise-funded debt
 - County/city debt structures (other than traditional harbor district bonds)

- Revenue bonds secured by marina and harbor enterprise revenues are generally the dominant financing mechanism for California harbor capital improvements, with DBW loans and grants often serving as an important supplemental funding source.



Financing Options

- For harbor and marina projects, the typical financing options (either combined or standalone, and often in conjunction with reserves) include:
 - DBW Marina Loans & Grants
 - IBank ISRF Loan
 - USDA or federal infrastructure programs (where applicable)
 - Bonds:
 - Revenue Bonds
 - COPs/Lease Revenue Financing
 - General Obligation Bonds



DBW Financing

Rather than issuing their own bonds, many harbor districts borrow through:

- California Division of Boating and Waterways (DBW) Marina Loans & Grants
- State infrastructure programs

DBW has historically provided low-interest loans for:

- Marina development
- Public boating access
- Launch ramps
- Guest docks
- Harbor infrastructure

The district repays the loan from harbor revenues rather than issuing public bonds

NO FUNDING AVAILABLE



IBank ISRF Loans

Potential harbor-related projects that may fit within IBank's infrastructure programs include:

- Marina reconstruction
- Wharf and dock improvements
- Port and harbor infrastructure
- Waterfront public facilities
- Roads and utilities serving harbor areas
- Environmental mitigation projects
- Public safety facilities
- Goods movement infrastructure

How the Loan Is Repaid:

- Marina revenues
- Slip rents
- Lease revenues
- Harbor fees
- Other enterprise fund revenues

IBank specifically contemplates repayment from enterprise funds as well as general governmental revenues



What's a Bond?

- A **bond** is a promise to pay – a series of loans
- **Tax exemption** – benefits and obligations
- **Voter approval** – When is it necessary?

Revenue Bonds

Typical Projects Include:

- Marina reconstruction
- Breakwater replacement
- Dredging-related capital improvements
- Guest dock facilities
- Harbor administration buildings
- Commercial waterfront redevelopment

The Agency Pledges:

- Marina slip rental revenues
- Commercial lease revenues
- Wharfage and dockage fees
- Harbor service charges
- Parking revenues
- Other harbor operating revenues

Debt service is paid solely from pledged revenues rather than property taxes.

Note: The Harbor Districts Principal Act specifically authorizes harbor districts to issue revenue bonds for harbor improvements

Certificates of Participation or Lease Financings

Many California Local Agencies Use:

- Lease Revenue Bonds
- Certificates of Participation (COPs)
- Lease-leaseback structures

E.g. a harbor district may lease harbor property to a financing corporation and lease it back, with lease payments securing the financing.

These structures generally avoid the need for voter approval while providing long-term capital financing.

General Obligation Bonds

The statute also authorizes harbor districts to issue bonds supported by property taxation, subject to voter approval and constitutional requirements.

- GO bonds are less common today because:
 - Voter approval is required.
 - Many harbor districts have relatively small tax bases.
 - Harbor revenues are often sufficient to support revenue financing.

Case Study - Ventura Port District

Ventura Port District Outstanding Debt:

- 2016 Certificates of Participation, Series 2016 – \$4,841,800 – refunded various notes payable to the California Department of Bating and Waterways
- 2018 Installment Sale Agreement, Series A - \$1,632,458 - financed improvements to the marina dock
- 2018 Installment Sale Agreement, Series B (Taxable) - \$3,031,708 - financed improvements to the marina dock
- 2021 Installment Sales Agreement - \$5,756,000 - refunded the 2008 and 2009 Certificates of Participation

Case Study - Ventura Port District

Planned Future Projects:

- Fish Pier replacement (likely \$11.25 million grant funding requiring an additional \$4 million)
- New park development (likely \$6 million, no grant funding likely)
- ~\$3 million in other/maintenance annual capital improvement projects

Case Study - Ventura Port District

Proposed Future Borrowing in 2028:

- District is planning to borrow approximately \$10.0 Million in 2028
- New Debt will be on Parity or same repayment priority as outstanding debt
- New Debt will be repaid over 20 years at an estimated True interest rate of 5.15%
- New Debt assumes a Public debt offering

Case Study - Ventura Port District

Could the District fund these projects out of its reserves?

Yes.

But at significant risk to cash flow and the always uncertain future.

Case Study - Ventura Port District (Cont.)

