



PORT OF BROWNSVILLE

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pob@portofbrownsville.org

Commissioners:
Mathew Messing
Shaun Nye

April 26, 2022 Financial Workshop

CALL TO ORDER

Commissioner Shaun Nye called the Financial Workshop to order at 4:02 PM, In attendance were CPA Jan Fancher, Executive Director Jerral Williams, and Port Auditor Joseph DaBell.

FINANCIAL WORKSHOP

CPA Fancher presented her prepared documents (attached) to all in attendance.
The topics covered were:

- Standard & Poors Global Ratings regarding the decrease in bond rating in 2019
- Why does the Port's funding of the Port's budget change from year to year?
- What is the maximum increase per year for the Port's tax levy?
- Has the maximum increase been taken each year?
- Port's Tax Levy Historical Analysis

COMMISSION COMMENTS

Commissioner Nye asked if it is possible to get the State Auditor's Office (SAO) to help in developing policies. He would like to keep the public up to date on this so they can prepare questions. CPA Fancher stated that the SAO has a form on their website where we can submit a request.

CLOSE MEETING / ADJOURN

The next scheduled Finance Workshop will be held on May 24, 2022, at 4:00 PM.

Commissioner Shaun Nye adjourned the meeting at 4:28 PM.

A handwritten signature in black ink, appearing to be "Shaun Nye", written over a horizontal line.

President / Commissioner

Secretary / Commissioner

A handwritten signature in black ink, appearing to be "Shaun Nye", written over a horizontal line.

Treasurer / Commissioner

S&P Global Ratings

One California Street,
31st Floor
San Francisco, CA
94111-5432
tel 415 371-5000
reference no : 40279772

January 14, 2019

Port of Brownsville
9790 Ogle Road NE
Bremerton, WA 98311
Attention: Mr. Matt Appleton, Port Manager

Re: *Port of Brownsville, Washington, Limited Tax General Obligation Bonds, Series 2012
and Series 2013*

Dear Mr. Appleton:

S&P Global Ratings has reviewed the rating on the above-listed obligations. Based on our review, we have lowered our credit rating from "AA" to "AA-" while affirming the stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

This letter constitutes S&P Global Ratings' permission for you to disseminate the above rating to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements) will become effective only after we have released the rating on standardandpoors.com. Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable.

To maintain the rating, S&P Global Ratings must receive all relevant financial and other information, including notice of material changes to financial and other information provided to us and in relevant documents, as soon as such information is available. Relevant financial and other information includes, but is not limited to, information about direct bank loans and debt and debt-like instruments issued to, or entered into with, financial institutions, insurance companies and/or other entities, whether or not disclosure of such information would be required under S.E.C. Rule 15c2-12. You understand that S&P Global Ratings relies on you and your agents and advisors for the accuracy, timeliness and completeness of the information submitted in connection with the rating and the continued flow of material information as part of the surveillance process. Please send all information via electronic delivery to pubfin_statelocalgovt@spglobal.com. If SEC rule 17g-5 is applicable, you may post such information on the appropriate website. For any information not available in electronic format or posted on the applicable website,

Please send hard copies to:

S&P Global Ratings
Public Finance Department
55 Water Street
New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions,

the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

S&P Global Ratings is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at www.standardandpoors.com. If you have any questions, please contact us. Thank you for choosing S&P Global Ratings.

Sincerely yours,

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enclosure

S&P Global Ratings

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No Third Party Beneficiaries. Nothing in any credit rating engagement, or a credit rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of a credit rating. No person is intended as a third party beneficiary of any credit rating engagement or of a credit rating when issued.

RatingsDirect®

Summary:

Port of Brownsville, Washington; General Obligation

Primary Credit Analyst:

Chris Morgan, San Francisco (1) 415-371-5032; chris.morgan@spglobal.com

Secondary Contact:

David Mares, Centennial + 1 (303) 721 4700; david.mares@spglobal.com

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Outlook

Related Research

Summary:

Port of Brownsville, Washington; General Obligation

Credit Profile

Port of Brownsville ltd tax rfdg GO bnds

Long Term Rating

AA-/Stable

Downgraded

Rationale

S&P Global Ratings lowered its long-term rating to 'AA-' from 'AA' on the Port of Brownsville, Wash.'s limited-tax general obligation (GO) bonds. The outlook is stable. The port will have approximately \$3.2 million in GO and revenue debt at the end of 2019.

