PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6b

Date of Meeting May 24, 2016

DATE: May 5, 2016

TO: Ted Fick, Chief Executive Officer

FROM: Elizabeth Morrison, Director, Corporate Finance

SUBJECT: Resolution No. 3721 – sale and issuance of first lien revenue refunding bonds in the aggregate principal amount of not to exceed $185,000,000

ACTION REQUESTED

Request First Reading of Resolution No. 3721: A Resolution of the Port Commission of the Port of Seattle authorizing the issuance and sale of revenue refunding bonds in one or more series in the aggregate principal amount of not to exceed $185,000,000, for the purpose of refunding certain outstanding revenue bonds of the Port; setting forth certain bond terms and covenants; delegating authority to approve final terms and conditions and the sale of the bonds; and authorizing remediation of a portion of the bonds being refunded.

SYNOPSIS

Commission authorization is requested to issue first lien revenue refunding bonds (the "Bonds") in an amount estimated not to exceed $185,000,000 (including a reserve fund deposit and cost of issuance) to refund up to $175,545,000 outstanding intermediate lien revenue bonds, Series 2006 for debt service savings. Staff also recommends issuing $6.3 million of the refunding bonds as taxable bonds to provide flexibility for potential future non-qualified uses at Shilshole Bay Marina.

BACKGROUND

As part of the Port's debt management program, the Port monitors opportunities to reduce debt service. In 2007, the Port issued first lien revenue bonds to fund facilities currently managed by the Northwest Seaport Alliance and the Maritime Division. The 2007 Bonds are callable in October, 2016 and current low interest rates provide a favorable refunding opportunity. The outstanding amount is $175.5 million and estimated present value savings are currently $19 million. The refunding bonds will be structured for level savings which will result in reduced annual debt service with the same final maturity date as the 2007 Bonds. The total Bond amount will also include proceeds sufficient to pay cost of issuance and to fund the required debt service reserve.

Also as part of ongoing debt management, the Port monitors compliance with regulations that apply to tax-exempt bonds, including proposed uses on assets previously financed with tax-exempt debt since qualified tax-exempt uses are generally limited to those having a public purpose or are directly related to airport or port activities. Among the projects originally funded with the 2007 bonds are improvements at Shilshole Bay Marina. The Port has been considering development of a restaurant at the Marina, which does not qualify for tax-exempt financing, and may wish to pursue other non-qualified development opportunities in the future. IRS regulations allow for an issuer to remediate such a change in use by defeasing the related bonds with cash or taxable debt.

In order to provide greater opportunities for non-qualified uses at Shilshole Bay Marina, staff recommends that the Port issue approximately $6.3 million of taxable refunding bonds as part of this issuance and use the proceeds to defease the related portion of the 2007 bonds. Given current rates there is minimal additional cost in issuing taxable rather than tax-exempt bonds—roughly $125 thousand on a present value basis, which staff believes is a worthwhile tradeoff to provide future flexibility for potential non-qualified uses on the property. This is also more cost effective than waiting for a change in use to occur subsequent to the refunding. Once the refunding occurs, the next opportunity to call the bonds would be in ten years and remediation would be inefficient because it would require depositing funds into a defeasance escrow in advance, at an investment yield less than the interest rate on the bonds. Resolution 3721 includes the authorization to take this remedial action.

ADDITIONAL BACKGROUND

The Bonds are being issued pursuant to the First Lien Master Resolution No. 3059 as amended and restated by Resolution No. 3577 and this Resolution No. 3721. The Bonds will be issued in multiple series based on tax status. Series A will be issued as governmental bonds exempt from all federal income tax (non-AMT). Series B will be issued as private activity bonds exempt from regular federal income tax, but subject to the Alternative Minimum Tax (AMT). Series C will be issued as taxable bonds.

Resolution No. 3721 is similar in all material respects to other First Lien Series Resolutions and provides for a contribution to the common debt service reserve fund that provides security for certain senior lien bonds that participate in the common reserve (some First Lien bonds are secured by a debt service reserve fund unique to that series of 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 for the refunding 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:	$185,000,000
Minimum debt service savings:	4.0%
Expiration of Delegation of Authority:	October 31, 2016

Upon adoption, Resolution No. 3721 will authorize the Designated Port Representative (the Chief Executive Officer, the Chief Financial 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.; Barclays Capital; Drexel Hamilton, LLC; Citigroup Global Markets, Inc.; Goldman Sachs & Co.; and Siebert Brandford Shank & Co., LLC. Piper Jaffray is serving as Financial Advisor, K&L Gates LLP is serving as bond counsel and Pacifica Law Group is serving as disclosure counsel on the transaction.

ATTACHMENTS TO THIS REQUEST

- Draft Resolution No. 3721

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- October 27, 2015 - Commission Briefing on Draft Plan of Finance