

ITEM NO.	<u>8a</u>
DATE OF MEETING	<u>March 13, 2018</u>

**THE INDUSTRIAL DEVELOPMENT CORPORATION
OF THE PORT OF SEATTLE**

NOTICE OF A SPECIAL MEETING

A Special Meeting of the Industrial Development Corporation of the Port of Seattle will be held on Tuesday, March 13, 2018, in the Commission Chambers, Pier 69, 2711 Alaskan Way, Seattle Washington, during a recess of the Port of Seattle Commission Regular Meeting, which convenes at 12:00 p.m. The Agenda includes:

1. Approval of the proposed minutes of the Industrial Development Corporation of the Port of Seattle Special Meeting of March 14, 2017.
2. Approval of the Industrial Development Corporation of the Port of Seattle Board of Directors and Officers for 2018.
3. Review, as needed, of the Annual Report for the Industrial Development Corporation for year ending December 31, 2017.
4. Attachment for reference: Overview of the Industrial Development Corporation and Frequently Asked Questions (FAQs).

Adjournment of the Annual Meeting of the Industrial Development Corporation of the Port of Seattle.

INDUSTRIAL DEVELOPMENT CORPORATION AGENDA

Item No. 1
Date of Meeting March 13, 2018

DATE: February 21, 2018
TO: Steve Metruck, Executive Director
FROM: Scott Bertram, Supervisor – Corporate Finance & Budget
SUBJECT: Approval of the Proposed Minutes of the Industrial Development Corporation of the Port of Seattle Meeting of March 14, 2017

ACTION REQUESTED:

Request Board approval of the proposed minutes of the Industrial Development Corporation of the Port of Seattle meeting of March 14, 2017. Draft minutes have been circulated to the Board of Directors and approved minutes will be posted to the Port’s website.

INDUSTRIAL DEVELOPMENT CORPORATION AGENDA

Item No. 2
Date of Meeting March 13, 2018

DATE: February 21, 2018
TO: Steve Metruck, Executive Director
FROM: Scott Bertram, Supervisor – Corporate Finance & Budget
SUBJECT: Election of Officers

REQUESTED ACTION:

Request Board approval of the Industrial Development Corporation of the Port of Seattle Board of Directors and Officers for 2018.

BACKGROUND:

In accordance with the Bylaws for the Industrial Development Corporation of the Port of Seattle, the following is a list of the Board of Directors and Officers for the Corporation:

Courtney Gregoire, President
Stephanie Bowman, Vice-President
Ryan Calkins, Secretary
Fred Felleman, Director
Peter Steinbrueck, Director

IDC Bylaws – Article 5, Section A. Number and Qualifications. “The officers of the Corporation shall be the same as the officers of the Port Commission and such other officers as may be determined by the Board of Directors from time to time to perform such duties as may be designated by the Board of Directors.”

INDUSTRIAL DEVELOPMENT CORPORATION AGENDA

Item No. 3
Date of Meeting March 13, 2018

DATE: February 21, 2018
TO: Steve Metruck, Executive Director
FROM: Scott Bertram, Supervisor – Corporate Finance & Budget
SUBJECT: Industrial Development Corporation Annual Report for 2016

SYNOPSIS:

The Industrial Development Corporation (the “IDC”) of the Port of Seattle was established in 1982 pursuant to Revised Code of Washington (Chap. 39.84). The IDC is a special purpose government with limited powers and was established for the purpose of facilitating industrial expansion through tax-exempt financing by providing companies with access to the tax-exempt credit market through the facilities of the IDC.

Any company with a project that qualifies for tax-exempt financing and qualifies under both RCW 39.84 and IDC policy may apply for IDC financing. The Port is not the lender and cannot lend credit or give money to the IDC. Debt issued by a company through the IDC is the sole responsibility of the company and is always non-recourse to the Port and to the IDC. Bond proceeds go directly to the company borrowing through the IDC. The companies pay their debt service (principal and interest) to a trustee.

