PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 6a

Date of Meeting June 2, 2009

DATE: May 15, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: Elizabeth Morrison, Sr. Manager, Corporate Finance

SUBJECT: First Reading of Resolution No. 3619 authorizing the issuance and sale of Revenue Bonds, Series 2009A and Series 2009B in the aggregate principal amount of not to exceed $425,000,000.

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 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 May 12, 2009, staff presented a funding plan to fully fund the CRCF project with an estimated opening Customer Facility Charge of $6.50. The plan includes the issuance of Port Revenue Bonds and the issuance of Bond Anticipation Notes in form of lines of credit with Bank of America and U. S. Bank.

FIRST LIEN REVENUE BONDS, SERIES 2009

The Series 2009 Bonds (the "Bonds") will be issued to provide funding for the CRCF. They will be issued as fixed rate bonds on parity with the Port's currently outstanding First Lien Revenue Bonds pursuant to the Port's Amended and Restated Master Resolution No. 3577. Bonds issued pursuant to Resolution No. 3577 are secured by Port's Gross Revenues after the payment of Operating Expenses. Debt service on the Bonds may be paid from CFC Revenues available after the payment of obligations under the CFC Revenue Note, but CFC Revenue is not included in Gross Revenues as defined in Resolution No. 3577 and is not pledged to the Bonds. Therefore, CFCs are not included in the calculation of First Lien debt service coverage for the purposes of meeting the First Lien Rate Covenant or for meeting the Coverage Requirement for the issuance of additional Parity Bonds. The minimum coverage requirement for First Lien Bonds is 1.35x debt service. Separately, the Port has a management target of First Lien coverage of 1.8x. Based on the Report of the Independent Consultant, during the forecast period of 2009-2018, First Lien coverage is forecast to exceed 1.8x.

The Bonds will is issued with final maturities no less than 10 years and to 30 years. Subject to market conditions, a portion of the Bonds will be issued as Capital Appreciation Bonds (CABs) with interest payments deferred until the payment of principal; the balance of the Bonds will pay current interest semiannually.

The currently noted not to exceed amount of $425,000,000 is set at a level to provide flexibility for accessing the market as effectively as possible. For example, if interest rates are low enough and CABs are not available at reasonable rates, the Port might be able to issue bonds to pay near-term interest (capitalized interest). This would have the effect of reducing the CFC rate but increasing the bond size; the annual debt service would be similar. The maximum par amount will be established at second reading and may be less than $425,000,000.

RESOLUTION NO. 3619

The Bonds will be issued in two series, Series A (non-AMT) will be governmental purpose bonds with interest exempt from federal income tax and will be issued to fund qualifying project elements including the off-site roadway improvements. Interest on the Series B (taxable) Bonds will be subject to income tax and will fund non-qualifying project elements including the rental car facility, bus maintenance facility and bus acquisitions. Unlike tax-exempt bonds, taxable bonds typically are sold without the ability to call the bonds at par; the ability to redeem bonds early is typically accomplished by a make-whole call, so the Port will not have the ability to achieve savings through refunding the taxable Bonds if interest rates drop in the future.

Resolution No. 3619 establishes a Debt Service Reserve for each series of Bonds estimated to be in an amount equal to 10% of the original par value of each series.

The Resolution delegates to the Port's Chief Executive Officer the Commission's 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 in the form of a maximum interest rate, maximum bond size and expiration date for the delegated authority will be established at Second Reading. If the Bonds cannot be sold within these parameters, further Commission action would be required.

Upon adoption, Resolution No. 3619 will approve, by reference, the Bond Purchase Contract and the Official Statement. The Bonds will be sold through negotiated sale to Barclays Capital, Goldman Sachs & Co., Morgan Stanley & Co. Inc. and Seibert Brandford Shank & Co., LLC. Seattle Northwest Securities Corporation, Inc. is serving as Financial Advisor on the transaction.

REQUESTED ACTION

First Reading of Resolution No. 3619 authorizing the issuance and sale of Revenue Bonds, Series 2009A and Series 2009B in the aggregate principal amount of not to exceed $425,000,000.