The rating action reflects our view of internal controls deficiencies identified in the port's most recent audited financial statement. Although management believes the auditor's concerns have been fully addressed, in part, by the port's replacement of its contracted CPA with one who has specialized skills in port and governmental accounting (management anticipates the port's next audit will be released in late 2019 in line with its state peers), we think the port will need some time to demonstrate that it has embedded more robust financial processes.

Security and use of proceeds

The bonds are full faith and credit obligations of the port, including the obligation to levy ad valorem property taxes within constitutional and statutory restrictions, including a levy rate limit and, under most circumstances, a limit on property tax revenue growth to 1% per year excepting value from new construction. Because the tax base supporting the port's limited-tax GO bonds is the same as that which would support unlimited-tax GO debt and because we view the port's property tax revenue as lacking fungibility limitations, we have rated the port's limited-tax debt on parity with our view of the city's general creditworthiness. Proceeds of the bonds funded improvements to infrastructure, including replacing the port's main breakwater.

Credit overview

The rating reflects our opinion of the port's:

- Tax base that is on the western shores of the broad and diverse Seattle metropolitan area;
- High demand for its core service of monthly boat moorage, with nearly full occupancy during winter months, a long waiting list for larger slip sizes, and a practice of annual inflation-linked rate adjustments;
- Likely maintenance of a very strong financial position through 2020; and
- Low-to-moderate debt burden.

Partly offsetting the above strengths, in our view, are the port's:

- Business risk associated with its core marina operations;
- Record of cyclical performance and reserves, including troughs in 2007-2008 and 2015-2016; and
- Financial reporting that falls short of what we consider the national standard of annually released audits using generally accepted accounting principles (GAAP), although the port releases unaudited financial reports annually on a timely basis.

Obligor profile

The port primarily serves recreational boaters with 370 moorage slips, including 49 for guest moorage, and ancillary services such as fuel, parking, meeting room, park, and boat launches. Its closest competition is in Bremerton (30 minutes away by boat) and Port Orchard (45 minutes). Management reports that demand for moorage generally exceeds capacity, with a five-year waiting list for larger slips able to accommodate 40-foot boats, although owners of smaller vessels can often secure monthly moorage within a month. The port has a long-standing policy to increase rates each year approximating the annual change in Consumer Price Index, including 2.5% for 2019.

Economic base

The port serves approximately 17,400 residents in the exurban area of Kitsap County, part of the Seattle metropolitan region. Residents of the port's tax base have good access to the county's largest city, Bremerton, which is located eight miles to the south, but a trip to Seattle by ferry takes more than an hour. A number of military bases in the county, the largest of which is Naval Base Kitsap, have served as economically stabilizing institutions and major employers.

The median household effective buying income in the overlapping school district, which we believe is representative of the port, is strong, in our view, at 119% of the national level. Total assessed value (AV) is on an upswing, with increases of 11% in 2017 and 10% in 2018, but the port's tax base has shown vulnerability to the economic cycle, with a 21% aggregate loss for the six-year period through 2014. We understand that the port's taxing area still has capacity for development, but that new-home construction has been modest in recent years and that there are no major development plans.

Financial reporting

In response to auditor findings of internal controls deficiencies, management reports that the port has replaced its accounting service contract with a new vendor with more extensive governmental accounting experience and added training for its internal bookkeeper. Management also reports that the process for closing the books for the current audit reporting period is proceeding on schedule, but we think the port will need some time to demonstrate that it has improved its processes.

In addition, we note that port's practice of undergoing non-GAAP, non-annual audits makes the port's financial reporting less transparent than and less comparable with that of its national peers, even if it is comparable to its state peers of similar size. The port continues to adhere to the state's centralized annual unaudited financial reporting requirements, which make annual data available to the public within about six months of the end of the reporting period, and its audits tightened to a two-year financial reporting cycle for the 2015-2016 period from a three-year cycle.

Financial performance

We understand that the port generally operates on a cost-recovery philosophy, with 75% of 2017 revenue (unaudited) consisting of rental and other fees, while 23% comes from property taxes and tends to fund maintenance and capital improvements. We take a favorable view of the port's long-standing philosophy to adjust moorage rates to inflation, which we think helps the port reduce the risk of structural operating imbalances. The port generally adjusts property taxes by 1% per year, consistent with statutory limit.