Any city, county or port in Washington State may establish an IDC, and a number of other jurisdictions have done so, including King and Pierce Counties; the cities of Seattle, Everett, Bellingham and Kent; and several other ports including the Ports of Bellingham and Anacortes. Appendix C. of Item No. 4, FAQs provides a more comprehensive list.

The majority of projects financed through the Port’s IDC occurred between 1982 and 1986. Activity has since declined, primarily due to the Tax Reform Act of 1986 (the “Act”), which made a number of changes to the tax-exempt financing code that ultimately limited the benefits of an IDC financing for both issuers and investors. For issuers, the Act reduced the number of qualifying projects by narrowing the definition of types of projects, and eliminated certain depreciation tax advantages. The tax code change also reduced the pool of investors (e.g. banks, who were the majority investor) in this market segment by making their effective rate for holding tax-exempt private activity bonds closer to a taxable rate. Item No. 4, FAQs provides more details.

The IDC is governed by a board of directors comprised of the members of the Port Commission; accordingly, both the IDC Board and the Port Commission must approve any IDC bond issue. The IDC Board meets at a minimum once a year during a Commission meeting to elect new officers and review the IDC’s annual financial results.

ANNUAL REPORT SUMMARY:

Attached are the financial statements of the IDC. The IDC had assets totaling \$276,282 at year-end 2017, which consists primarily of existing cash & cash equivalents, and total revenues of \$4,244, generated almost exclusively from interest earnings.

STATUS OF IDC BONDS:

At December 31, 2017, there were two companies with outstanding IDC debt totaling \$74,725,000, as shown in the table below:

Company	Outstanding Debt	Maturity Date
Crowley Marine Services	\$ 8,700,000	2021
Delta Air Lines, Inc. ⁽¹⁾	<u>66,025,000</u>	2030
TOTAL	\$ 74,725,000	

⁽¹⁾ Previously Northwest Airlines Corp. (NWA). NWA merged with Delta Air Lines, Inc. (Delta) in 2008. NWA bonds refunded with Delta bonds, October 2012.

MANAGEMENT DISCUSSION:

The IDC collects customer fees from the companies, based on a customer fee rate and their annual debt service. The fee can be paid annually or via a one-time lump sum payment at the time the company issues bonds, and is calculated using the present value of debt service over the life of the bonds. Annual customer fees are collected from Crowley Marine Services (“Crowley”), whereas Delta made a one-time lump-sum payment in 2012 during the refunding of the Northwest Airlines bonds.

Customer fees collected from Crowley in 2016 amounted to only \$157. Crowley’s IDC debt has a variable interest rate, and as such, the annual customer fee will fluctuate with interest rates. Due to the continued low interest rate environment, the actual 2017 and projected 2018 customer fee is minimal.

IDC funds are invested in the Port’s investment pool and the allocated interest income to the IDC in 2016 was \$4,087. The investment income for 2018 is projected to be approximately \$4,000.

2017 IDC administrative expenses totaled \$3,481 and consisted exclusively of Port’s staff administrative time. The IDC is subject to the Washington State Auditor process at least once in every three years, and was last audited in 2016 (covering 2013-2015). Expenses anticipated for 2018 are for Port’s staff time only; the next State Audit will occur in 2019.

The IDC’s charter permits its funds to be transferred only to the Port. Under an amendment to RCW 39.84.130, IDC funds that are not otherwise encumbered for the payment of revenue bonds and are not anticipated to be necessary for administrative expenses of the IDC may be transferred to the Port to be used for growth management, planning or other economic development purposes. In order to transfer funds, the Board of Directors of the IDC needs to adopt a resolution authorizing the transfer. Any transfer of funds would reduce the assets of the IDC and the interest earnings on these assets. No such transfer was requested nor made in 2017.

MINIMUM FUND BALANCE RECOMMENDATION:

Staff recommends that the IDC maintain the current balance of ~\$275,000 to ensure adequate investment earnings to fund annual operating and future audit expenses. The low interest rate environment requires a

higher fund balance to earn sufficient interest earnings to cover these anticipated expenses and there are no anticipated additional sources of funds. If interest rates continue to rise, as expected, Staff will re-evaluate uses of existing IDC cash and potentially lower the recommended fund balance in future years.

