

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**

**Item No.** 6d

**Date of Meeting** June 1, 2010

**DATE:** May 14, 2010

**TO:** Tay Yoshitani, Chief Executive Officer

**FROM:** Elizabeth Morrison, Sr. Manager, Corporate Finance

**SUBJECT:** First Reading of Resolution No. 3637 authorizing the issuance and sale of Intermediate Lien Revenue Bonds and Revenue Refunding Bonds, in multiple series in the aggregate principal amount of not to exceed \$350,000,000 - \$600,000,000 \*.

\*Preliminary, subject to change

**ACTION REQUESTED:**

First Reading of Resolution No. 3637 authorizing the issuance and sale of Intermediate Lien Revenue Bonds, Series 2010 in the aggregate principal amount of not to exceed \$350,000,000-\$600,000,000 (preliminary) to refund existing debt and to fund a portion of the five-year Capital Improvement Program at Seattle-Tacoma International Airport.

**SYNOPSIS:**

Commission authorization is requested to issue Intermediate Lien Revenue Bonds, Series 2010, in an amount estimated at between \$350 million to \$600 million (including a reserve fund and cost of issuance) to refund existing debt and to fund a portion of the five-year Capital Improvement Program at Seattle-Tacoma International Airport. No Bond proceeds may be expended on projects without appropriate Commission Authorization. Bond proceeds may be used for other projects if such use is in compliance with tax regulations and Port policy.

**BACKGROUND:**

The 2010-2014 Draft Plan of Finance, presented to the Commission on November 10, 2009, included the issuance of new Revenue Bonds which, along with other sources, will fund the five-year Capital Improvement Program (CIP) at the Seattle-Tacoma International Airport. The financial impacts of the CIP and the anticipated bond funding were included in the Airport's long-term forecast of financial results and cost per enplaned passenger.

On May 11, the Commission was briefed on the recommended issuance of Intermediate Lien Revenue Bonds, Series 2010 (the Bonds) to provide a portion of the funding needs for the Airport CIP and to refund certain outstanding bonds for interest savings.

## **COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

May 14, 2010

Page 2 of 4

Proceeds of the Bonds will be used to fund approximately \$146,000,000 of capital projects. A list of projects and the current estimate of Bond funding is attached in Exhibit A. No Bond proceeds may be expended on projects without appropriate project authorization. Bond proceeds may be used for other projects if such use is in compliance with tax regulations and Port policy.

Proceeds of the Bonds will also be used to refund certain outstanding bonds. As part of the Port's on-going debt management, staff looks for opportunities to reduce interest costs by refunding bonds at lower interest rates. Candidates for refunding are identified in Exhibit B. In addition, the Port may choose to refund for other reasons such as risk management. Staff, in consultation with the Port's financial advisor and bond counsel, is evaluating the refunding of Subordinate Lien Revenue Bonds, Series 2005 from variable rate demand bonds to fixed rate bonds in order to reduce the Port's exposure to letter-of-credit bank risk.

The Bonds will be issued as fixed rate, intermediate lien revenue bonds substantially similar to the Series 2005 and 2006 Intermediate Lien Revenue Bonds and are payable from Available Intermediate Lien Revenues (revenues available after the payment of debt service on the Port's First Lien bonds and any required deposits to the debt service reserves for First Lien bonds). Consistent with the lien structure discussed with the Commission on May 11, 2010, the refunded bonds are being refunded as Intermediate Lien bonds because they are Airport related.

### **RESOLUTION NO. 3637:**

The Bonds will be issued in multiple series based on their tax status: governmental purpose bonds exempt from all federal income tax, private activity bonds exempt from regular federal income tax, but subject to the Alternative Minimum Tax (AMT) and private activity exempt from all federal tax under the "AMT holiday" provided in the economic stimulus bill of 2009. Because one or more series of the Bonds will be private activity bonds, the Port is required to hold a Tax Equity and Fiscal Responsibility Act (TEFRA) hearing; the hearing is scheduled for June 2.

Resolution No. 3637 provides for a contribution to the Intermediate Lien Reserve Account, which when added to the contributions for existing Intermediate Lien Bonds will be sufficient to meet the Intermediate Lien Reserve Requirement. The Requirement equals average annual debt service on all outstanding Intermediate Lien Bonds including the Bonds.

The Resolution delegates to the Port's Chief Executive Officer the 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.

## **COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

May 14, 2010

Page 3 of 4

Upon adoption, Resolution No. 3637 will authorize the Designated Port Representative (the Chief Executive Officer or the Chief Financial Officer) to approve the Bond Purchase Contract, the Official Statement, escrow agreement, pay the cost of issuance and take other action appropriate for the prompt execution and delivery of the Bonds. The Bonds will be sold through negotiated sale to Morgan Stanley & Co. Inc., Barclays Capital, Goldman Sachs & Co. and Seibert Brandford Shank & Co., LLC. Seattle Northwest Securities Corporation, Inc. is serving as Financial Advisor on the transaction.

### **Exhibit A**

#### Bond Projects (\$ mil.)

Airfield pavement	17.9
Storm water and sewer pipes	3.5
Baggage handling improvements	13.0
Vertical circulation renewal and replacement	79.0
Preconditioned Air	6.0
Electrical Ground Service Equipment	5.6
Other Terminal Improvements	<u>20.7</u>
	145.7

Note: Amounts reflect update as of Quarter 1, 2010

### **Exhibit B**

#### Potential Refunding Candidates

<u>Bond Series</u>	<u>Refunded Par (\$ mil.)</u>	<u>Purpose</u>	<u>Savings Rate (1)</u>
1998A First Lien	25.4	Savings	8.8
2000B First Lien	128.2	Savings	6.1
2001B First Lien	108.5	Savings	1.0
1998 A&B PFC	165.1	Savings	6.8
2005 Subordinate Lien	<u>62.9</u>	Risk Avoidance	N/A
Total	490.1		

(1) Subject to market changes

**COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

May 14, 2010

Page 4 of 4

**OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:**

Resolution No. 3637 Intermediate Lien Series Resolution.

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:**

- May 11, 2010- Commission Briefing on Intermediate Lien Revenue Bonds, Series 2010
- November 10, 2009-Commission Briefing on the 2010-2014 Draft Plan of Finance