

ITEM NO. _____	10a
DATE OF MEETING _____	March 26, 2024

**THE INDUSTRIAL DEVELOPMENT CORPORATION
OF THE PORT OF SEATTLE**

NOTICE OF A SPECIAL MEETING

A Special Meeting of the Industrial Development Corporation of the Port of Seattle will be held on Tuesday, March 26, 2024. The meeting will be held in-person at the Seattle-Tacoma International Airport – Conference Center, International Room, located at 17801 International Blvd, Seattle WA, Mezzanine Level. Interested persons may also view the meeting virtually through the Port’s website during the meeting: <https://meetings.portseattle.org>. The special meeting will be held during a recess of the Port of Seattle Commission Regular Meeting, which meeting convenes at 12:00 p.m. The Agenda includes:

1. Approval of the proposed minutes of the Industrial Development Corporation of the Port of Seattle Special Meeting of March 28, 2023.
2. Approval of the Industrial Development Corporation of the Port of Seattle Board of Directors and Officers for 2024.
3. Review, as needed, of the Annual Report for the Industrial Development Corporation for year ending December 31, 2023.
4. Attachment for reference: Overview of the Industrial Development Corporation and Frequently Asked Questions (FAQs).

Adjournment of the Annual Meeting of the Industrial Development Corporation of the Port of Seattle.

INDUSTRIAL DEVELOPMENT CORPORATION AGENDA

Item No. 1
Date of Meeting March 26, 2024

DATE: March 4, 2024
TO: Steve Metruck, Executive Director
FROM: Ian Burke, Senior Financial Analyst – Corporate Finance & Budget
Scott Bertram, Manager – Corporate Finance & Budget
SUBJECT: Approval of the Proposed Minutes of the Industrial Development Corporation of the Port of Seattle Meeting of March 28, 2023

ACTION REQUESTED:

Request Board approval of the proposed minutes of the Industrial Development Corporation of the Port of Seattle meeting of March 28, 2023. Draft minutes have been circulated to the Board of Directors and approved minutes will be posted to the Port’s website.

INDUSTRIAL DEVELOPMENT CORPORATION AGENDA

Item No. 2
Date of Meeting March 26, 2024

DATE: March 4, 2024
TO: Steve Metruck, Executive Director
FROM: Ian Burke, Senior Financial Analyst – Corporate Finance & Budget
Scott Bertram, Manager – Corporate Finance & Budget
SUBJECT: Election of Officers

REQUESTED ACTION:

Request Board approval of the Industrial Development Corporation of the Port of Seattle Board of Directors and Officers for 2024.

BACKGROUND:

In accordance with the Bylaws for the Industrial Development Corporation of the Port of Seattle, the following is a list of the Board of Directors and Officers for the Corporation:

Hamdi Mohamed, President
Toshiko Grace Hasegawa, Vice President
Ryan Calkins, Secretary
Sam Cho, Director
Fred Felleman, Director

IDC Bylaws – Article 5, Section A. Number and Qualifications. “The officers of the Corporation shall be the same as the officers of the Port Commission and such other officers as may be determined by the Board of Directors from time to time to perform such duties as may be designated by the Board of Directors.”

INDUSTRIAL DEVELOPMENT CORPORATION AGENDA

Item No.	<u>3</u>
Date of Meeting	<u>March 26, 2024</u>

DATE: March 4, 2024

TO: Steve Metruck, Executive Director

FROM: Ian Burke, Senior Financial Analyst – Corporate Finance & Budget
Scott Bertram, Manager – Corporate Finance & Budget

SUBJECT: Industrial Development Corporation Annual Report for 2023

SYNOPSIS:

The Industrial Development Corporation (the “IDC”) of the Port of Seattle was established in 1982 pursuant to Revised Code of Washington (Chap. 39.84). The IDC is a special purpose government with limited powers and was established for the purpose of facilitating industrial expansion through tax-exempt financing by providing companies with access to the tax-exempt credit market through the facilities of the IDC.

