



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6e

ACTION ITEM

Date of Meeting July 11, 2017

DATE: June 23, 2017

TO: Dave Soike, Interim Executive Director

FROM: Elizabeth Morrison, Director, Corporate Finance

SUBJECT: Resolution No. 3735 – issuance and sale of intermediate lien revenue and refunding bonds in the aggregate principal amount of not to exceed \$800,000,000

ACTION REQUESTED

Request Second Reading and Final Passage of Resolution No. 3735: 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 \$800,000,000, 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.

EXECUTIVE SUMMARY

Commission authorization is requested to issue intermediate lien revenue and refunding bonds (the “Bonds”) in an amount estimated not to exceed \$800,000,000 (including a reserve fund deposit, capitalized interest and cost of issuance) to fund the costs of capital improvements at the Airport (Exhibit A) and to refund up to \$276,155,000 outstanding first lien revenue bonds, Series 2009A and B-1 for debt service savings.

JUSTIFICATION

As part of the Port’s debt management program, the Port monitors opportunities to reduce debt service. In 2009, the Port issued First Lien Revenue bonds to fund the Consolidated Rent-A-Car facility (CONRAC) at the Airport; the 2009A and B-1 bonds are callable on May 1, 2019. Current low interest rates and anticipation of rising interest rates provide a favorable refunding opportunity. The estimated present value savings of refunding approximately \$276 million is currently \$40 million. The B-1 bonds that mature on May 1, 2019 are not being refunded, nor are the B-2 bonds which are non-callable; the B-2 bonds have a final maturity in 2031. Debt service on the 2009 bonds (and the 2017 refunding Bonds) is paid from the Customer Facility Charge (CFC) assessed on rental car customers at the Airport; the lower debt service that results from the refunding is expected to delay the need for an increase in the CFC.

Meeting Date: July 11, 2017

In addition, the Bonds will include funding for an estimated \$420 million in Airport project costs. The Bonds will fund a portion of several major projects; cash, grants, passenger facility charges and existing and future bond proceeds will also provide funding for these projects. The major projects include the International Arrivals Facility, North Satellite Improvements, Alternative Utility Facility, Concourse D Hardstand Holdroom, Interim Baggage System Program and Baggage Makeup Space; a list of projects currently identified for 2017 Bond funding is provided in Exhibit A. If project spending is delayed, Bond proceeds may be redirected to other projects within the limits established by the tax code; use of any bond proceeds is identified in project authorization requests and 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 a portion of the interest on the Bonds during construction (capitalized interest) as appropriate.

DETAILS

The Bonds are being issued pursuant to the Intermediate Lien Master Resolution No. 3540 and this Resolution No. 3735. The Bonds will be issued in multiple series based on the tax status of the projects to be funded or refunded. Two series will be established for the refunding bonds. One of these will be issued as governmental bonds exempt from all federal income tax (non-AMT) and used to refund the 2009A bonds which funded roadways associated with the CONRAC. The other will be issued as taxable bonds in order to refund the 2009B-1 taxable bonds that funded the majority of the CONRAC construction; rental car facilities are not eligible for tax-exempt financing.

One or two additional series 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 a total of approximately \$420 million of Airport project spending; these projects do not qualify as governmental purpose bonds. Most of the projects have long asset lives appropriate for long-term bonds. Approximately \$100 million of the projects have shorter asset lives and therefore may be funded with the bonds that have a shorter final maturity, currently estimated to be ten years. The potential use of a fourth series with a shorter term to final maturity provides three benefits. First, the life of the bonds and the associated airline fee to pay debt service are tied to the facility life. Second, the interest rate on shorter-term bonds is lower than on longer term bonds. Third, the regulatory compliance for this series ends after final maturity in approximately ten-years. To comply with tax code regulations, the shorter-term bonds will be sold separately, approximately two weeks after the sale of the other three series. While the two sale approach is required for the compliance benefit, the other benefits may be achieved even with a common sales date and it is important to retain flexibility to sell the bonds on the same date if market conditions favor a combined sale. Resolution No. 3735 provides for this flexibility.

Meeting Date: July 11, 2017

Resolution No. 3735 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:

Maximum size:	\$800,000,000
Minimum debt service savings:	5.0%
Maximum interest rate:	5.25%
Expiration of Delegation of Authority:	six months

Upon adoption, Resolution No. 3735 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 Citigroup Global Markets Inc.; Morgan Stanley and Co. LLC.; Barclays Capital Inc.; Goldman Sachs & Co. LLC; J.P. Morgan Securities LLC; Merrill Lynch, Pierce, Fenner & Smith Incorporated and three small firms, Academy Securities, Inc; Backstrom McCarley Berry & Co., LLC; and Williams Capital Group, 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.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

The 2009 bonds are callable in 2019 and the Port could delay refunding those bonds rather than refunding them now. Refunding the 2009 bonds now, requires investing the 2017 bond proceeds at interests rates lower than the interest rate the Port pays on the refunding Bonds; this reduces the amount of savings.

Alternative 1 – Delay refunding until 2019 when the bonds are callable.

Pros:

- (1) Reduces the need to invest at a lower short-term interest rate.

Meeting Date: July 11, 2017

Cons:

- (1) Risks an increase in the long-term interest rates the Port pays on the refunding bonds resulting in reduced savings or potentially the loss of the refunding opportunity altogether.

This is not the recommended alternative.

Alternative 2 – Refund the 2009 bonds now. Prior to recommending a refunding in advance of a call date, the Port analyses the savings percentage and the saving efficiency and reviews this in the context of market environment. The Port’s target savings rate for a refunding in advance of the call date is higher than for currently callable bonds; the 2009 bonds exceed that target. Although there is inefficiency due to the need to invest the proceeds at a lower interest rate for two years, the efficiency is generally high. A similar analysis was done in 2016 to determine if a refunding was appropriate and the low efficiency resulted in a decision to wait. Finally, the Port considers the interest rate environment. Rates have already begun to rise and the market consensus is for continued rate increases making a refunding now, more likely to be appropriate.

Pros:

- (1) Lock in significant refunding savings.
- (2) Avoid the risk of a rising rate environment.

Cons:

- (1) Investing the proceeds until the call date at lower short-term rates produces less savings than would be realized if the bonds were refunded on their call date, assuming the same or lower interest rates on the call date compared to current rates.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

Draft Resolution No. 3735

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

June 27, 2017 – The Commission approved First Reading of Resolution No. 3735

November 8, 2016 – The Commission was briefed on the Draft Plan of Finance

Meeting Date: July 11, 2017

EXHIBIT A

Service Tunnel Renewal/Replace
Alternate Utility Facility
North Satellite Renovation
International Arrivals Facility (IAF)
Checked Bag Optimization
Concessions Infrastructure
Electric Utility SCADA
N. Terminals Utilities Upgrade
Concourse B Roof Replacement
Additional Baggage Makeup Space IAF
Concourse B Gate Reconfiguration
Wi-Fi Enhancement Project
Terminal-wide Voice Paging System
Parking System Replacement
Concourse A, B, C Carpet Replacement
Concourse D Hardstand Holdroom
Plow / Broom Snow Equipment
Satellite Transit System Cars Customer Experience
OPS Lan Core Switch Upgrade
Passenger Flow Image Analytics
Interim Baggage System Program
Holdroom Seating for Concourse B&C
Hardstand Equipment Purchase