PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 6a

Date of Meeting June 22, 2010

DATE: June 16, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Elizabeth Morrison, Sr. Manager, Corporate Finance
Diane Campbell, Sr. Financial Analyst

SUBJECT: Resolution No. 3637, as amended, 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 $600,000,000.

ACTIONS REQUESTED:

1. Amend Resolution No. 3637.
2. Second Reading and Final Passage of Resolution No. 3637, as amended, authorizing the issuance and sale of Intermediate Lien Revenue and Refunding Bonds, Series 2010 in the aggregate principal amount of not to exceed $600,000,000 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 and Refunding Bonds, Series 2010, in an amount not to exceed $600,000,000 (including a reserve fund, capitalized interest and cost of issuance) to refund existing debt for an estimated present value savings of $10 million, to reduce the Port’s exposure to letter-of-credit (LOC) banks 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 and Refunding 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.

Proceeds of the Bonds will be used to fund approximately $140,000,000 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. At this time, staff recommends refunding the following:

- First Lien Revenue Bonds, Series 1998A and 2000B – refund for savings. The total amount to be refunded is $153.6 million. At current rates, the present value savings is estimated to be $10.1 million (nominal savings is $13.2 million). This translates into an annual savings of approximately 5 cents for each enplaned passenger at SeaTac Airport.

- Subordinate Lien Revenue Bonds, Series 2005 – refund for risk avoidance. The bonds are currently backed by and LOC provided by Fortis/BNP Paribas which expires in August, 2010. The current low fee and low interest rates have resulted in a low cost of capital for variable rate bonds, but the LOC market has changed significantly in the past two years. Changes include higher fees and additional terms and conditions imposed on the Port. While variable rate debt continues to be a useful debt management and asset-liability management tool, the use of LOCs currently poses challenges and staff recommends that this particular bond issue be refunded as long-term fixed rate debt.

The list of refunding candidates previously presented is listed in Exhibit B and includes the current refunding plan.

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 primarily Airport related.

RESOLUTION NO. 3637, as amended:

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 21.

Resolution No. 3637, as amended, 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 prior to September 20, 2010, further Commission action would be required.

The Resolution is amended as follows:

- Establish the delegation parameters:
  - Maximum size: $600,000,000
  - Maximum interest rate: 5.75%
  - Minimum savings rate: 2.75%
- Appoint the Bank of New York Trust Company, N.A., as escrow agent
- Minor administrative changes to clarify languages or correct minor errors

Upon adoption, Resolution No. 3637, as amended, 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
Other Airport Improvements	20.7
	140.1

Note: Amounts reflect update as of Quarter 1, 2010

Exhibit B

Potential Refunding Candidates

Bond Series	Refunded Par ($ mil.)	Purpose	Current Plan
2010 Bonds			
1998A First Lien	25.4	Savings	Refund now
2000B First Lien	128.2	Savings	Refund now
2005 Subordinate Lien	62.9	Risk Avoidance	Refund Now
Potential for 2010Bonds			
2001B First Lien	108.5	Savings	Monitor for refunding when savings target achieved – possibly refund now
Future Refunding			
1998 A&B PFC	165.1	Savings	Refund as PFC bonds

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Resolution No. 3637, as amended, Intermediate Lien Series Resolution.

PREVIOUS COMMISION ACTIONS OR BRIEFINGS:

- June 1, 2010-Commission approved First Reading of Resolution No. 3637
- May 11, 2010- Commission Briefing on Intermediate Lien Revenue Bonds, Series 2010
- November 10, 2009-Commision Briefing on the 2010-2014 Draft Plan of Finance