Any company with a project that qualifies for tax-exempt financing and qualifies under both RCW 39.84 and IDC policy may apply for IDC financing. The Port is not the lender and cannot lend credit or give money to the IDC. Debt issued by a company through the IDC is the sole responsibility of the company and is always non-recourse to the Port and to the IDC. Bond proceeds go directly to the company borrowing through the IDC. The companies pay their debt service (principal and interest) to a trustee.

Any city, county or port in Washington State may establish an IDC, and a number of other jurisdictions have done so, including King and Pierce Counties; the cities of Seattle, Everett, Bellingham and Kent; and several other ports including the Ports of Bellingham and Anacortes. Appendix C. of Item No. 4, FAQs provides a more comprehensive list.

The majority of projects financed through the Port’s IDC occurred between 1982 and 1986. Activity has since declined, primarily due to the Tax Reform Act of 1986 (the “Act”), which made a number of changes to the tax-exempt financing code that ultimately limited the benefits of an IDC financing for both issuers and investors. For issuers, the Act reduced the number of qualifying projects by narrowing the definition of types of projects and eliminated certain depreciation tax advantages. The tax code change also reduced the pool of investors (e.g., banks, who were the majority investor) in this market segment by making their effective rate for holding tax-exempt private activity bonds closer to a taxable rate. Item No. 4, FAQs provides more details.

The IDC is governed by a board of directors comprised of the members of the Port Commission; accordingly, both the IDC Board and the Port Commission must approve any IDC bond issue. The IDC Board meets at a minimum once a year during a Commission meeting to elect new officers and review the IDC’s annual financial results.

ANNUAL REPORT SUMMARY:

Attached are the financial statements of the IDC. The IDC had assets totaling \$312,571 at year-end 2023, which consists primarily of existing cash & cash equivalents. The IDC had total revenues of \$10,519, generated from interest earnings.

STATUS OF IDC BONDS:

As of December 31, 2023, there was one company with outstanding IDC debt totaling \$66,025,000, as shown in the table below.

Company	Outstanding Debt	Maturity
Delta Air Lines, Inc. ⁽¹⁾	66,025,000	2030
TOTAL	\$ 66,025,000	

⁽¹⁾ Previously Northwest Airlines Corp. (NWA). NWA merged with Delta Air Lines, Inc. (Delta) in 2008. NWA bonds refunded with Delta bonds, October 2012.

MANAGEMENT DISCUSSION:

The IDC has collected customer fees based on a percentage of annual debt service. The fees can be paid annually or via a one-time lump-sum payment at the time the company issues bonds. Delta made a one-time lump-sum payment (calculated using the present value of debt service over the life of the bonds) in 2012 when they refunded the Northwest Airlines bonds. As such, the IDC will no longer collect customer fees going forward unless there is a new issuance.

IDC funds are invested in the Port’s investment pool and the allocated interest income to the IDC in 2023 was \$10,519. The investment income for 2024 is projected to be approximately \$11,000.

The IDC incurred expenses of \$4,207 in 2023 which consisted of Port’s staff administrative time and State Audit fees.

The IDC’s charter permits its funds to be transferred only to the Port. Under an amendment to RCW 39.84.130, IDC funds that are not otherwise encumbered for the payment of revenue bonds and are not anticipated to be necessary for administrative expenses of the IDC may be transferred to the Port to be used for growth management, planning or other economic development purposes. In order to transfer funds, the Board of Directors of the IDC needs to adopt a resolution authorizing the transfer. Any transfer of funds would reduce the assets of the IDC and the interest earnings on these assets. No such transfer was requested nor made in 2023. All IDC funds will be transferred to the Port on dissolution, which can occur upon final redemption of all outstanding IDC bonds, currently scheduled in 2030.

