PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 6d

ACTION ITEM **Date of Meeting** April 9, 2013

DATE: April 1, 2013

TO: Tay Yoshitani, Chief Executive Officer

FROM: Elizabeth Morrison, Director, Corporate Finance

SUBJECT: Resolution No. 3680 amending and restating Resolution No. 3504; authorizing the issuance and sale of special facility revenue refunding bonds in the aggregate principal amount of not to exceed $100,000,000, for the purpose of refinancing the Port's Special Facility Revenue Bonds (SEATAC Fuel Facilities LLC), Series 2003; setting forth certain bond terms and covenants; and delegating authority to approve final terms and conditions of the bonds.

ACTION REQUESTED:

Request First Reading of Resolution No. 3680: A Resolution of the Port Commission of the Port of Seattle amending and restating Resolution No. 3504; authorizing the issuance and sale of special facility revenue refunding bonds in the aggregate principal amount of not to exceed $100,000,000, for the purpose of refinancing the Port's Special Facility Revenue Bonds (SEATAC Fuel Facilities LLC), Series 2003; setting forth certain bond terms and covenants; and delegating authority to approve final terms and conditions of the bonds.

SYNOPSIS:

Commission authorization is requested to issue special facility refunding bonds (the Bonds) in an amount estimated not to exceed $100,000,000 (including cost of issuance) to refund approximately $100,175,000 outstanding Special Facility Revenue Bonds (SEATAC Fuel Facilities, LLC), Series 2003 (the 2003 Bonds). The Bonds are being issued for the purpose of achieving debt service savings which will reduce airline cost by lowering their Facilities Rent payment for debt service.

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 refund the 2003 Bonds and meet or exceed the Port's debt service savings target.

The Port issued the 2003 Bonds for the purpose of funding the costs of acquisition and construction of a fuel storage and delivery system at the Airport (fuel system). This fuel system includes a fuel tank farm and a system of pipes and hydrant pits at air terminal gates. The fuel system is leased under the terms of a lease executed in 2003 ("the 2003 lease") to SEATAC Fuel

Facilities LLC ("the lessee"), a limited liability company formed by a consortium of airlines for the purpose of providing jet fuel storage and distribution at the Airport. Any airline may join the lessee by entering into an Interline Agreement with the lessee that obligates the airline to pay its share of the fuel system costs through a per gallon fee. Airlines that are not members may still use the fuel system, but will be charged a higher per gallon fee, which is limited to a maximum of 1.5 times the highest member rate. At this time 21 airlines are members of the lessee that serve the Airport. The lessee is required to hire a licensed fuel system operator; Swissport Fueling, Inc. has been the operator since 2003. The 2003 lease has a 40 year term (including two five-year extensions).

The lessee is obligated to collect the fuel system fees and to make monthly rent payments including a Base Rent for the land to the Port and Facilities Rent to the Trustee. Facilities Rent is established at an amount sufficient to pay monthly debt service, replenish any deficiency in the debt service reserve fund and pay other fees associated with the Bonds including the Trustee fee. In addition, the lessee provided a Guaranty and a Security Agreement to the Trustee, securing the lessee's obligation to pay principal and interest on the Bonds. The 2003 lease and Interline Agreement will not change due to the refunding.

RESOLUTION NO. 3680:

Resolution No. 3680 amends and restates Resolution No. 3504 (the original bond resolution), authorizes the sale and issuance of Special Facility Revenue Refunding Bonds (SEATAC Fuel Facilities LLC) 2013 to refund all of the outstanding 2003 Bonds. Resolution No. 3680 is the same in all material respects as Resolution No. 3504 that authorized the issuance of the 2003 Bonds including the following:

- The Bonds are limited obligations of the Port and not secured by any general Port revenues or taxes. The Bonds are secured by a Trust Estate established with the Trustee. The Trust Estate includes Facilities Rent paid by the lessee, the debt service reserve fund and any amounts received under the Guaranty and Security Agreements.

- Resolution No. 3680 allows for the issuance of Additional Special Facility Revenue Bonds and the 2003 lease requires that debt service payments on Additional Bonds be added to the Facilities Rent paid by the lessee. Any Additional Bonds require approval of the Port and the lessee. Under no circumstances is the Port required to issue Additional Bonds. In the event that the Port wishes to issue Additional Bonds, a Majority In Interest (MII) vote of the airlines participating in the consortium must be conducted and the Additional Bonds are deemed approved by the consortium if there is either a positive vote or no response; only a majority negative vote can stop the issuance of Additional Bonds.

- Under certain circumstances the Port may be required to provide funding in lieu of Additional Bonds. Although the lessee is required to maintain specified levels of insurance, in the event of an uninsured casualty or insufficient insurance, if the lessee does not make the necessary repairs and does not agree to the issuance of Additional Bonds, the Port may be required to fund the costs of repairs, but only to the extent that any costs (including refunding the Bonds) can be passed through to the airlines through Airport rates and charges. The Port would not be required to pay or repay any costs associated with the fuel system using other (non-airline) Port resources. Under this circumstance, the Port may refinance the Bonds with Port debt and terminate the 2003 lease.

- Resolution No.3680 requires that the Port obtain bondholder consent for amendments to the 2003 lease that could materially and adversely affect bondholders. The Resolution also requires that in the event of a lessee default, the Port undertake to find a replacement lessee or operator (which could be the Port). Net revenues from the fuel system, paid to the Port or to a subsequent lessee, must be used to pay debt service on the Bonds.

The Bonds are private activity bonds under the Internal Revenue Service (IRS) Code and are therefore subject to Alternative Minimum Tax (AMT), but exempt from regular federal income tax.

Resolution No. 3680 delegates to the Port's Chief Executive Officer the authority to approve the sale of the Bonds including interest rates, maturity dates, redemption rights, interest payment dates, and principal maturities for the Bonds. This delegation is limited by the following parameters, which, if not achieved, would require additional Commission action.

Maximum par amount:	$100,000,000
Minimum savings rate:	4%
Delegation expiration date:	November 7, 2013

Resolution No. 3680 authorizes the Designated Port Representative (the Port's Chief Executive Officer or Chief Financial and Administrative Officer [upon the Chief Executive Officer's approval]) to execute the Bond Purchase Contract, appoint a Trustee and to execute all other documents necessary to the issuance of the Bonds. The Bonds will be sold through negotiated sale to the Port's finance team. The lead underwriter is Barclays Capital, and the other underwriters are BofA Merrill Lynch, J.P. Morgan Securities, LLC; Morgan Stanley & Co. Inc., Backstrom McCarley Berry & Co., LLC, and Drexel Hamilton, LLC. Seattle-Northwest Securities Corporation, Inc. is serving as the Port's Financial Advisor and K&L Gates LLP is serving as bond counsel on the transaction.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Resolution No. 3680

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

April 2, 2013, Commission was briefed on the refunding.