COMMISSION
AGENDA MEMORANDUM

ACTION ITEM

**Item No.** 6c

**Date of Meeting** June 11, 2019

**DATE:** May 30, 2019

**TO:** Stephen Metruck, Executive Director

**FROM:** Elizabeth Morrison, Director, Corporate Finance

**SUBJECT:** Resolution No. 3758 – issuance and sale of intermediate lien revenue bonds in the aggregate principal amount of not to exceed $550,000,000

## ACTION REQUESTED

Request Commission adoption of Resolution No. 3758: A resolution of the Port of Seattle Commission authorizing the issuance and sale of intermediate lien revenue bonds in one or more series in the aggregate principal amount of not to exceed $550,000,000 for the purpose of financing or refinancing capital improvements to aviation facilities; setting forth certain bond terms and covenants; and delegating authority to approve final terms and conditions and the sale of the bonds.

## EXECUTIVE SUMMARY

Commission authorization is requested to issue fixed rate intermediate lien revenue bonds (the "Bonds") in the principal amount of not to exceed $550,000,000 (including a reserve fund deposit, capitalized interest and cost of issuance) to fund the costs of capital improvements at the Airport (Exhibit A).

## JUSTIFICATION

The 2019-2023 Draft Plan of Finance for the Airport, presented to the Commission November 13, 2018, forecasted future revenue bond funding of $1.50 billion of Airport capital projects. Approximately $480 million of that bond funding need is projected to be met in 2019 by the issuance of the Bonds. The Bonds will be secured by all net operating revenues of the Port after the payment of First Lien Revenue Bond obligations. The actual debt service (principal and interest) payments will be made from Airport net revenues. Debt service payments will be included in the airlines rates and charges per SLOA IV as appropriate. The cost per enplaned passenger forecast presented in the 2019 budget included this debt service.

The major projects that will receive funding from the Bonds include the International Arrivals Facility, North Satellite Improvements, Checked Baggage System Recapitalization/Optimization, and South Satellite Infrastructure HVAC improvements; a complete list of programs and projects currently identified for 2019 Bond funding is provided in Exhibit A. If project spending is delayed, Bond proceeds may be redirected to other projects within the limits established by the tax code;

the use of any Bond proceeds is identified in project authorization requests and no Bond proceeds may be spent on any projects without the appropriate project authorization.

The total Bond amount will also include proceeds sufficient to pay costs of issuance, to fund the required debt service reserve and to pay a portion of the interest on the Bonds during construction (capitalized interest) as appropriate.

The Port's debt management program takes a conservative approach of issuing primarily fixed rate bonds. This approach allows for predictable debt service payments, but interest rates are based on higher long-term rates. To help reduce debt service costs, the Port also issues a modest amount of variable rate debt – targeting no more than 25% of the Port's total debt. Currently, the Port has approximately 9% of its debt in a variable rate mode. Although variable rates fluctuate during the term of the debt, the total interest cost over the term of the debt should be expected to be lower than the total interest cost of fixed rate long-term debt and, for Airport bonds, lower costs are passed on to the airlines. Current long-term fixed rates continue to remain favorable, and as such staff is not recommending the use of variable rate debt in this transaction. Moreover, variable rate bonds are backed by a bank issued letter of credit and there are limitations on the amount a bank is willing to support, and that amount would be insufficient to fund current needs. Staff does expect, however, that future bond issues, potentially as early as 2020, may include all or a portion of variable rate bonds.

The Port's debt management program also continuously monitors opportunities to refund existing debt to reduce debt service costs. At this time, the Port is not recommending any refundings, but anticipates that bonds callable next year may provide an opportunity.

## DETAILS

The Bonds are being issued pursuant to the Intermediate Lien Master Resolution No. 3540 and this Resolution No. 3758. The Bonds are expected to be issued in a single series of private activity bonds exempt from regular federal income tax, but subject to the Alternative Minimum Tax (AMT), to the extent applicable, or as taxable bonds if taxable interest rates are favorable.

Resolution No. 3758 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 Executive Director 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, maximum interest 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:

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| Maximum size: | $550,000,000 |
| Maximum interest rate: | 5.00% |
| Expiration of Delegation of Authority: | December 31, 2019 |

Upon adoption, Resolution No. 3758 will authorize the Designated Port Representative (the Executive Director or the Chief Financial Officer) to approve the Bond Purchase Contract and the official statement, pay the costs 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 Goldman Sachs & Co. LLC; Barclays Capital Inc.; BofA Merrill Lynch; Citigroup Global Markets Inc.; and three small firms, Academy Securities, Inc.; Backstrom McCarley Berry & Co., LLC; and Williams Capital Group, Inc. 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.

## ALTERNATIVES AND IMPLICATIONS CONSIDERED

**Alternative 1** – Issue bonds for a larger amount of project spending.

Pros:

(1) Provides funding certainty for more project spending beyond 2020 and reduces the potential need for a bond issue in 2020.

(2) Provides additional funding at current favorable interest rates.

Cons:

(1) The larger issue would fund spending associated with projects still in design. This exposes the Port to the risk of holding unspent bond proceeds if construction spending is delayed.

(2) There is no current expectation that interest rates will rise significantly in the short-term.

This is not the recommended alternative.

**Alternative 2** – Issue variable rate bonds in 2019.

Pros:

(1) Adds additional variable rate debt. The Port currently has about 9% of its debt in variable form, at the low end of its target range.

(2) Variable rate interest costs tend to be lower on average over time and can reduce interest costs.

Cons:

(1) Limitations on the amount of bank supported letter of credit would result in either an insufficient amount of bonds or the need to enter into multiple transactions, adding time and complexity to execution. Both the North Satellite program and the International Arrivals facility program are spending quickly and potential limitations on the amount of variable rate bonds could result in a funding shortfall in 2020.

(2) Reduces the amount of variable rate capacity for future years.

This is not the recommended alternative.

**Alternative 3** – Issue fixed rate Intermediate Lien bonds in the amount needed to provide $480 million of project funding.

Pros:

(1) Provides sufficient funding for projects under contract.
(2) Takes advantage of current favorable long-term rates.
(3) Preserves variable rate capacity for a higher interest rate environment.

Cons:

(1) Leaves the Port at the low end of it variable rate debt target.

***This is the recommended alternative.***

## ATTACHMENTS TO THIS REQUEST

Resolution No. 3758

## PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

May 28, 2019 – Introduction of Resolution No. 3758
November 13, 2018 – The Commission was briefed on the 2019-2023 Draft Plan of Finance

## EXHIBIT A

North Satellite Renovation
International Arrivals Facility-IAF
Checked Bag Recap/Optimization
Restroom Upgrades Concourse B, C, D
N. Terminals Utilities Upgrade
South Satellite Infrastructure HVAC