**INDUSTRIAL DEVELOPMENT CORPORATION
OF THE PORT OF SEATTLE
BALANCE SHEET
AS OF DECEMBER 31, 2017, 2016, & 2015**

	December 31, 2017	December 31, 2016	December 31, 2015
ASSETS			
Cash and Cash Equivalents	\$ 276,125	\$ 276,372	\$ 274,217
Accounts Receivable	157	79	22
TOTAL ASSETS	\$ 276,282	\$ 276,451	\$ 274,239
 LIABILITIES AND EQUITY			
Accounts Payable	\$ -	\$ 930	\$ -
Equity	276,282	275,521	274,239
TOTAL LIABILITIES & EQUITY	\$ 276,282	\$ 276,451	\$ 274,239

**INDUSTRIAL DEVELOPMENT CORPORATION
OF THE PORT OF SEATTLE
INCOME STATEMENT
AND CHANGES IN EQUITY
For The Years Ended December 31, 2017, 2016 & 2015**

	December 31, 2017	December 31, 2016	December 31, 2015
INCOME			
Customer Fee	\$ 157	\$ 79	\$ 22
Investment Income	4,087	3,325	2,597
TOTAL INCOME	\$ 4,244	\$ 3,404	\$ 2,619
EXPENSE			
Administrative Expense	\$ 3,481	\$ 1,192	\$ 1,557
Scholarship Expense ⁽¹⁾	-	-	(24,853)
B&O Tax Expense	2	-	-
Other Expense - State Audit	-	930	-
TOTAL EXPENSE	\$ 3,483	\$ 2,122	\$ (23,296)
NET INCOME	\$ 761	\$ 1,282	\$ 25,915
BEGINNING EQUITY	\$ 275,521	\$ 274,239	\$ 248,324
ENDING EQUITY	\$ 276,282	\$ 275,521	\$ 274,239

⁽¹⁾ In 2012, the Economic & Trade Fellowship program was discontinued; all three-year fellowships awarded in 2012 expired in 2015. Accordingly, the fellowship reserve balance was eliminated in December 2015. Negative Scholarship Expense in 2015 represents reversal of E&T Fellowship Reserves.

**INDUSTRIAL DEVELOPMENT CORPORATION
OF THE PORT OF SEATTLE
STATEMENT OF CASH FLOWS
For The Years Ended December 31, 2017, 2016 & 2015**

	December 31, 2017	December 31, 2016	December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from bond issuers	\$ 79	\$ 22	\$ 28
Cash received from Port of Seattle	-	-	-
Miscellaneous cash receipts	-	-	-
Cash paid for expenses	(4,413)	(1,192)	(2,197)
Net cash provided by operating activities	\$ (4,334)	\$ (1,170)	\$ (2,169)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities	\$ -	\$ -	\$ -
Sale of investment securities	-	-	-
Interest on investments	4,087	3,325	2,597
Net cash provided by investing activities	\$ 4,087	\$ 3,325	\$ 2,597
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (247)	\$ 2,155	\$ 428
CASH AND CASH EQUIVALENTS			
Beginning of year	\$ 276,372	\$ 274,217	\$ 273,789
End of year	\$ 276,125	\$ 276,372	\$ 274,217

INDUSTRIAL DEVELOPMENT CORPORATION AGENDA

Item No.	<u>4</u>
Date of Meeting	<u>March 13, 2018</u>

DATE: February 21, 2018

TO: Steve Metruck, Executive Director

FROM: Scott Bertram, Supervisor – Corporate Finance & Budget

SUBJECT: Overview of the Industrial Development Corporation Frequently Asked Questions (FAQs).

What is the purpose of an IDC?

- To facilitate industrial expansion through use of tax-exempt financing made available to companies for qualified projects.

What does the term “tax-exempt financing” mean?

- It means bondholders (investors) who purchase the bonds do not pay federal income tax on the interest received on such bonds, as they normally would do on interest-bearing bonds.