Financial performance has been characterized by long cycles of rising and falling reserves as measured by unrestricted net assets, with what we understand were capital spending and concurrent revenue losses during rebuilding that caused the port's unrestricted net assets to reach a multiyear low of 8% of expenditures and what we consider a nominally low \$155,000 in 2015, from a previous high of 105%. With continuing strong demand and reduced maintenance costs from renewal of what management estimates was about 70% of the port's infrastructure, the port's unrestricted net assets have since improved rapidly, to 14% for 2016 and 46% for 2017 (the latter year unaudited). Based on budgeted figures and our discussion with management, we anticipate that this upswing will continue, with 2019 assumptions pointing to available reserves of about 100% of expenditures. Potentially aiding revenue flexibility was the issuance of \$1.1 million in revenue bonds in 2017 to rebuild a dock and boat launch, although this also doubled annual debt service to the equivalent of 18% of expenditures.

We think that the port could again draw on reserves for pay-as-you-go capital projects when the need arises in the next decade, but we understand that the port's board is informally also seeking to maintain unrestricted net assets of at least \$1 million, or what we consider a very strong approximately 75% of expenditures. Consistent with our expectation of real GDP growth in the western U.S. states through 2020 and state property tax revenue growth restrictions, we anticipate a revenue environment comparable to that of 2017, with strong core service demand and property tax revenue growing slowly through 2020.

Debt

In our view, overall net debt is low, at 1.2% of market value and \$950 per capita, although we note that aging overlapping debt data means that the actual ratios may be slightly higher. The port added revenue bonds to its portfolio in 2017. Although these specifically exclude a pledge of property taxes, we consider them direct debt with no offset for self-support under our "Debt Statement Analysis" criteria, published Aug. 22, 2006 on RatingsDirect, because the revenue pledge consists of the net operations of the port as an enterprise, which, coupled with property tax revenue, is also our focus for understanding financial operations. Management reports that the port has no plans to issue additional debt and that regulatory barriers to adding docks and moorage slips, which would likely be the main use of future borrowing, are considerable. Management has confirmed the port has no alternative financing obligations outstanding.

Pension and other postemployment benefit liabilities

The port participates in cost-sharing, multiple-employer plans administered by the state's Department of Retirement Systems Public Employees Retirement System (PERS). PERS Plans 1 and 2 are defined benefit plans, and PERS Plan 3 contains a hybrid defined benefit/defined contribution option. The carrying charge for pension contributions represented what we consider a modest 2.1% of total expenditures in 2016, the latest year for which audited data are available. As a result of the largest plan's being funded at 86%, as measured by its plan fiduciary net position as a

percentage of its net pension liability, we anticipate that pension contributions will rise in the coming years but that they are unlikely to be onerous. The port does not offer other postemployment benefits.

Outlook

The stable outlook reflects our anticipation that the port will release its next audit on a timely basis with reduced or eliminated internal controls findings. Consistent with our view that the port's operations excluding capital spending have been structurally balanced, we also anticipate that the port's reserves exceed the 2017 unaudited level through 2020 given a lack of identified major capital projects and a stable revenue environment, including a practice of annual moorage rate adjustments and state limits on property tax revenue growth. We do not anticipate changing the outlook during our two-year horizon.

Upside scenario

We could raise the rating if we come to believe that the port is likely to maintain unrestricted net assets in the long term at a level approaching our expectation for 2019, such as could occur in the event of an unexpected new source of revenue or a formal policy or plan to maintain specific minimum reserves or liquidity at a comparable level.

Downside scenario

Although the rating incorporates our view that the port will continue to adjust rates to maintain structural operating balance, we could lower our rating if the port experiences a major weakening in financial performance and/or unexpectedly draws on reserves in the medium term to a level approaching that of 2015 or 2016. Evidence that the port is struggling to address the auditor's internal controls findings could also negatively affect the rating.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Oct. 24, 2018
- Credit FAQ: Financial Management Assessment In U.S. Public Finance, June 27, 2006

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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Port of Brownsville, Wash.
Chris Morgan

RD headline: Port of Brownsville, WA GO Rating Lowered To 'AA-' On Financial Reporting
Vendor headline: S&PGR Lowers Port of Brownsville, WA GO Rtg To 'AA-'

DATELINE--S&P Global Ratings lowered its long-term rating to 'AA-' from 'AA' on the Port of Brownsville, Wash.'s limited-tax general obligation (GO) bonds. The outlook is stable. The port will have approximately \$3.2 million in GO and revenue debt at the end of 2019.

