

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 5e

Date of Meeting July 28, 2009

DATE: July 9, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: James R. Schone, Director, Aviation Business Development
R. Borgan Anderson, Manager, Aviation Finance and Budget
Elizabeth Morrison, Sr. Manager, Corporate Finance

SUBJECT: Establish a 7.4% interest rate on a Port Investment to partially fund the costs associated with the design and construction of the Consolidated Rental Car Facility (CRCF) program.

BACKGROUND

On May 12, 2009, the Commission was briefed on a funding plan for the CRCF which included the use of Port funds (Port Investment) of up to \$30,000,000. In order to reduce the opening day Customer Facility Charge (CFC) and manage any increases to the CFC so as not to exceed the forecasted revenue, the funding plan called for deferred repayment of the Port Investment and any interest on that investment, a structure similar to Capital Appreciation Bonds (CABs). Unlike CABs sold to outside investors, the Port Investment would provide flexibility to accelerate or further defer repayment depending on how actual revenue results compared to the forecast.

The funding plan also included the issuance of Port revenue bonds and the use of a line of credit. On June 9, 2009, the Commission authorized both the issuance of revenue bonds and the line of credit; the bonds were successfully sold on June 25, 2009. Based on the results of the bond sale, the Port Investment is estimated to be approximately \$20,000,000. Use of this funding source is expected in late 2011.

APPROVAL OF AN INTEREST RATE ON THE PORT INVESTMENT

RCW 14.08.120(7) authorizes the Port to impose a CFC on rental car customers for the purpose of funding a CRCF. The statute provides for the use of the Port's own (non-CFC) funds which can be repaid at a rate of interest not to exceed a rate the Port would otherwise pay to finance the facility in the capital markets. The revenue bonds issued to fund most of the project costs included \$22,000,000 of CABs sold to investors bearing a rate of interest of 7.4%. This is the comparable market rate that staff recommends applying to the Port Investment. The funds repaid with interest from CFCs may be used for other Port purposes and their use is not limited to costs associated with the CRCF.

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The statute requires that the rate be established in consultation with rental car companies. On April 22, 2009, the funding plan, including the use of a Port Investment was presented at the rental car industry meeting. At that time, a projected rate of 8.5% for CABs was used for the funding analysis. Based on further discussions with the industry and their financial advisors, staff recommended that the rate on any Port Investment be the rate on any bonds sold to fund the facility. The applicable bonds would be those that most closely resembled the Port Investment – CABs if any were sold, otherwise, long-term maturities.

On June 30, 2009, the Commission approved Resolution No. 3624 (CFC Resolution) which authorized the collection of CFCs and delegated to staff the setting of the CFC rate within certain parameters. The CFC Resolution requires that the Commission establish the rate of interest applied to the Port Investment if that rate exceeds the Port's rate of return on its investment pool ("Temporarily Idle Port Funds"). The Port's investment pool as of July 2, 2009 is earning a rate of 3.08%

REQUESTED ACTION

Establish a 7.4% interest rate on a Port Investment to partially fund the costs associated with the design and construction of the Consolidated Rental Car Facility (CRCF) program.