

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	<u>6a</u>
Date of Meeting	<u>June 9, 2015</u>

DATE: May 21, 2015
TO: Ted Fick, Chief Executive Officer
FROM: Elizabeth Morrison, Director, Corporate Finance *EM*
SUBJECT: Resolution No. 3709 – issuance and sale of intermediate lien revenue and refunding bonds in the aggregate principal amount of not to exceed \$675,000,000

ACTION REQUESTED

Request First Reading of Resolution No. 3709: A Resolution of the Port Commission of the Port of Seattle authorizing the issuance and sale of intermediate lien revenue and refunding bonds in one or more series in the aggregate principal amount of not to exceed \$675,000,000, for the purpose of financing or refinancing capital improvements to aviation facilities and for the purpose of refunding certain outstanding revenue bonds of the Port; setting forth certain bond terms and covenants; and delegating authority to approve final terms and conditions and the sale of the bonds.

SYNOPSIS

Commission authorization is requested to issue intermediate lien revenue and refunding bonds (the “Bonds”) in an amount estimated not to exceed \$675,000,000 (including a reserve fund deposit, capitalized interest and cost of issuance) to fund the costs of capital improvements at the Airport (2015 Bond Projects attachment) and to refund up to \$319,295,000 of outstanding first lien revenue bonds, Series 2005A, for debt service savings.

BACKGROUND

As part of the Port’s debt management program, the Port monitors opportunities to reduce interest costs. In 2005, the Port issued Intermediate Lien Revenue Bonds to fund Airport projects; the 2005 Bonds were callable on March 1, 2015. Current low interest rates provide a favorable refunding opportunity. The outstanding amount is \$319 million and estimated present value savings are currently \$30 million. The refunding bonds will be structured for level savings which will result in reduced annual debt service with the same final maturity date as the 2005 Bonds.

In addition, the Bonds will include funding for an estimated \$290 million in Airport project costs. The Bonds will fund a portion of several major projects; cash, grants, passenger facility charges and future bond proceeds will also provide funding for these projects. The major projects include the North Satellite and related improvements (NorthStar), center runway

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pavement replacement, installation of emergency backup power and construction of aircraft parking capacity at the former U.S. Postal Service site. The full list of projects is listed in 2015 Bond Projects attachment. This will be the first new money bonds for Airport projects that the Port has issued since 2010. Typically new money bond disclosure includes a feasibility report that provides investors with information on the Port and its ability to support additional debt. The report will include operating and financial forecasts based on the Port's most current assumptions including the preliminary funding plan for the international arrival facility approved on May 26, 2014 and the formation of the Northwest Seaport Alliance.

No Bond proceeds can actually be spent on any projects without the appropriate project authorization.

The total Bond amount will also include proceeds sufficient to pay cost of issuance, fund the required debt service reserve and pay the interest on the Bonds during construction (capitalized interest) as appropriate. The current schedule assumes sale of the bonds in July and closing in August depending on market conditions.

ADDITIONAL BACKGROUND

The Bonds are being issued pursuant to the Intermediate Lien Master Resolution No. 3540 and this Resolution No. 3709. The Bonds will be fixed-rate and will be issued in multiple series based on the tax status of the projects to be funded or refunded. Series A will be issued as governmental bonds exempt from all federal income tax (non-AMT) and used for the center runway rehabilitation project. Series B will also be issued as governmental bonds and used to refund the 2005A (non-AMT) Bonds. Series C will be issued as private activity bonds exempt from regular federal income tax, but subject to the Alternative Minimum Tax (AMT) and will be used to fund the other capital projects that do not qualify as governmental purpose bonds. The Resolution also provides for a taxable series that can replace Series C; in some markets taxable rates are competitive and taxable bonds have lower on-going compliance costs.

Resolution No. 3709 is similar in all material respects to other Intermediate Lien Series Resolutions and provides for a contribution to the common debt service 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 for the refunding component, maximum interest rate for the new money bonds 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:

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Maximum size: \$675,000,000
Minimum debt service savings: 4.0%
Maximum interest rate: 5.0%
Expiration of Delegation of Authority: six months

Upon adoption, Resolution No. 3709 will authorize the Designated Port Representative (the Chief Executive Officer, the Deputy 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 Morgan Stanley & Co. Inc.; Barclays Capital; Backstrom McCarley Berry & Co., LLC; Drexel Hamilton, LLC; J.P. Morgan Securities, LLC; and Merrill Lynch, Pierce, Fenner & Smith Inc. Piper Jaffray is serving as Financial Advisor, K&L Gates LLP is serving as bond counsel and Pacifica Law Group is serving as disclosure counsel on the transaction.

ATTACHMENTS TO THIS REQUEST

- Resolution No. 3709
- 2015 Bond Projects

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- April 28, 2015 – Commission Briefing on 2015 Intermediate Lien Revenue and Refunding Bonds.
- October 28, 2014 – Briefing on 2015-2019 Draft Plan of Finance.