MINIMUM FUND BALANCE RECOMMENDATION:

Staff recommends that the IDC maintain the current balance of \$312,000 to ensure adequate investment earnings to fund annual operating and future audit expenses since there are no additional sources of funds. If interest rates remain high Staff will re-evaluate uses of existing IDC cash and potentially lower the recommended fund balance in future years.

**INDUSTRIAL DEVELOPMENT CORPORATION
OF THE PORT OF SEATTLE
BALANCE SHEET
For The Years Ended December 31 2023, 2022 & 2021**

	December 31, 2023	December 31, 2022	December 31, 2021
ASSETS			
Cash and Cash Equivalents	\$ 312,571	\$ 306,259	\$ 286,043
Accounts Receivable	-	-	17,417
TOTAL ASSETS	\$ 312,571	\$ 306,259	\$ 303,460
LIABILITIES AND EQUITY			
Equity	\$ 312,571	\$ 306,259	\$ 303,460
TOTAL LIABILITIES & EQUITY	\$ 312,571	\$ 306,259	\$ 303,460

**INDUSTRIAL DEVELOPMENT CORPORATION
OF THE PORT OF SEATTLE
INCOME STATEMENT
AND CHANGES IN EQUITY
For The Years Ended December 31 2023, 2022 & 2021**

	December 31, 2023	December 31, 2022	December 31, 2021
INCOME			
Customer Fee	\$ -	\$ -	\$ 17,417
Investment Income	10,519	5,071	2,995
EXPENSE			
Administrative Expense	\$ 3,221	\$ 2,272	\$ 665
Other Expense - State Audit	986	-	-
NET INCOME	\$ 6,312	\$ 2,799	\$ 19,747
BEG. EQUITY	\$ 306,259	\$ 303,460	\$ 283,713
ENDING EQUITY	\$ 312,571	\$ 306,259	\$ 303,460

**INDUSTRIAL DEVELOPMENT CORPORATION
OF THE PORT OF SEATTLE
STATEMENT OF CASH FLOWS
For The Years Ended December 31 2023, 2022 & 2021**

	December 31, 2023	December 31, 2022	December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from bond issuers	\$ -	\$ 17,417	\$ 128
Cash paid for expenses	(4,207)	(2,272)	(665)
Net cash provided by operating activities	<u>\$ (4,207)</u>	<u>\$ 15,145</u>	<u>\$ (537)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	\$ 10,519	\$ 5,071	\$ 2,995
Net cash provided by investing activities	<u>\$ 10,519</u>	<u>\$ 5,071</u>	<u>\$ 2,995</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 6,312	\$ 20,216	\$ 2,458
CASH AND CASH EQUIVALENTS			
Beginning of year	<u>\$ 306,259</u>	<u>\$ 286,043</u>	<u>\$ 283,585</u>
End of year	<u>\$ 312,571</u>	<u>\$ 306,259</u>	<u>\$ 286,043</u>

INDUSTRIAL DEVELOPMENT CORPORATION AGENDA

Item No.	<u>4</u>
Date of Meeting	<u>March 26, 2024</u>

DATE: March 4, 2024

TO: Steve Metruck, Executive Director

FROM: Ian Burke, Senior Financial Analyst – Corporate Finance & Budget
Scott Bertram, Manager – Corporate Finance & Budget

SUBJECT: Overview of the Industrial Development Corporation Frequently Asked Questions (FAQs).

What is the purpose of an IDC?

- To facilitate industrial expansion through use of tax-exempt financing made available to companies for qualified projects.

What does the term “tax-exempt financing” mean?

- It means bondholders (investors) who purchase the bonds do not pay federal income tax on the interest received on such bonds, as they normally would do on interest-bearing bonds.

How does tax-exempt financing help the institution that is funding capital projects?

- Because investors pay no income taxes on interest income, they are generally willing to accept a lower interest rate than if the bonds were issued on a taxable basis. Thus, tax-exempt bonds provide the ability to finance many public infrastructure capital projects at a reduced cost.

