PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 4b

Date of Meeting November 10, 2015

DATE: October 16, 2015

TO: Ted Fick, Chief Executive Officer

FROM: Elizabeth Morrison, Director, Corporate Finance

SUBJECT: Enter into a Reimbursement Agreement with Sumitomo Mitsui Banking Corporation to replace the expiring agreement with Bayerische Landesbank.

Estimated Cost: $750,000 per year, total $3,750,000 over five years.

ACTION REQUESTED

Request Commission authorization for the Designated Port Representative (Either the Chief Executive Officer or the Chief Financial Officer) to execute a reimbursement agreement (Agreement) with Sumitomo Mitsui Banking Corporation and to take any other actions or enter into any related documents necessary for this agreement.

SYNOPSIS

The Port of Seattle has a commercial paper program in the authorized amount of $250,000,000 as part of its debt management program. Commercial paper is short-term debt issued in maturities up to 270 days. Upon maturity the issuer can either pay down the commercial paper or roll it over with a new issuance. The program is currently supported by two credit facilities in the form of direct pay letters of credit provided by Bank of America and by Bayerische Landesbank (BLB). The credit facility with BLB expires on November 30, 2015, and cannot be extended or renewed. The Port conducted a competitive selection process for a new provider and selected Sumitomo Mitsui Banking Corporation (Bank) to replace the BLB credit facility. The Port may terminate without penalty after the first year. The fees are standard non-operating costs, allocated to the operating divisions; a portion is allocated to aeronautical rates and charges.

BACKGROUND

In 1997 the Port initiated a commercial paper program to provide a low cost, flexible funding option, similar to a bank line of credit. In 2001, the program was expanded to a maximum authorization of $250,000,000 to accommodate the Airport's capital program; currently, the Port has $41,655,000 of Commercial Paper outstanding.

The Port typically uses commercial paper in two ways; first, as bridge funding in anticipation of issuing long-term debt or receipt of grants or other repayment. For example, the Port used commercial paper to fund a portion of the third runway and paid down the commercial paper with grant payments received over several years post completion. The second use of commercial paper is as a source of liquidity in support of the Port's risk management program. For example, the Port is able to forego earthquake insurance which is expensive and limited because the Port's commercial paper program provides relatively inexpensive and quick access to funds for earthquake damage repairs.

Similar to the Port's Variable Rate Demand Bonds, commercial paper is backed by a credit facility, typically in the form of a letter of credit provided by a bank. The letter of credit provides investors with both the credit and liquidity support they require to hold short-term debt. Investors are essentially relying on the bank's ability to repay them when the commercial paper they hold matures. In order to obtain a letter of credit, the Port enters into a reimbursement agreement with the bank that requires the Port to repay the bank for any draws under the letter of credit; repayment is provided by rolling-over the commercial paper with investors or redeeming commercial paper. In the event that the Port fails to repay the bank, the reimbursement agreement converts the amount owed into a term loan from the bank. During an initial liquidity period, the Port makes interest payments to the bank. At the end of the liquidity period the Port begins to make principal payments in equal amounts during the term loan period. The only time that the Port has had to utilize the letter of credit for liquidity was during the financial crisis of 2008 and early 2009 when the Port was unable to roll-over or remarket its variable rate debt due to concerns about the letter of credit providers (not concerns about the Port). The Port was able to remarket the debt within the liquidity period and no term loan payments were required.

In addition to liquidity periods and term loan conditions, the Port carefully reviews the terms and conditions of the Agreement. Reimbursement agreements include representations and warranties, covenants and default provisions. Many of these are standard and were developed based on loans to the private sector. However, some otherwise standard requirements can be inconsistent with the Port's municipal status, debt structure or debt management, or they can create inadvertent events of default. The Port has been negotiating with the Bank to tailor certain conditions to meet the Port's needs.

The Port may terminate the Agreement upon 30 days' notice. After the first year, there is no termination penalty. If the Port terminates the Agreement during the first year, the Port must pay the Bank the remainder of the fees for that year, thereafter, there is no penalty for early termination. The Port may terminate without penalty during the first year if the Bank's ratings decline below a proscribed level.

Resolution No. 3456, adopted June 26, 2001, and authorizing the commercial paper program requires Commission approval of any agreement authorizing a credit facility. This differs from the resolutions governing the Port's variable rate demand bonds that delegate this authority to the Designated Port Representative.

In anticipation of the expiry of the BLB credit facility, the Port conducted a competitive selection process. Seven proposals were received and Sumitomo Mitsui was selected; staff has been working with the Bank to negotiate the specific terms of the Agreement. Key provisions include:

Amount	$125,000,000	Supports $125,000,000 of the commercial paper program plus interest (the other half is supported by a letter of credit provided by Bank of America).
Term of the Agreement	Five years	The market standard is one to three; five provides additional stability to the commercial paper program.
Fee	0.48 percent	This is at the low end of market rates for a five year facility. In addition, there are other minor administrative and legal fees. A reduction in the Port's credit ratings will increase the fee.
Term Loan	Five years	The market standard is three years. The extra time reduces the Port's annual payments and allows more time to put an alternative financing in place.
Liquidity Period	180 days	The market standard is 90 days. The Port prefers extra time to put an alternative financing in place prior to the first term loan payment.
Early Termination Penalty	One year	Market standard is typically two or three years for a five year facility. The Port effectively guarantees payment of the first year's fees if it terminates within the first year. There is no penalty for early termination after the first year.
Terms and Conditions	Standard except where Port required modifications	Most are standard requirements for reimbursement agreements except that the Port has modified or eliminated several that are either inconsistent with the Port's debt structure and management or have the potential to create an unintended event of default.

Staff recommends that the Port replace the BLB credit facility with a credit facility provided by the Bank as described above.

ATTACHMENTS TO THIS REQUEST

- Draft Reimbursement Agreement

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- June 26, 2001 – Adoption of Resolution No. 3456 Authorizing a Commercial Paper Program