"The rating action reflects our view of internal controls deficiencies in the port's most recent audit and our view that it will take time for the port to demonstrate it has embedded what we understand what are now more robust financial processes," said S&P Global Ratings credit analyst Chris Morgan.

The stable outlook reflects our anticipation that the port will release its next audit on a timely basis with evidence that the auditor's internal controls findings will diminish or have been eliminated and that the port will consolidate recent strengthening in reserves in the context of lack of identified major capital projects and a stable revenue environment.

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S&P Global Ratings lowered its long-term rating to 'AA-' from 'AA' on the Port of Brownsville, Wash.'s limited-tax general obligation (GO) bonds. The outlook is stable. The port will have approximately \$3.2 million in GO and revenue debt at the end of 2019.

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The port participates in cost-sharing, multiple-employer plans administered by the state's Department of Retirement Systems Public Employees Retirement System (PERS). PERS Plans 1 and 2 are defined benefit plans, and PERS Plan 3 contains a hybrid defined benefit/defined contribution option. The carrying charge for pension contributions represented what we consider a modest 2.1% of total expenditures in 2016, the latest year for which audited data are available. As a result of the largest plan's being funded at 86%, as measured by its plan fiduciary net position as a percentage of its net pension liability, we anticipate that pension contributions will rise in the coming years but that they are unlikely to be onerous. The port does not offer other postemployment benefits.

Outlook

The stable outlook reflects our anticipation that the port will release its next audit on a timely basis with reduced or eliminated internal controls findings. Consistent with our view that the port's operations excluding capital spending have been structurally balanced, we also anticipate that the port's reserves exceed the 2017 unaudited level through 2020 given a lack of identified major capital projects and a stable revenue environment, including a practice of annual moorage rate adjustments and state limits on property tax revenue growth. We do not anticipate changing the outlook during our two-year horizon.

Upside scenario

We could raise the rating if we come to believe that the port is likely to maintain unrestricted net assets in the long term at a level approaching our expectation for 2019, such as could occur in the event of an unexpected new source of revenue or a formal policy or plan to maintain specific minimum reserves or liquidity at a comparable level.

Downside scenario

Although the rating incorporates our view that the port will continue to adjust rates to maintain structural operating balance, we could lower our rating if the port experiences a major weakening in financial performance and/or unexpectedly draws on reserves in the medium term to a level approaching that of 2015 or 2016. Evidence that the port is struggling to address the auditor's internal controls findings could also negatively affect the rating.

Port of Brownsville

AGENDA

Finance Workshop
Via Zoom Conference

Tuesday, April 26, 2022 at 4:00 PM

III. REQUESTED FINANCE TOPICS

. Part B - Follow-up question regarding the changes to the Annual Port Budget Funding Percentages by Taxpayer versus Moorage.

Follow-up question: “What is the reason that the funding of the Port budget changes from year to year, ie: % coming from taxpayers vs moorage customers.”

Response:

The Port’s annual budget considers its ongoing operations, maintenance projects, capital projects, derelict vessel expenses and reimbursements and any special projects and goals for that year.

The funding sources include the marina slip rentals, commercial building rentals, park and land rentals, property tax levy, operating and capital grants and derelict vessel reimbursements.

If the marina slips, commercial rentals and park and land rentals, grants and derelict vessel reimbursements stayed exactly the same each year, then the percentage provided by the marina would stay the same.

Currently the commercial rentals, which is a non-marina source, are not fully leased and are not at market value, which then increases the amount from marina sources. When the commercial rentals are fully leased and at market value, the percentage from marina sources will decrease.

When the Port obtains operating and capital grants, which are non-marina sources, those grants reduce the amount of marina funding.

The Port’s tax levy is a non-marina source and increases each year by 1% over the prior year plus allowed increases for new construction and other items.

The Port's 2021 budget includes several non-Marina sources, all of which reduce the marina resource percentage. These items include the floating restroom operating grant, the RCO kiosk capital grant and the DNR derelict vessel reimbursement program.

In years that operating and capital grants are not utilized, or reduced, then the non-marina percentage decreases and the marina source increases.

