PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6d

Date of Meeting October 22, 2013

DATE: October 1, 2013

TO: Tay Yoshitani, Chief Executive Officer

FROM: Elizabeth Morrison, Director, Corporate Finance

SUBJECT: Resolution No. 3684 – issuance and sale of intermediate lien revenue refunding bonds in the aggregate principal amount of not to exceed $150,000,000

ACTION REQUESTED

Request First Reading of Resolution No. 3684: A Resolution of the Port Commission of the Port of Seattle authorizing the issuance and sale of intermediate lien revenue refunding bonds in the aggregate principal amount of not to exceed $150,000,000, for the purpose of refunding certain outstanding revenue bonds of the Port; 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 intermediate lien revenue refunding bonds (the "Bonds") in an amount estimated not to exceed $150,000,000 (including a reserve fund deposit and cost of issuance) to refund up to $138,320,000 outstanding first lien revenue bonds, Series 2003B. The Bonds are being issued solely for the purpose of achieving debt service savings; there is no new project funding associated with this transaction.

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. Since 2010, the Port has been able to benefit from the low interest rate environment and refund $1.37 billion of debt for a present value savings of $183 million. The current low interest rates offer another opportunity to potentially refund the first lien revenue bonds, Series 2003B and to meet or exceed the Port's debt service savings target. Beginning in June of 2013, interest rates began rising. The municipal bond market, which is smaller and less liquid than the treasury or corporate markets, became especially volatile and this refunding did not achieve its savings target. A recent rally in the bond market has improved the savings forecast, but the viability of the transaction is sensitive to future interest rate changes. As such, staff recommends that the Port be prepared to execute the refunding if and when rates are favorable. Based on interest rates over past month, this transaction would provide savings between 4% and 9% or $5.5 million to $12.4 million present value.

The 2003B bonds were issued on the Port's first lien to fund Airport projects including terminal communication, security and mechanical systems; airline relocations; bag screening and a maintenance warehouse. The bonds are currently callable. In 2005, in conjunction with the new airline agreements that took effect in 2006, the Port introduced the intermediate lien to be used primarily for Airport debt. The intermediate lien incorporates certain legal provisions that are typical for Airport debt; for example, the Intermediate Lien provides for the use of Passenger Facility Charge collections to pay revenue bond debt service, and it provides for a lower debt service coverage requirement that is consistent with both the 2006 airline agreement and the recently approved 2013 agreement. Since its introduction in 2005, the intermediate lien has been used for most new Airport related debt and for the refunding of existing Airport related debt.

ADDITIONAL BACKGROUND

The Bonds are being issued pursuant to the Intermediate Lien Master Resolution No. 3540 and this Resolution No. 3684. The Bonds will be issued as private activity bonds exempt from regular federal income tax, but subject to the Alternative Minimum Tax (AMT) and will be issued to refund existing private activity bonds that are currently callable

Resolution No. 3684 is similar in all material respects to other Intermediate Lien Series Resolutions and provides for a contribution to the common debt service reserve fund that provides security for all intermediate lien bonds.

The Resolution delegates to the Port's Chief Executive Officer the authority to approve interest rates, maturity dates, redemption rights, interest payment dates, and principal maturities for the Bonds (these are generally set at the time of pricing and dictated by market conditions at that time). Commission parameters that limit the delegation are a maximum bond size, minimum savings rate and expiration date for the delegated authority. If the Bonds cannot be sold within these parameters, further Commission action would be required. The recommended delegation parameters are:

Maximum size: $150,000,000
Minimum debt service savings: 4.00%
Expiration of Delegation of Authority: six months

Upon adoption, Resolution No. 3684 will authorize the Designated Port Representative (the Chief Executive Officer, the Deputy Chief Executive Officer or the Chief Financial and Administrative Officer) to approve the Bond Purchase Contract, the official statement, escrow agreement (if any), pay the cost of issuance and take other action appropriate for the prompt execution and delivery of the Bonds. The Bonds will be sold through negotiated sale to Merrill Lynch, Pierce, Fenner & Smith Inc.; Backstrom McCarley Berry & Co., LLC; Barclays Capital; Drexel Hamilton, LLC; J.P. Morgan Securities, LLC; Morgan Stanley & Co. Inc. Piper Jaffray, Seattle-Northwest Division (formerly Seattle-Northwest Securities Corporation, Inc.) is serving as Financial Advisor and K&L Gates LLP is serving as bond counsel on the transaction.

ATTACHMENTS TO THIS REQUEST

- Resolution No. 3684

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- April 2, 2013 - Draft Plan of Finance Update Briefing