How does tax-exempt financing help the institution that is funding capital projects?

- Because investors pay no income taxes on interest income, they are generally willing to accept a lower interest rate than if the bonds were issued on a taxable basis. Thus, tax-exempt bonds provide the ability to finance many public infrastructure capital projects at a reduced cost.

What changed in the tax law to make tax exempt financing through the IDC less attractive now than it was when these projects were financed?

There are several factors that have adversely affected the use of tax exempt financing over the years.

- When our state initially authorized the use of nonrecourse tax-exempt financing, federal tax rules permitted the financing of a very broad spectrum of projects, including wholesale and retail facilities as well as warehouse facilities (for which were many in Washington State due to the large agricultural base). There was almost no limit on the types of facilities that could be financed. As a result, tax-exempt financing was an option for many capital expansion projects. At that time, interest rates were also very high (substantially higher than the current interest rate environment), which made tax-exempt financing especially attractive.

The Tax Reform Act of 1986 made a number of changes in the tax-exempt financing code sections that adversely affected the use of tax exempt bonds for business expansion. The tax rules imposed substantial limitations on the types of facilities that may be financed with tax-exempt bonds. These limitations eliminated at least 50-60% of the facilities that had been financed pre-1986.

The 1986 Tax Reform Act also removed the deductibility of interest earned on tax-exempt securities purchased by commercial banks subsequent to August 7, 1986. This effectively created a tax-on-tax-exempt interest for such banks, which prior to 1986 were the largest investors in tax-exempt bonds. The net result was the demand by commercial banks for tax-exempt securities was almost entirely eliminated.

- Users of tax-exempt bond financing were also restricted in their depreciation methodology for tax-exempt bond financed property. Interest on private activity bonds also is subject to alternative minimum taxes. The US Treasury proposed the enactment of these rules in order to minimize the availability of this financing tool.

Who can establish an IDC?

- Any city, county or port in the State of Washington can establish an IDC.

When and how was the Port's IDC formed?

- The Port's IDC was established on February 9, 1982, pursuant to RCW 39.84.

What is the boundary of the Port's IDC?

- King County – as defined, it is the “Corporate boundaries of the Port”. The IDC may finance projects within King County.

What is the Port's IDC's structure?

- It is a special purpose government with limited powers.
- It is governed by a board of directors who are the same as the members of the Port Commission.
- The Port cannot lend credit or give money to IDC.
- Debt is always non-recourse to the Port and to the IDC.

What law(s) and policies govern the IDC and what projects might be eligible for Port IDC funding?

- Washington State law RCW 39.84, which is the statute that covers all IDC-related issues.
- Federal law (IRS tax code), which covers tax-exempt financing eligibility.
- A project must qualify under **both** Washington State and Federal law to be eligible for Port IDC financing.
 - In the current legal environment, the biggest limitation surrounding Port IDC stems from the 1986 Tax Reform Act, which as mentioned above significantly narrowed the type of projects that can be financed with tax-exempt bonds and the type of borrowers who can avail themselves of tax-exempt bonds.
 - Based on the current legal environment, legal counsel & staff have determined that only certain types projects that **may** qualify for Port IDC financing:
 - Airport facilities and over water shipping/receiving facilities, including related facilities
 - Solid waste and/or sewage treatment and disposal
 - Processing and manufacturing (with a maximum bond size of \$10,000,000)
- Additionally, IDC uses are limited by Resolutions on policy adopted by the IDC board. The policy is subject to change with approval from the IDC board.

What does that resolution stipulate for eligibility of projects?

