PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4f

Date of Meeting October 10, 2016

DATE: September 21, 2016

TO: Ted Fick, Chief Executive Officer

FROM: Elizabeth Morrison, Director, Corporate Finance

SUBJECT: New Solicitation for Financial Advisory Services

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a contract for financial advisory services for seven years (base contract of five years with two one-year options) for an estimated cost of $3,500,000.

SYNOPSIS

The Port of Seattle uses an independent financial advisor (FA) to assist with the issuance and management of its debt. The FA provides assistance with the day-to-day management of debt issuance and provides information and advice on general financial management matters. This request will authorize the CEO to enter into a new contact for financial advisory services not to exceed $3,500,000. The contract will be procured through a competitive selection process and will replace the current contract that expires on April 8, 2017.

BACKGROUND

Governmental entities, including the Port, who issue debt in the municipal market, employ the services of an independent FA. These firms advise the Port on the overall debt and financial management activity. FAs provide current information on market trends, rates, debt structures and investor concerns, and provide analytical support and insights into the municipal market. FAs maintain a fiduciary responsibility to the Port, and the use of an FA is deemed a best practice by the Government Finance Officers Association.

The Port's debt management needs cover both new bond issuances, needed to fund capital projects, as well as management of the Port's existing debt, currently approximately $3.2 billion. For example, the Port's FA advises the Port on overall debt structure and financial management, incorporating the perspective of investors and rating agencies; advises on opportunities to refund existing debt for debt service savings; participates in all aspects of a bond issuance; advises on and participates in extensions, replacements, and amendments of letters of credit supporting the Port's variable rate debt; assists with the coordination of the Port's team of investment banks and the Port's bond and disclosure counsel; evaluates proposals and new financial products; and provides an independent perspective at Commission briefings on financial matters. The Port's FA shares its knowledge of other local government issuers and of other airports and seaports nationwide. The FA can provide analysis of the financial impact of pending or new legislation. Finally, the FA provides recommendations for improving the long-term financial position of the Port.

The current financial advisory contract is a five-year contract with two one-year extensions (both exercised) that expires on April 8, 2017. Due to the expected timing of bond issues, it is important to have the new financial advisory contract signed and the FA fully functioning prior to this expiration date.

Staff is requesting a contract term of five years with two one-year extensions. Financial and debt management are on-going functions that benefit from a consistent approach and a long-term view. Some Port financing initiatives have been multiyear efforts, such as the development of the Port's Intermediate Lien, which was tied to the lengthy negotiation of a new airline agreement, and the rental car facility financing, which took several years to complete due to challenging business and economic conditions. A five-year contract should also encourage wider participation among potential respondents, since considerable effort will be required of the successful firm to become familiar with the Port's businesses, financial structure, and management of the Port's debt – including familiarity with voluminous legal documents. A longer-term contract will encourage firms to submit a response and invest their time.

As part of the competitive selection process, the Port will ask firms to provide detailed information on their intended use of small businesses. This will encourage firms to identify specific portions of the engagement that can be subcontracted to small firms. Many components of financial advisory work are on an as-needed basis. Some years there could be more demand than other years for services that can utilize small businesses, so a specific target may not be feasible. The use of small businesses will be included in the selection process.

ALTERNATIVES AND IMPLICATIONS

Alternative 1 – Do not use a financial advisor

Pros:

(1) Eliminates the explicit costs of up to $3,500,000

Cons:

(1) Increases Port risk by not having an independent fiduciary to assist with complex transactions and market access
(2) Increases Port risk of paying higher cost of issuance without the monitoring and advice of the FA
(3) Port would not be following "best practices" for municipal issuers

This is not the recommended alternative.

Alternative 2 – Procure a new contract for each bond issue

Pros:

(1) Port would have the benefit of an on-going competitive process that would provide the most up-to-date information regarding FA services and fees

Cons:

(2) As a frequent issuer, the Port would need to procure an FA at least annually adding to the time associated with issuing bonds
(3) The Port would lose the continuity and efficiencies that come with a longer-term relationship
(4) The complexity of the Port and its debt management could discourage some firms from responding to a one-time transaction

This is not the recommended alternative.

Alternative 3 – Procure a new long-term FA contract.

Pros:

(1) This approach is consistent with debt management "best practices"
(2) The Port benefits from an independent fiduciary's advice on Port debt and financial management
(3) The Port benefits from the consistency and understanding of the Port and its debt management that a longer-term engagement provides and can terminate the contract at any time if appropriate
(4) The longer-term contract provides a greater incentive for firms to respond and to take a thoughtful approach to utilizing small business

Cons:

(1) The Port will pay up to $3,500,000 for FA services

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Budget Status and Source of Funds

The costs associated with this contract are included in the Port's non-operating budget and forecasts. The source of funds will vary depending on the specific transactions; bond proceeds will be used to pay the FA costs specifically associated with a bond transaction.

Financial Analysis and Summary

The cost of the contract would be up to $3,500,000 for a period not to exceed seven years.

The FA would be compensated in two ways. For new bond issues, the FA would receive a fee per bonds issued. In addition, the FA would be paid an annual fee for all work not related to a specific new bond issue (e.g. letters of credit, debt structure advise, investor and rating agency updates, etc.). Because the timing and amount of debt depends on the capital needs of the operating divisions or on the market driven refunding opportunities, the dollar amount is set a level that is estimated to accommodate five to seven years of multiple transactions, taking into account the Port's prior experience.

ATTACHMENTS TO THIS REQUEST

- None

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None