What changed in the tax law to make tax exempt financing through the IDC less attractive now than it was when these projects were financed?

There are several factors that have adversely affected the use of tax exempt financing over the years.

- When our state initially authorized the use of nonrecourse tax-exempt financing, federal tax rules permitted the financing of a very broad spectrum of projects, including wholesale and retail facilities as well as warehouse facilities (of which there were many in Washington State due to the large agricultural base). There was almost no limit on the types of facilities that could be financed. As a result, tax-exempt financing was an option for many capital expansion projects. At that time, interest rates were also very high (substantially higher than the current interest rate environment), which made tax-exempt financing especially attractive.

The Tax Reform Act of 1986 made a number of changes in the tax-exempt financing code sections that adversely affected the use of tax-exempt bonds for business expansion. The tax rules imposed substantial limitations on the types of facilities that may be financed with tax-exempt bonds. These limitations eliminated at least 50-60% of the facilities that had been financed pre-1986.

The 1986 Tax Reform Act also removed the deductibility of interest earned on tax-exempt securities purchased by commercial banks subsequent to August 7, 1986. This effectively created a tax-on-tax-exempt

interest for such banks, which prior to 1986 were the largest investors in tax-exempt bonds. The net result was the demand by commercial banks for tax-exempt securities was almost entirely eliminated.

- Users of tax-exempt bond financing were also restricted in their depreciation methodology for tax-exempt bond financed property. Interest on private activity bonds also is subject to alternative minimum taxes. The US Treasury proposed the enactment of these rules in order to minimize the availability of this financing tool.

Who can establish an IDC?

- Any city, county or port in the State of Washington can establish an IDC.

When and how was the Port's IDC formed?

- The Port's IDC was established on February 9, 1982, pursuant to RCW 39.84.

What is the boundary of the Port's IDC?

- King County – as defined, it is the “Corporate boundaries of the Port”. The IDC may finance projects within King County.

What is the Port's IDC's structure?

- It is a special purpose government with limited powers.
- It is governed by a board of directors who are the same as the members of the Port Commission.
- The Port cannot lend credit or give money to IDC.
- Debt is always non-recourse to the Port and to the IDC.

What law(s) and policies govern the IDC and what projects might be eligible for Port IDC funding?

- Washington State law RCW 39.84, which is the statute that covers all IDC-related issues.
- Federal law (IRS tax code), which covers tax-exempt financing eligibility.
- A project must qualify under **both** Washington State and Federal law to be eligible for Port IDC financing.
 - In the current legal environment, the biggest limitation surrounding Port IDC stems from the 1986 Tax Reform Act, which as mentioned above significantly narrowed the type of projects that can be financed with tax-exempt bonds and the type of borrowers who can avail themselves of tax-exempt bonds.
 - Based on the current legal environment, legal counsel & staff have determined that only certain types of projects that **may** qualify for Port IDC financing:
 - Airport facilities and over water shipping/receiving facilities, including related facilities
 - Solid waste and/or sewage treatment and disposal
 - Processing and manufacturing (with a maximum bond size of \$10,000,000)
- Additionally, IDC uses are limited by Resolutions on policy adopted by the IDC board. The policy is subject to change with approval from the IDC board.

What does that resolution stipulate for eligibility of projects?

- The Commission has adopted a policy for judging eligibility of projects:
- The IDC will consider only projects or proposals which will further the purposes and objectives of the Port of Seattle within the confines of state and federal law.
- Tax exempt private activity bonds will be issued only for the financing of projects which broaden and strengthen the economic base of the Port District by enhancing trade and the movement of passengers and cargo by air or sea, including:
 - the development or improvement of marine terminals and airport facilities or components thereof;
 - the development and improvement of commercial and industrial land, manufacturing facilities, warehouses, terminal and transfer facilities, and related improvements which enhance trade via Port-owned or operated airport and marine facilities;
 - the development and improvement of facilities which will enhance or promote the Port's Comprehensive Scheme; and
 - the development and improvement of facilities which directly support and assist the movement of passengers and cargo by air or waterborne transportation, including, but not limited to, aircraft and ship construction and repair facilities, facilities necessary for the inspection, weighing, storage, and packaging of cargo; and connecting surface transportation facilities.