Presented March 22, 2022:

- . Fluctuates by year depending on granting sources, commercial rental income and tax levy. Currently running approximately 40% Taxpayer versus 60% Moorage. The decrease in commercial rental income has changed the percentage allocation to an increased Moorage percentage.

- . Maximum Percentage Increase Per Year?

- . One Percent a Year (1%).

“NOW THEREFORE BE IT RESOLVED, by the governing body of the taxing district that dollar amount of the increase over the actual levy amount from the previous year shall be \$4,198.00. This increase represents 1% of the highest lawful levy of \$419,817.00. This increase is exclusive of additional revenue resulting from new construction, improvements to property, any increase in the value of state assessed property and annexations that have occurred and refunds made.”

- . The Port estimates the maximum amount that can be collected and submits that via the Levy Certification. If the Port estimates too low, the amount collected for the Port will be capped at the amount submitted.

- . The Port estimated and turned in \$430,000 for the 2022 tax levy. The County computed that the Port was eligible to receive \$427,160, so the Port will receive 100% of the tax levy available to them.

- . Has The Maximum Been Taken Each Year?

- . Yes.

- . Port's Tax Levy Historical Analysis

- . See copy of analysis from March 22, 2022 presentation.

Port of Brownsville

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Finance Workshop
Via Zoom Conference

Tuesday, April 26, 2022 at 4:00 PM

IV. GOALS

- . To provide transparency**
- . To provide information regarding requested finance workshop topics**

Port of Brownsville

AGENDA

Finance Workshop
Via Zoom Conference

Tuesday, April 26, 2022 at 4:00 PM

V. PORT FINANCE RESOURCES

- . WA State Auditor's Website - sao.wa.gov**
- . WPPA - Washington Public Ports Association - washingtonports.org**
- . WFOA - Washington Finance Officers Association - wfoa.org**
- . GFOA - Government Finance Officers Association - gfoa.org**
- . PNWA - Pacific Northwest Waterways Association - pnwa.net**
- . SW WA Finance Group - Internal Port Auditor DaBell is a member of this group**

Port of Brownsville

AGENDA

Finance Workshop
Via Zoom Conference

Tuesday, April 26, 2022 at 4:00 PM

VI. 2022 MEETING SCHEDULE

<u>Date</u>	<u>Time</u>	<u>Topics</u>
March 1, 2022	6:00 PM	Introduction/Financial Highlights/Overview
March 22, 2022	4:00 PM	Requested Topics - Edwin Wurden Requested Topics - Sally C. Hass Additional Presentation Items, Including: WA SAO Audit Reports 2005 - 2019 Bond Repayment Amort 2012-2036 2017 Revenue Bond Repayment County Tax Levy By Year 2018-2022 Property Tax Levy Resolution
April 26, 2022	4:00 PM	S&P Global Ratings Bond Rating Followup Requested Topic
May 24, 2022	4:00 PM	
No Meeting June of 2022		
July 26, 2022	4:00 PM	
August 23, 2022	4:00 PM	
September 27, 2022	4:00 PM	
October 25, 2022	4:00 PM	Determine if Nov/Dec is needed

Port of Brownsville

AGENDA

Finance Workshop
Via Zoom Conference

Tuesday, April 26, 2022 at 4:00 PM

VII. REQUEST FOR FINANCE WORKSHOP TOPICS

- **Finance Workshop - Requested Finance Topic Form**

Please stop by and pick up a form to complete or have the Port email or mail a request form to you.

- Please direct your requests to Jerry Williams, Executive Director at the Port office, or via email or mail.

Email:

jwilliams@portofbrownsville.org

Drop Off or Mail:

Jerry Williams, Executive Director
9790 Ogle Road NE
Bremerton, WA 98311

Port of Brownsville

Finance Workshop Requested Finance Topic Form

2022 Finance Workshops

The Port of Brownsville is holding a series of Finance Workshops in 2022. The Port is inviting interested parties to complete the Requested Finance Topic Form below and forward it to Jerry Williams, Executive Director.

Finance Workshop - Requested Finance Topic:

Requestor Name, Email and Contact Information:

- Please direct your requests to Jerry Williams, Executive Director

Email: jwilliams@portofbrownsville.org

Drop Off or Mail: Jerry Williams, Executive Director
9790 Ogle Road NE
Bremerton, WA 98311