PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 7a

Date of Meeting May 12, 2009

DATE: May 6, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: Elizabeth Morrison, Sr. Manager, Corporate Finance

SUBJECT: Briefing on Consolidated Rental Car Facility (CRCF) financing

BACKGROUND

On May 13, 2008, the Commission authorized funding for the construction of the Consolidated Rental Car Facility (CRCF). Source of funding at the time of authorization was expected to be customer facility charges (CFCs) and stand-alone CFC-backed bonds to be issued in 2008. CFC cash was expected to fund a portion of the project and construction of the facility began in [June] 2008.

On July 1, 2008, the Commission passed Resolution No. 3600, as amended, authorizing the issuance of CFC–backed revenue bonds to fund all of the CRCF project costs. These bonds would have been secured solely by CFC revenues. Due to deteriorating bond market conditions resulting from the U.S. financial crisis, the Port decided not to proceed with the bond issue at that time. Credit markets in general and the taxable municipal market in particular worsened toward the end of 2008 and the Port suspended this transaction until credit markets improved, although the project continued to be funded with CFC collections and funds on hand.

On October 14, 2008, the Commission authorized the use of general Airport funds in the amount not to exceed $20 million as interim funding to allow continuation of project construction on schedule toward the original May 2011 program target. This budget was established using Turner Construction Company's estimated cash flow projection for the entire project as provided to the Port in September. These funds, in combination with available CFC funds, were expected to be sufficient to fund construction through the end of March 2009, by which time longer-term financing would be secured.

In early November 2008, Turner provided a revised cash flow estimate that showed faster spending than previously anticipated due to favorable weather conditions and more refined estimates from subcontractors, with expenditures projected to exceed available funds around the end of 2008. As a result, on December 15, 2008, the Commission approved the suspension of the project for up to one year, and staff began developing an alternative financing strategy.

On January 27 and March 5, 2009, staff provided updates on the financial markets and on possible funding options available for the project. Since that time, staff has worked on several elements of the financing.

- Airport staff has developed a detailed transaction day forecast methodology based on a revised enplanement forecast that reflects a larger drop in traffic, and slower recovery, than originally projected.
- Staff has met with the rental industry to discuss the forecast and a financing plan that provides for a projected opening day CFC of $6.50.
- The Port has re-engaged the feasibility consultant and begun a draft report.
- Staff has met with the Port's finance team to evaluate the market and the Port's access to credit for this financing.
- Staff has worked to secure two $100 million bank lines of credit, for a total of $200 million, to ensure that the project can be funded to completion and provide flexibility in structuring the fixed rate bonds.
- Staff has begun drafting Resolutions for Commission authorization of the two bank lines of credit (including the Bank of America (BOA) Note) and the issuance of taxable bonds.

FINANCING PLAN

The financing plan for the CRCF consists of several components designed to ensure that the project can be fully funded through completion, in an amount totaling approximately $400 million. Since the total amount and type of fixed rate bonds available for purchase by investors won't be known with certainty until the Port actually enters the bond market, the funding plan includes a backup in the form of $200 million in bank lines of credit that can be drawn when, and if needed, to provide flexibility in structuring the fixed rate debt. The permanent funding plan, based on an assessment of current market conditions and expected investor demand, includes the following:

Funding Source
$20 million tax-exempt debt
$100 million variable rate debt
$100 million 10-yr bonds
$150 million 30-yr bonds
$30 million Capital Appreciation Bonds (CABs)
$400 million Total

This plan provides for a projected opening day CFC of $6.50. The plan will continue to be refined based on market conditions to provide for greater certainty (e.g. longer-term bonds) and/or a lower CFC (e.g. more CABs/cash or lower market rates).

To accomplish this plan, staff proposes the following schedule:

May – Commission briefing, draft feasibility report, meet with rating agencies,

June – Commission briefing, First and Second Reading of BOA and US Bank Note and Revenue Bond Resolutions, close Notes, sell bonds and initiate project restart.

Additional background and details will be provided on May 12, 2009.