Description	Actual FYE 2025	Budgeted ¹ FYE 2026	Projected ¹ FYE 2027	Projected ¹ FYE 2028	Projected ¹ FYE 2029	Projected ¹ FYE 2030	Projected ¹ FYE 2031
General	10,720,019	-	-	-	-	-	-
Harbor village slips	1,223,441	-	-	-	-	-	-
Fishing	457,005	-	-	-	-	-	-
Boat yard	445,557	-	-	-	-	-	-
Charter	579,719	-	-	-	-	-	-
Tenant reimbursements	524,613	-	-	-	-	-	-
Dry storage	76,914	-	-	-	-	-	-
Other	286,552	-	-	-	-	-	-
TOTAL OPERATING REVENUE	14,313,820	15,029,511	15,780,987	16,570,036	17,398,538	18,268,465	19,181,888
Taxes	1,889,485	-	-	-	-	-	-
Investment income	824,209	-	-	-	-	-	-
Interest income	844,682	-	-	-	-	-	-
Intergovernmental revenues	65,594	-	-	-	-	-	-
Insurance recovery	47,183	-	-	-	-	-	-
TOTAL OTHER REVENUE²	3,671,153	3,854,711	4,047,446	4,249,818	4,462,309	4,685,425	4,919,696
TOTAL REVENUE	17,984,973	18,884,222	19,828,433	20,819,854	21,860,847	22,953,889	24,101,584
Administration	213,589	-	-	-	-	-	-
Salaries and benefits	5,699,254	-	-	-	-	-	-
Merchant promotion	448,232	-	-	-	-	-	-
Professional services	1,629,462	-	-	-	-	-	-
Repairs and maintenance	1,663,445	-	-	-	-	-	-
Harbor dredging	290,007	-	-	-	-	-	-
Utilities	495,889	-	-	-	-	-	-
Insurance	457,663	-	-	-	-	-	-
Other	170,600	-	-	-	-	-	-
TOTAL OPERATING EXPENSES³	11,068,141	11,621,548	12,202,625	12,812,757	13,453,395	14,126,064	14,832,368
NET REVENUE FOR DEBT SERVICE	6,916,832	7,262,674	7,625,807	8,007,098	8,407,453	8,827,825	9,269,216
2016 Refunding Certificates of Participation	331,629	331,118	331,166	331,157	331,481	331,121	331,088
2018 Installment Sale Agreement, Series A	120,687	120,686	120,686	120,686	120,686	120,686	120,686
2018 Installment Sale Agreement, Series B	246,791	246,791	246,791	246,791	246,791	246,791	246,791
2021 Installment Purchase Contract	874,574	875,477	873,077	870,405	-	-	-
2028 Certificates of Participation ⁴	-	-	-	399,083	798,166	798,166	798,166
TOTAL DEBT SERVICE	1,573,681	1,574,072	1,571,720	1,968,122	1,497,124	1,496,764	1,496,731
DEBT SERVICE COVERAGE	4.40	4.61	4.85	4.07	5.62	5.90	6.19

¹ Projections assume a 5% increase to revenues and operating expenses.

² Excludes gain on disposition of capital assets and interest expense.

³ Excludes depreciation and amortization expense.

⁴ Assumes District borrows \$10M in 2028 to fund CIP. Proposed issue is a 20-Year Public Debt with an assumed interest rate of 5.15%.

Preparing for Financing

- Start early:
 - Engineering and financing studies
 - Financial stability and resiliency
 - Government loans and grants
 - Policies and rating process
 - Intergenerational equity



Preparing for Financing

■ Public Bond Issuance Process:

- Capital project identified
- Feasibility study and rate analysis completed
- Bond counsel confirms legal authority
- Financing team structures the financing
- Board/commission approves bond documents
- Credit rating or credit review
- Bonds sold through Public Offering or Private Placement
- Bond closes – proceeds deposited into project fund



Best Practices: Management Policies



Debt Management
Policy (Required)



Reserve Policy



Multiyear CIP
Policy & Funding
Plan



Budgetary and
Financial Policy



Investment Policy



Pension
Management
Policy



Security Investors Look For:

Investors typically evaluate:

- Marina occupancy rates
- Slip waiting lists
- Harbor revenue diversity
- Lease revenue stability
- Debt service coverage ratios
- Condition of facilities
- Exposure to sea level rise and storm damage

Large coastal facilities with strong occupancy can often support revenue-backed financings more readily than smaller recreational harbors. Smaller agencies may use the Lease / COP structure more often.

Method of Sale: Public Offering



- District issues municipal bonds
- Underwriter purchases bonds from Issuer, then sells to investors
- Preliminary Official Statement (POS) is produced and distributed to investors
 - Contains terms of financing and credit quality of Issuer
 - Underwriter & Issuer are responsible for all due diligence
- Bonds typically rated by rating agency

Method of Sale: Private Placement



- District takes a loan from a commercial bank or investment fund
- Lender selected through an RFP or negotiated sale process
- Specialized public finance divisions of lenders
- Strong coverage by multiple lenders
- Lender responsible for credit analysis and due diligence