Who assists the Port in deciding which projects to finance?

- When bonds are issued, outside bond counsel is engaged to review and confirm legal compliance and eligibility of the project for tax-exempt financing. The bond counsel certifies that the issuer has the legal authority to issue the bonds and that the securities qualify for federal income exemption. Staff reviews projects based on Port policy. Ultimately, the IDC Board and Port Commission have to approve the use of the IDC for financing.

Who may apply for financing through the IDC?

- Any company with a project that qualifies for tax exempt financing and qualifies under RCW 39.84 (the RCW that covers all IDC issuances) and the IDC policy listed above may apply for IDC financing.

How much can be spent on financing the project?

- The amount of the bond issuance depends on the borrower's ability to repay as determined by investors; as non-recourse bonds, this is determined solely by the borrower's credit. Generally, all proceeds from the bond issuance are used for project spending with some exceptions. Under section 147(g) of the Federal Tax Code, any amount of bond proceeds that may be applied to finance the costs associated with the issuance of qualified private activity bonds (both before and after the issue date) is limited to 2% of the proceeds of the bond issue. As a general rule, qualified private activity bonds must satisfy a use test whereby 95% or more of the net proceeds of the bond issue must be used to finance the qualified purpose for which the bonds were issued.

How does the IDC get compensated?

- The IDC is compensated for administrative expenses related to the bonds by the borrower. The compensation is based on a percentage of the debt service. Payment is generally a lump-sum paid when bonds are issued; older bonds had the option of payments made annually through the life of the bond.

How does the bond counsel get compensated?

- Bond counsel is paid a fee that is negotiated with the borrower. The fee may be fixed or hourly. A flat fee is generally based on the type and size of the bond issue. Fees are paid at the time of issuance, generally out of bond proceeds.

Who are the current outstanding borrowers of IDC funds?

- Delta Air: In 2001, the IDC issued bonds on behalf of Northwest Airlines for the construction of a two-bay maintenance hangar and a cargo handling facility at SeaTac Airport. In September of 2012, the Commission gave approval for the bonds to be refinanced by Delta Airlines, which has acquired Northwest Airlines, so Delta Airlines is now the borrower. The facility is still in operation.

This project is completed, but the bonds are still outstanding.

Appendix A

Chapter 39.84 RCW
INDUSTRIAL DEVELOPMENT REVENUE BONDS

Chapter 39.84 RCW Industrial Development Revenue Bonds can be found in the Washington State Legislature web site, via the following hyperlink: <http://apps.leg.wa.gov/rcw/default.aspx?cite=39.84>.

Appendix B

RESOLUTION NO. 2

A RESOLUTION of the Industrial Development Corporation of the Port of Seattle adopting a master policy for the purpose of determining the eligibility of projects or proposals for financing.

WHEREAS, the Industrial Development Corporation of the Port of Seattle (the "Corporation") is a public corporation created pursuant to Chapter 300, Laws of Washington 1981 (Reg. Sess.) codified as Chapter 39.84 of the Revised Code of Washington and Resolution No. 2845 adopted by the Port of Seattle Commission on February 9, 1982; and

WHEREAS, the Corporation is now desirous of adopting a master policy to determine the eligibility of projects or proposals coming before the Corporation; and

WHEREAS, the Corporation wishes to establish and empower a Chief Staff Officer for the Corporation with the authority to amend, update and revise, when necessary, the initial procedures to carry out the adopted policies herein; and

WHEREAS, the initial procedures have been submitted to the Board of Directors of the Corporation and by adoption of this Resolution represents Board concurrence in the general context and form.