The Commission has adopted a policy for judging eligibility of projects:

- The IDC will consider only projects or proposals which will further the purposes and objectives of the Port of Seattle within the confines of state and federal law.
- Tax exempt private activity bonds will be issued only for the financing of projects which broaden and strengthen the economic base of the Port District by enhancing trade and the movement of passengers and cargo by air or sea, including:
 - the development or improvement of marine terminals and airport facilities or components thereof;
 - the development and improvement of commercial and industrial land, manufacturing facilities, warehouses, terminal and transfer facilities, and related improvements which enhance trade via Port-owned or operated airport and marine facilities;
 - the development and improvement of facilities which will enhance or promote the Port's Comprehensive Scheme; and
 - the development and improvement of facilities which directly support and assist the movement of passengers and cargo by air or waterborne transportation, including, but not limited to, aircraft and ship construction and repair facilities, facilities necessary for the inspection, weighing, storage, and packaging of cargo; and connecting surface transportation facilities.

Who assists the Port in deciding which projects to fund?

- When bonds are issued, outside bond counsel is engaged to review and confirm legal compliance and eligibility of the project for tax-exempt financing. The bond counsel certifies that the issuer has the legal authority to issue the bonds and that the securities qualify for federal income exemption.

Who may apply for financing through the IDC?

- Any company with a project that qualifies for tax exempt financing and qualifies under RCW 39.84 (the RCW that covers all IDC issuances) and the IDC policy listed above may apply for IDC financing.

How much can be spent on financing the project?

- The amount of the bond issuance depends of the borrower's ability to repay as determined by investors; as non-recourse bonds, this is determined solely by the borrower's credit. Generally, all proceeds from the bond issuance are used for project spending with some exceptions. Under section 147(g) of the Federal Tax Code, any amount of bond proceeds that may be applied to finance the costs associated with the issuance of qualified private activity bonds (both before and after the issue date) is limited to 2% of the proceeds of the bond issue. As a general rule, qualified private activity bonds must satisfy a use test whereby 95% or more of the net proceeds of the bond issue must be used to finance the qualified purpose for which the bonds were issued.

How does the IDC get compensated?

- The IDC is compensated for administrative expenses related to the bonds by the borrower. The compensation is based on a percentage of the debt service. Payment is generally a lump-sum paid when bonds are issued; older bonds had the option of payments made annually through the life of the bond.

How does the bond counsel get compensated?

- Bond counsel is paid a fee that is negotiated with the borrower. The fee may be fixed or hourly. A flat fee is generally based on the type and size of the bond issue. Fees are paid at the time of issuance, generally out of bond proceeds.

Who are the current outstanding borrowers of IDC funds?

- There are currently two projects that used IDC bonds to finance the project:
 - Crowley Marine Services: IDC issued in December 2001 for the acquisition and construction of improvements to certain dock facilities (Pier 16/17) owned by the Port of Seattle.
 - Delta Air: In 2001, the IDC issued bonds on behalf of Northwest Airlines for the construction of a two-bay maintenance hangar and a cargo handling facility at SeaTac Airport. In September of 2012, the Commission gave approval for the bonds to be refinanced by Delta Airlines, which has acquired Northwest Airlines, so Delta Airlines is now the borrower. The facility is still in operation.

These projects are both completed, but the bonds are still being paid down.

Appendix A

Chapter 39.84 RCW
INDUSTRIAL DEVELOPMENT REVENUE BONDS

Chapter 39.84 RCW Industrial Development Revenue Bonds can be found in the Washington State Legislature web site, via the following hyperlink: <http://apps.leg.wa.gov/rcw/default.aspx?cite=39.84>.

Appendix B

RESOLUTION NO. 2

A RESOLUTION of the Industrial Development Corporation of the Port of Seattle adopting a master policy for the purpose of determining the eligibility of projects or proposals for financing.

WHEREAS, the Industrial Development Corporation of the Port of Seattle (the "Corporation") is a public corporation created pursuant to Chapter 300, Laws of Washington 1981 (Reg. Sess.) codified as Chapter 39.84 of the Revised Code of Washington and Resolution No. 2845 adopted by the Port of Seattle Commission on February 9, 1982; and

WHEREAS, the Corporation is now desirous of adopting a master policy to determine the eligibility of projects or proposals coming before the Corporation; and

WHEREAS, the Corporation wishes to establish and empower a Chief Staff Officer for the Corporation with the authority to amend, update and revise, when necessary, the initial procedures to carry out the adopted policies herein; and

WHEREAS, the initial procedures have been submitted to the Board of Directors of the Corporation and by adoption of this Resolution represents Board concurrence in the general context and form.