Public Sale vs. Private Placement

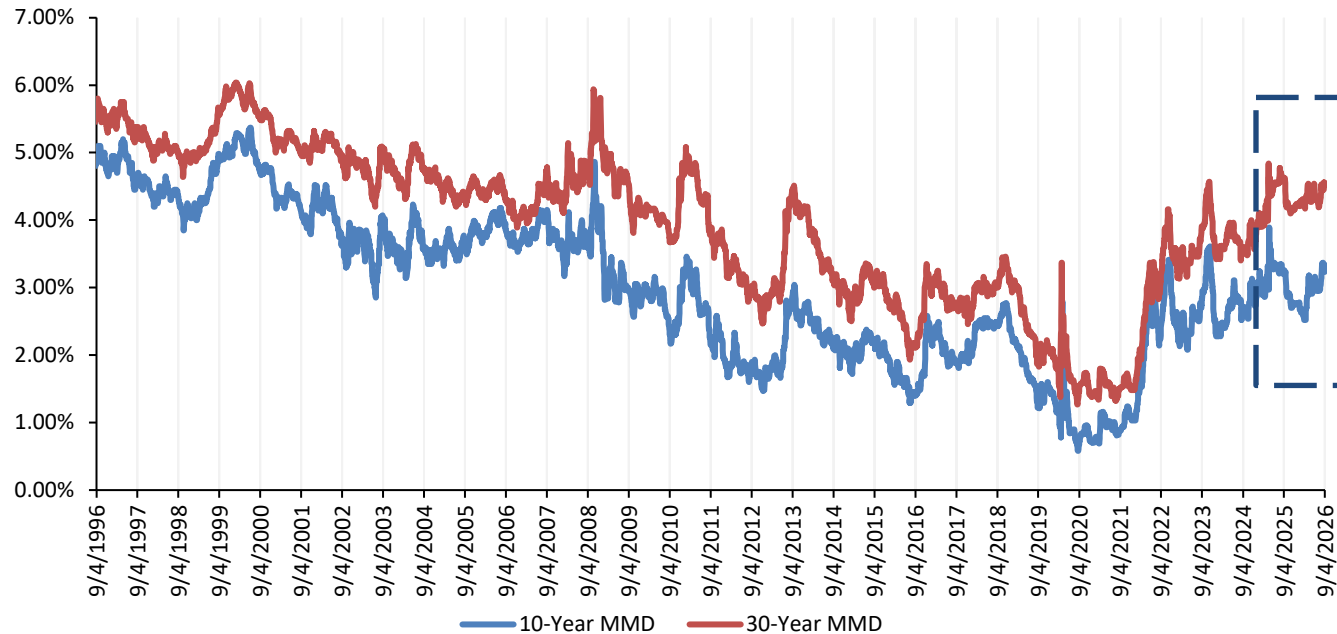
	Public Sale	Private Placement
Credit Rating	Typically Required	Not Required
Official Statement	Required	Not Required
Due Diligence	Issuer, Counsel, Rating Agency	Lender
Time to Close	3+ Months (~45 days over private placement)	2+ Months
Issuer Involvement Level	High	Low to Moderate
Structure	Rigid and Standardized	More Flexible
Pricing	Lower Rate, Higher Cost of Issuance	Higher Rate, Lower Cost of Issuance
Debt Service Reserve	More Often	Less Often

Market Update

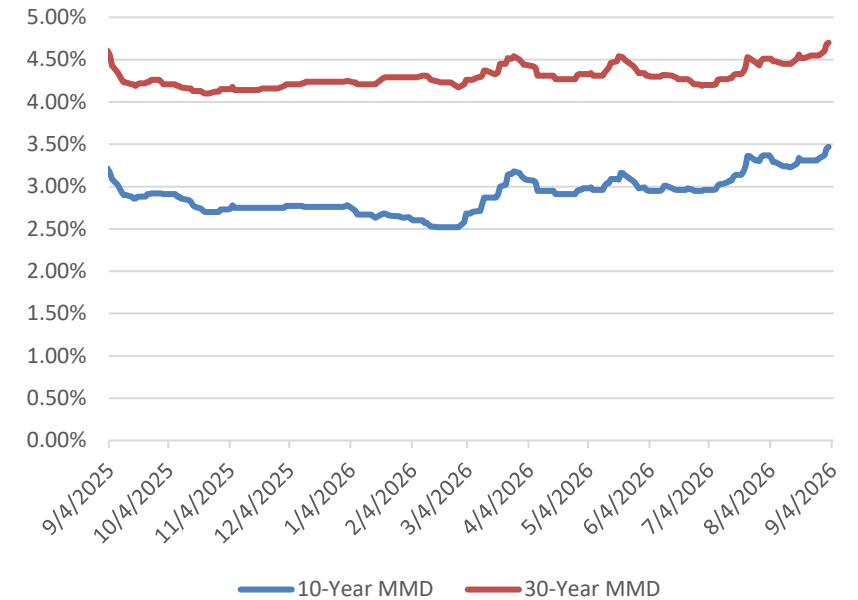
Over the last 30 years, muni bond yields have been higher than today

- 47% of the time for the 10-Year MMD
- 40% of the time for the 30-Year MMD

Municipal bond yields (Past 30 Years)



Municipal bond yields (Year-Over-Year)



Source: TM3