NOW, THEREFORE, BE IT RESOLVED BY THE INDUSTRIAL DEVELOPMENT CORPORATION OF THE PORT OF SEATTLE, WASHINGTON, as follows:

Section 1. It is the basic policy of the Corporation to comply with the applicable Federal and State of Washington laws and amendments thereto in determining the eligibility of any project or proposal coming before the Corporation for consideration and/or approval for financing.

Section 2. The Corporation hereby adopts the following additional policy to determine the eligibility of projects or proposals for financing by the Corporation:

- A. The Corporation will consider only projects or proposals which will further the purposes and objectives of the Port of Seattle as adopted by the Port Commission December 9, 1980 or as further amended from time to time.
- B. Tax exempt industrial revenue bonds will be issued only for the financing of projects which broaden and strengthen the economic base of the Port District by enhancing trade and the movement of passengers and cargo by air or sea, including:
 - (1) the development or improvement of marine terminals and airport facilities or components thereof;
 - (2) the development and improvement of commercial and industrial land, manufacturing facilities, warehouses, terminal and transfer facilities, and related improvements which enhance trade via Port-owned or operated airport and marine facilities;
 - (3) the development and improvement of facilities which will enhance or promote the Port's Comprehensive Scheme; and
 - (4) the development and improvement of facilities which directly support and assist the movement of passengers and cargo by air or waterborne transportation, including, but not limited to, aircraft and ship construction and repair facilities, facilities necessary for the inspection, weighing, storage, and packaging of cargo; and connecting surface transportation facilities.
- A. The Corporation will not consider projects or proposals that:
 - (1) unnecessarily or unjustifiably subsidize users, i.e., proponents must demonstrate reasonable need for this form of financing;

- (2) create unfair competition or dislocate the balance of competition within the Port District;
- (3) duplicate existing facilities which already adequately meet current needs;
- (4) are proposed by others than the directly interested party, or by any proponent unable to demonstrate a sound operating and financial history; and
- (5) are not otherwise authorized by the 1981 Local Economic Development Act or other applicable laws.

Section 3. The Chief Staff Officer of the Corporation shall be the Executive Director of the Port of Seattle. The chief staff officer is hereby authorized to carry out the purposes of the policies hereby and henceforth adopted by the Corporation and may amend, update and revise the procedures of this Resolution as it is from time to time necessary due to changes in law and/or operations of the Port without prior Commission approval, except as to fees and assessments to be charged.

The initial procedures have been submitted to the Board of Directors of the Corporation and by this Resolution they concur in the general context and form.

ADOPTED by the Board of Directors of the Industrial Development Corporation of the Port of Seattle, Washington this 27th day of April 1982.

JACK BLOCK
PRESIDENT

ATTEST:
HENRY L KOTKINS

SECRETARY
(SEAL)

Appendix C

Examples of IDC/EDC's located in Washington State*

Counties

Adams County
Chelan County
King County
Kitsap County
Okanogan County
Pierce County
Spokane County
Snohomish County
Kittitas County
Klickitat County
Clark County
Yakima County

Cities

Algona
Anacortes
Bellingham
Enumclaw
Everett
Kent
Seattle
Snoqualmie
Sunnyside
Union Gap
Vancouver

Port Districts

Port of Anacortes
Port of Bellingham
Port of Benton
Port of Camas-Washougal
Port of Centralia
Port of Chehalis
Port of Douglas County
Port of Edmonds
Port of Ephrata
Port of Everett
Port of Kalama
Port of Longview
Port of Moses Lake
Port of Olympia
Port of Pasco
Port of Port Angeles

Port of Port Townsend
Port of Quincy
Port of Seattle
Port of Skagit
Port of Skamania
Port of Sunnyside
Port of Walla Walla
Port of Warden

* This list may **not** represent all issuers; some have been inactive for many years.