PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6c

Date of Meeting March 5, 2013

DATE: February 13, 2013

TO: Tay Yoshitani, Chief Executive Officer

FROM: Elizabeth Morrison, Director, Corporate Finance

SUBJECT: Resolution No. 3676 authorizing the sale and issuance of limited tax general obligation refunding bonds of the Port in the aggregate principal amount of not to exceed $115,000,000; and authorizing a Designated Port Representative to approve certain matters relating to the bonds including the manner of sale of the bonds.

ACTION REQUESTED:

Request Second Reading and Final Passage of Resolution No. 3676: A Resolution of the Port Commission of the Port of Seattle, authorizing the sale and issuance of limited tax general obligation refunding bonds of the Port in the aggregate principal amount of not to exceed $115,000,000; and authorizing a Designated Port Representative to approve certain matters relating to the bonds including the manner of sale of the bonds; approval of the bid offering, acceptance of bids for the bonds (if the GO refunding bonds are sold by competitive sale) or a purchase contract (if the bonds are sold by negotiated sale), execution of all documents and actions necessary to sell and deliver the bonds, preparation and dissemination of a preliminary official statement and final official statement; appointing an escrow agent and authorizing the execution of an escrow agreement; and providing for continuing disclosure.

SYNOPSIS:

Commission authorization is requested to issue G.O. Refunding Bonds in multiple series in an amount estimated not to exceed $115 million (including cost of issuance) to refund approximately $105 million outstanding G.O. Bonds (See Exhibit A). The G.O. Refunding Bonds are being issued primarily for the purpose of achieving a minimum aggregate debt service savings of four percent and, to a lesser degree, to remediate tax issues arising from the sale of certain Seaport property; there is no new project funding associated with this transaction. The actual amounts refunded and the associated savings will be based on market conditions at the time of the bond sale.

BACKGROUND:

The Port's on-going debt management program includes the monitoring of existing debt for opportunities to refund at lower interest rates and reduce debt service. The current low interest rate environment offers an opportunity to potentially refund G.O. bonds issued in 2004 and meet or exceed the Port's debt service savings target. The 2004 Series A bonds are governmental purpose bonds and can be refunded with tax-exempt bonds prior to their call date. The 2004 Series B bonds are private activity bonds subject to the Alternative Minimum Tax (AMT). AMT interest rates are comparable to taxable interest rates, so the bonds can be refunded as taxable bonds which have fewer compliance requirements.

In 2004, the Port issued G.O. bonds Series A and B for the purpose of funding the costs of several projects including dredging the East Waterway, redevelopment of Terminal 46 (including purchasing cranes), portions of the Terminal 18 expansion, construction of several berths at Terminal 91 and some improvements at Fishermen's Terminal. At the same time, the Port issued 2004 Series C to refund bonds issued in 1994 to fund the costs of the Terminal 5 expansion project. The Series A and B bonds can be refunded for savings.

The Port generally issues bonds that are exempt from Federal income tax, but subject to certain restrictions regarding the use of the bond proceeds. As the Port's businesses needs change, the use of certain facilities, property or equipment originally funded with tax-exempt bond proceeds may also change. Recently, the Port has agreed to transfer certain property and equipment to private sector entities that do not have authority to issue tax-exempt bonds, specifically, the Seaport is selling container cranes to its tenant at Terminal 46 and has transferred property to BNSF Railway Company (BNSF) through a land swap at Terminal 5. These transfers of ownership to private parties of property funded with still outstanding tax-exempt bonds require remediation. In this case, the remediation will be achieved by refunding the tax-exempt bonds with taxable bonds. The cranes at Terminal 46 were purchased with a combination of general fund cash, 2004 B bond proceeds and 2000 B bond proceeds (refunded in 2011). The 2004 B bonds are being refunded for savings as taxable bonds so no additional remediation is required. A pro rata portion of the 2011 AMT bonds will need to be refunded with taxable bonds and will generate negative savings. The land at Terminal 5 that was transferred to BNSF in exchange for their property was partly funded with proceeds from bonds issued in 1994 and refunded with the 2004 C G.O. bonds; a pro rata portion of the 2004 G.O. bonds will also be refunded at negative savings for remediation. Exhibit A provides details of the bonds proposed for refunding and the positive and negative savings associated with those bonds.