NOW, THEREFORE, BE IT RESOLVED BY THE INDUSTRIAL DEVELOPMENT CORPORATION OF THE PORT OF SEATTLE, WASHINGTON, as follows:

Section 1. It is the basic policy of the Corporation to comply with the applicable Federal and State of Washington laws and amendments thereto in determining the eligibility of any project or proposal coming before the Corporation for consideration and/or approval for financing.

Section 2. The Corporation hereby adopts the following additional policy to determine the eligibility of projects or proposals for financing by the Corporation:

- A. The Corporation will consider only projects or proposals which will further the purposes and objectives of the Port of Seattle as adopted by the Port Commission December 9, 1980 or as further amended from time to time.
- B. Tax exempt industrial revenue bonds will be issued only for the financing of projects which broaden and strengthen the economic base of the Port District by enhancing trade and the movement of passengers and cargo by air or sea, including:
 - (1) the development or improvement of marine terminals and airport facilities or components thereof;
 - (2) the development and improvement of commercial and industrial land, manufacturing facilities, warehouses, terminal and transfer facilities, and related improvements which enhance trade via Port-owned or operated airport and marine facilities;
 - (3) the development and improvement of facilities which will enhance or promote the Port's Comprehensive Scheme; and
 - (4) the development and improvement of facilities which directly support and assist the movement of passengers and cargo by air or waterborne transportation, including, but not limited to, aircraft and ship construction and repair facilities, facilities necessary for the inspection, weighing, storage, and packaging of cargo; and connecting surface transportation facilities.
- A. The Corporation will not consider projects or proposals that:
 - (1) unnecessarily or unjustifiably subsidize users, i.e., proponents must demonstrate reasonable need for this form of financing;

- (2) create unfair competition or dislocate the balance of competition within the Port District;
- (3) duplicate existing facilities which already adequately meet current needs;
- (4) are proposed by others than the directly interested party, or by any proponent unable to demonstrate a sound operating and financial history; and
- (5) are not otherwise authorized by the 1981 Local Economic Development Act or other applicable laws.

Section 3. The Chief Staff Officer of the Corporation shall be the Executive Director of the Port of Seattle. The chief staff officer is hereby authorized to carry out the purposes of the policies hereby and henceforth adopted by the Corporation and may amend, update and revise the procedures of this Resolution as it is from time to time necessary due to changes in law and/or operations of the Port without prior Commission approval, except as to fees and assessments to be charged.

The initial procedures have been submitted to the Board of Directors of the Corporation and by this Resolution they concur in the general context and form.

ADOPTED by the Board of Directors of the Industrial Development Corporation of the Port of Seattle, Washington this 27th day of April 1982.

JACK BLOCK
PRESIDENT

ATTEST:
HENRY L KOTKINS

SECRETARY
(SEAL)

Appendix C

Examples of IDC/EDC's located in Washington State*

Counties

Adams County
Chelan County
King County
Kitsap County
Okanogan County
Pierce County
Spokane County
Snohomish County
Kittitas County
Klickitat County
Clark County
Yakima County

Cities

Algona
Anacortes
Bellingham
Enumclaw
Everett
Kent
Seattle
Snoqualmie
Sunnyside
Union Gap
Vancouver

Port Districts

Port of Anacortes
Port of Bellingham
Port of Benton
Port of Camas-Washougal
Port of Centralia
Port of Chehalis
Port of Douglas County
Port of Edmonds
Port of Ephrata
Port of Everett
Port of Kalama
Port of Longview
Port of Moses Lake
Port of Olympia
Port of Pasco

Port of Port Angeles
Port of Port Townsend
Port of Quincy
Port of Seattle
Port of Skagit
Port of Skamania
Port of Sunnyside
Port of Walla Walla
Port of Warden

* This list may **not** represent all issuers; as some have been inactive for many years.