PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 6c

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. 3621 authorizing the issuance and sale of CFC Revenue Bond Anticipation Note, 2009 in the principal amount of not to exceed $100,000,000 .

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.

CFC REVENUE BOND ANTICIPATION NOTE, 2009

The line of credit would be issued as a Bond Anticipation Note, secured by the Port’s CFC Revenues. The Note will be due on June 1, 2012. The Note is a non-revolving line of credit and can be drawn upon to pay CRFC project related costs up to $100,000,000. Any draws on the

Note will accrue interest at a taxable rate equal to the London Interbank Offer Rate (LIBOR) plus 2.65 percent (this is a variable rate of interest currently estimated at approximately 3 to 3.5 percent) and undrawn portions of the Note will carry a fee of 0.50 percent. Cost of issuance is estimated to be less than 1 percent. The Note can be cancelled, extended or paid down with cash or refunding bonds at any time. The Note is expected to be extended or replaced with notes or bonds with a similar security pledge. If that option is not available, the Port may replace the Note with other Port obligations. The Note may be prepaid prior to its scheduled maturity without penalty.

This Note differs from the Port's existing variable rate debt in that the Note is placed directly with the U.S. Bank National Association (the Bank). The Port's other variable rate debt is backed by a bank provided letter-of-credit (LOC) and sold to investors through a weekly remarketing process. In the current market, LOCs have been difficult and expensive to secure. Periodic concerns about an LOC provider have caused investors to put bonds back to the issuers. With a direct loan, the Port does not need to secure an LOC and is not exposed to investors concerns. U.S. Bank National Association carries long-term debt ratings of Aa1, AA+ and AA- from Moody's, Standard & Poor's and Fitch, respectively. The Bank is in the final stage of credit review and expects to provide credit approval for the Note prior to First Reading.

The Note will be secured solely by the Customer Facility Charge revenues and there will not be a pledge of any other Port revenues or collections. RCW 14.08.120(7) provides authority for the Port to collect a CFC on rental car transactions days and pursuant to Resolution No. 3599 the Port currently imposes a $5.00 CFC.

RESOLUTION NO. 3621

Resolution No. 3621 provides certain protections for the Bank including the following:

- The Port must establish and maintain
    - Debt Service Reserve Account estimated to equal to $4,000,000.
    - Coverage Account equal to $1,000,000 (25% of the Debt Service Reserve Account), and
    - Transportation Reserve Account equal to 50% the budgeted amount of the subsequent year's transportation expenses to be funded no less than 30 days prior to the opening of the CRCF.
- Rate Covenant – the Port will be required to (1) establish and collect CFCs sufficient to pay debt service in each year and to replenish any shortfalls in the Debt Service Reserve Account incurred in the prior year and (2) maintain required balances in the Coverage Account and Transportation Reserve Account.

- The Port may issue CFC Bonds in the future to pay and redeem the Note or to pay costs of the CRCF or for other purposes allowed under RCW 14.08.120(7). Any future CFC bonds will require Commission authorization.

CFC Revenues that exceed the obligations to U.S. Bank are accumulated in a separate fund are available to pay transportation costs, debt service on Port Revenue Bonds and Notes issued to fund the CRCF project and major maintenance costs.

Resolution No. 3621 authorizes the issuance of the Note and delegates to the Designated Port Representative the authority to draw upon the Note.

REQUESTED ACTION

First Reading of Resolution No. 3621 authorizing the issuance and sale of CFC Revenue Bond Anticipation Note, 2009 in the principal amount of not to exceed $100,000,000.