ADDITIONAL BACKGROUND:

The G.O. Refunding Bonds are being issued pursuant to the Resolution No. 3676. The G.O. Refunding Bonds will be issued in two series based on their tax status. The tax status is based on the use of the bond proceeds. Series A will be governmental purpose bonds exempt from all federal income tax and will be issued to refund existing governmental purpose bonds. Series B will be taxable bonds, subject to federal income tax and will be issued to refund existing tax-exempt bonds.

Resolution No. 3676 is similar in all material respects to other G.O. Bond Resolutions. G.O. bonds are backed by the full faith and credit of the Port and require that the Port levy taxes sufficient, along with other funds, to meet the G.O. bond obligations. These G.O. Refunding Bonds are for refunding purposes only and not for funding any new spending.

The Resolution delegates to the Designated Port Representative (the Port's Chief Executive Officer or the Port's Chief Financial and Administrative Officer) the authority to approve the sale of the bonds within parameters established by the Commission. Commission parameters that limit the delegation are a maximum bond size, minimum savings rate and expiration date for the delegated authority. If the G.O. Refunding Bonds cannot be sold within these parameters, further Commission action would be required. The recommended delegation parameters are:

Maximum size: $115,000,000
Minimum aggregate debt service savings: 4.00%
Expiration of Delegation of Authority: six months from final passage

Upon adoption, Resolution No. 3676 will authorize the Designated Port Representative to select the manner of sale, approve the final sale terms, execute the escrow agreement, pay the cost of issuance and take other action appropriate for the prompt execution and delivery of the G.O. Refunding Bonds. Unlike most Port bonds that are sold through a negotiated process with the Port's underwriting team, the 2013 G.O. bonds are expected to be sold through a competitive sale in which, any bank can bid on the Bonds. The Port's debt management procedures allow for competitive sales for appropriate transactions where, in consultation with the Port's Financial Advisor, a competitive sale is expected to provide better results than a negotiated sale. Competitive sales are well suited to transactions that have a relatively simple, high quality credit like the Port's G.O. bonds sold in relatively stable market environments. Should conditions change and a negotiated transaction become advisable, the Resolution provides for the Designated Port Representative to change to a negotiated sale.

Seattle-Northwest Securities Corporation, Inc. is serving as Financial Advisor and K&L Gates LLP is serving as bond counsel on the transaction.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Resolution No. 3676

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- October 23, 2012, Commission was briefed on the 2013-2017 Draft Plan of Finance including potential refunding opportunities for 2013.
- January 22, 2013, Commission was briefed on the refunding resolution.
- February 26, 2013, Commission held First Reading of Resolution No. 3676

Exhibit A

Candidates for 2013 Bond Refunding (1)

Outstanding Bonds	**$ Amount to be Refunded**	**Tax Status**	**Call Date**	**Purpose**	**Present Value Savings ($ million)(2)**
Series 2013A – Non-AMT					
2004A	32,510,000	Governmental, Non-AMT	11/1/2013	Savings	5.80
Series 2013B – Taxable					
2004B	70,340,000	Private Activity, AMT	11/1/2013	Savings & Remediation	6.35
2004C	820,000	Private Activity, AMT	Non-callable, final maturity: 11/1/2019	Remediation	-0.03
2011(AMT)	1,200,000	Private Activity, AMT	6/1/2021	Remediation	-0.10
TOTAL	104,870,000				12.02

(1) Actual refunded bonds will depend on market conditions

(2) Estimate based on current market, actual savings will depend on market conditions