PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	4h
Date of Meeting	February 9, 2016

DATE: January 19, 2016

TO: Ted Fick, Chief Executive Officer

FROM: Elizabeth Morrison, Director, Corporate Finance

SUBJECT: Competitive Selection Process for a Finance Team to Provide Underwriting, Remarketing and Debt Services related to the Issuance of Port Debt.

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to select an Underwriting, Remarketing and Debt management Finance Team through a competitive selection process to provide on-going information for the Port's debt management program and to participate in individual debt transactions through a negotiated sale process. A contract with participating members of the Finance Team will be issued for each debt transaction.

SYNOPSIS

The Port manages the issuance and remarketing of debt by utilizing a team of investment banking firms. The team is selected approximately every five years through a competitive selection process and provides services over the duration of the term. The most recent Finance Team selection was held in 2011. This process establishes a team, but no underwriting contract, and no compensation obligation, exists until the Commission approves an individual sale of bonds. As in previous contracts, the project manager will coordinate with the Office of Social Responsibility for the meaningful inclusion of small business firms .

BACKGROUND

The Port currently has $3.2 billion of outstanding debt which is actively managed to minimize cost of capital and risk including refunding existing debt to generate debt service savings. In addition, the Port engages in long-term capital planning that includes a funding forecast "The Draft Plan of Finance." The 2016-2020 Plan anticipated the use of approximately $1.2 billion of new debt to fund capital projects. The Port's Finance Team provides on-going assistance with the Port's debt management program including financing strategies and potential new funding tools and opportunities. The Finance Team participates in individual debt transactions through a negotiated sale process, providing underwriting, remarketing and related services. A contract with participating members of this Finance Team will be issued for each debt transaction; staff is required to seek Commission authorization for each debt issuance prior to execution of these contracts. The Port's current finance team is comprised of two small firms: Backstrom McCarley Berry & Co., LLC and Drexel Hamilton, LLC and four major banks: Barclays Capital; J.P. Morgan Securities, LLC; Merrill Lynch, Pierce, Fenner & Smith Inc. and Morgan Stanley & Co. Inc.

SOLICITATION DETAILS:

The RFQ will be publicized in both the Daily Journal of Commerce and in the Bond Buyer in order to solicit broad participation. Firms will be evaluated based on both banking experience and on sales and distribution capability. A two-step selection process will include a written statement of qualifications and, if needed, oral interviews. Firms that qualify as small businesses per Port guidelines may apply for a small business position on the team. In prior selections, the Port offered small firm positions to one or two firms that became part of the team and participated in all transactions. For this selection, staff recommends qualifying a pool of small firms out of which one or two firms would be selected for each individual transaction; selections will rotate to provide equitable opportunities for all small firms in the pool. Subsequent to the selection in 2011, the Small Business Administration increased the maximum size for a small investment bank and staff anticipates that more firms will qualify for that role. In addition, some larger banks have developed mentorship programs with smaller firms that the Port can leverage. Selection will be made by a team comprised of staff from multiple finance groups and the Port's Financial Advisor. Staff expects to post the RFQ on or around February 10 and conclude the process in April.

ALTERNATIVES CONSIDERED

The recommended alternative described above is a model frequently used by larger issuers like the Port. There are two alternatives that the Port considered.

- First, the Port could undergo a selection process prior to each bond sale. This has the benefit of providing frequent opportunities for banks to participate. The primary disadvantages are the additional time a selection would add to selling bonds making access to capital markets less nimble and the significant additional work involved given the frequency of Port bond sales.
- The second alternative considered is exclusive use of the competitive sale process rather than negotiated sales. In a competitive sale, the Port and its financial advisor prepare all documents and predetermine the bond structure and sale date; the bonds are then sold to the highest bidder (highest price paid, lowest interest rate). The Port uses this process for most of its General Obligation bond sales because tax-backed bonds are far more prevalent in the municipal market, generally have lower credit risk, and are most frequently issued as Non-AMT (public purpose) debt, which is tax exempt to all bondholders. As a result they are well understood by most investors and are relatively easy to sell. Most of the Port's bonds, however, are Revenue bonds that are tied to the Port's specific business/credit profile and are issued as AMT debt (private activity) which may not be tax exempt to some investors. A negotiated sale process works best for more complex credits like this because the underwriters fully participate in the development of documents that help explain the Port's credit, the credit rating process and, most importantly, are directly involved in the marketing of the bonds to investors. This approach is beneficial for Port Revenue bond sales because investor concerns can be more readily be identified and addressed as part of the sale process, which can ultimately result in lower interest rates.

There are also alternatives for incorporating small business participation in the finance team. The approach outlined above has the benefit of providing opportunities to a broader group of small firms. Another option is the one the Port currently uses. Under this option the Port would select two firms that are used for all bond sales. This has the benefit of providing a longer-term opportunity, but to fewer firms. Both models are used by other issuers.

ATTACHMENTS TO THIS REQUEST

- None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- October 24, 2015- Briefing on the Preliminary Tax Levy and the Draft Plan of Finance 2016-2020