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

**COMMISSION AGENDA**

**Item No.** 6e

**Date of Meeting** February 14, 2012

**DATE:** February 3, 2012

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

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

**SUBJECT:** Resolution No. 3658 Authorizing the Issuance and Sale of Intermediate Lien Revenue Refunding Bonds

## ACTION REQUESTED:

Second Reading and Final Passage of Resolution No. 3658: Resolution of the Port Commission of the Port of Seattle authorizing the issuance and sale of intermediate lien revenue refunding bonds in one or more series for the purpose of refunding certain outstanding revenue bonds of the Port; delegating authority for the sale of the bonds by negotiated sale, the negotiation, approval and execution of the bond purchase contract and the preparation and dissemination of a preliminary official statement and final official statement; authorizing the appointment of an escrow agent and execution of an escrow agreement; providing for continuing disclosure; and providing for a negotiated sale of the bonds to J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, Barclays Capital Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Backstrom McCarley Berry & Co., LLC and Drexel Hamilton, LLC. The issuance and sale of the Intermediate Lien Revenue Refunding Bonds is in an amount not to exceed $730,000,000.

## SYNOPSIS:

Commission authorization is requested to issue Intermediate Lien Revenue Refunding Bonds in multiple series in an amount estimated not to exceed $730 million (including a reserve fund and cost of issuance) to refund up to $534,710,000 outstanding First Lien Revenue Bonds and up to $105,430,000 outstanding Subordinate Lien Revenue Bonds (See Exhibit A). The Bonds are being issued solely for the purpose of achieving debt service savings; there is no new project funding associated with this transaction. The actual amounts refunded and the associated savings will be based on market conditions at the time of the bond sale.

## BACKGROUND:

The Port's on-going debt management program includes the monitoring of existing debt for opportunities to refund at lower interest rates and reduce debt service. The current low interest rate environment offers an opportunity to potentially refund several series of outstanding bonds and meet or exceed the Port's debt service savings target.

In 2005, in conjunction with the new airline agreements that took effect in 2006, the Port introduced the Intermediate Lien to be used primarily for Airport debt. The Intermediate Lien incorporates certain legal provisions that are typical for Airport debt; for example, the Intermediate Lien provides for the use of Passenger Facility Charge collections to pay revenue bond debt service, and it provides for a lower debt service coverage requirement that is coordinated with the airline agreements. Since its introduction in 2005, the Intermediate Lien has been used for most new Airport debt and for the refunding of existing Airport related debt.

***First Lien Bonds***

The Port sold bonds in four series in 2001 to fund Airport projects including the third runway, the central terminal, concourse A and the Airport office building, and to refund bonds originally issued in 1990 and 1992. The original 1990 and 1992 bonds funded both Airport and Seaport projects including Airport noise mitigation, concourse improvements and improvements to various Seaport facilities, so a portion of the 2001 bonds is allocated to the Seaport. Three series of the 2001 bonds are currently callable and would be redeemed immediately upon issuance of the Bonds. The fourth series of the 2001 bonds is callable on November 1, 2012, and would be defeased through the establishment of an escrow until their call date.

The 2003A bonds funded Airport projects including the third runway, and infrastructure improvement like electrical and storm water systems. Only a portion of the 2003A bonds meet the Port's savings target at this time, but the entire series is included. Recent declines in interest rates have put the entire series closer to the target and worth including in the refunding candidates list; further improvement in rates could make the entire series eligible for refunding. The 2003A bonds are callable on July 1, 2013, and would be defeased through the establishment of an escrow until their call date.

***Subordinate Lien Bonds***

In 1999 the Port issued bonds to fund Airport projects including the third runway, property acquisitions, parking garage improvements and terminal infrastructure improvements. These were originally issued as variable rate bonds on the Subordinate Lien; in 2002, the Port converted the 1999 bonds to fixed rate bonds. The 1999 bonds are callable September 1, 2012, and would be defeased through the establishment of an escrow until their call date.

***Other Potential Refunding Opportunities***

The 2003B bonds funded Airport projects. These bonds do not meet their savings target and are not included in the refunding candidate list. However, they are actively monitored and a decrease in interest rates could warrant adding these bonds to the list of candidates. The outstanding amount is $138 million and the bonds are callable on July 1, 2013.

## ADDITIONAL BACKGROUND:

The Bonds are being issued pursuant to the Intermediate Lien Master Resolution No. 3540 and this Resolution No. 3658. The Bonds will be issued in multiple series based on their tax status: governmental purpose bonds exempt from all federal income tax will be issued to refund existing governmental purpose bonds; private activity bonds exempt from regular federal income tax, but subject to the Alternative Minimum Tax (AMT), will be issued to refund existing private activity bonds that are currently callable; and taxable bonds subject to federal income tax will be issued to refund existing private activity bonds that are not currently callable (the tax code prohibits the issuance of tax-exempt bonds to refund private activity bonds that are not callable within 90 days).

Resolution No. 3658 is similar in all material respects to other Intermediate Lien Series Resolutions and provides for a contribution to the Common Reserve Fund that provides security for all Intermediate Lien 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 are a maximum bond size, minimum savings rate and expiration date for the delegated authority. If the Bonds cannot be sold within these parameters, further Commission action would be required. The recommended delegation parameters are:

Maximum size: $730,000,000
Minimum debt service savings: 3.75%
Expiration of Delegation of Authority: six months

Upon adoption, Resolution No. 3658 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 (if any), 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 J.P. Morgan Securities, LLC; Morgan Stanley & Co. Inc.; Backstrom McCarley Berry & Co., LLC; Barclays Capital; Drexel Hamilton, LLC; and Merrill Lynch, Pierce, Fenner & Smith Inc. Seattle Northwest Securities Corporation, Inc. is serving as Financial Advisor and K&L Gates LLP is serving as bond counsel on the transaction.

## OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

Resolution No. 3658

## PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

October 11, 2011, Commission held First Reading of Resolution No. 3653 and was briefed on additional refunding opportunities.

January 10, 2012, Commission was briefed on the refunding resolution.

February 7, 2012, Commission held First Reading of Resolution No. 3658

**Exhibit A**

**Candidates for 2012 Bond Refunding (1)**

| Outstanding Bonds | $ Amount to be Refunded | Tax Status | Call Date |
|---|---|---|---|
| **First Lien** | | | |
| 2001A | 176,105,000 | Governmental, Non-AMT | Current |
| 2001B | 187,265,000 | Private Activity, AMT | Current |
| 2001C | 12,205,000 | Private Activity, AMT | Current |
| 2001D | 30,805,000 | Private Activity, AMT | 11/1/2012 |
| 2003A | 128,330,000 | Governmental, Non-AMT | 7/1/2013 |
| **Subordinate Lien** | | | |
| 1999A | 65,585,000 | Governmental, Non-AMT | 9/1/2012 |

| | | | |
|---|---|---|---|
| 1999B | 39,845,000 | Private Activity, AMT | 9/1/2012 |

(1) Actual refunded bonds will depend on market conditions