



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8e

ACTION ITEM

Date of Meeting May 8, 2018

DATE: April 20, 2018

TO: Stephen Metruck, Executive Director

FROM: Elizabeth Morrison, Director, Corporate Finance

SUBJECT: Resolution No. 3749 – issuance and sale of intermediate lien revenue bonds in the aggregate principal amount of not to exceed \$700,000,000

ACTION REQUESTED

Request Commission introduction of Resolution No. 3749: A resolution of the Port Commission of the Port of Seattle authorizing the issuance and sale of intermediate lien revenue bonds in one or more series in the aggregate principal amount of not to exceed \$700,000,000, for the purpose of financing or refinancing capital improvements to aviation facilities; 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 fixed rate intermediate lien revenue bonds (the “Bonds”) in the principal amount of not to exceed \$700,000,000 (including a reserve fund deposit, capitalized interest and cost of issuance) to fund the costs of capital improvements at the Airport (Exhibit A).

JUSTIFICATION

The 2018-2022 Draft Plan of Finance for the Airport, presented to the Commission October 17, 2017, forecasted future revenue bond funding of \$1.87 billion of Airport capital projects. Approximately \$562 million of that bond funding need is projected to be met in 2018 by the issuance of the Bonds. The Bonds will be secured by all of the net operating revenues of the Port after the payment of First Lien Revenue Bond obligations. The actual debt service (principal and interest) payments will be made from Airport net revenues. Debt service payments will be included in the airlines rates and charges per SLOA IV as appropriate. The cost per enplaned passenger forecast presented in the 2018 budget included this debt service.

The major projects that will receive some or all of their funding from the Bonds include the International Arrivals Facility, North Satellite Improvements, restroom upgrades, Safedock, and a variety of other projects to improve the efficiency and safety of the Airport; a list of projects currently identified for 2018 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;

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the 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 costs of issuance, to fund the required debt service reserve and to pay a portion of the interest on the Bonds during construction (capitalized interest) as appropriate.

The Port's debt management program takes a conservative approach of issuing primarily fixed rate bonds. This approach allows for predictable debt service payments, but interest rates are based on higher long-term rates. To help reduce debt service costs, the Port also issues a modest amount of variable rate debt – targeting no more than 25% of the Port's total debt. Currently, the Port has approximately 7% of its debt in a variable rate mode. Although variable rates fluctuate during the term of the debt, the total interest cost over the term of the debt should be expected to be lower than the total interest cost of fixed rate long-term debt and, for Airport bonds, lower costs are passed on to the airlines. Current long-term fixed rates remain favorable, so staff is not recommending the use of variable rate debt at this time, but does expect that future bond issues may include all or a portion of variable rate bonds.

DETAILS

The Bonds are being issued pursuant to the Intermediate Lien Master Resolution No. 3540 and this Resolution No. 3749. The Bonds will be issued in two series of private activity bonds exempt from regular federal income tax, but subject to the Alternative Minimum Tax (AMT) or as taxable bonds if taxable interest rates are favorable. Most of the projects have long asset lives appropriate for long-term bonds, and those projects are expected to be funded with one series of bonds having a final maturity estimated to be 25 years. Approximately \$88 million of the projects have shorter asset lives and therefore may be funded with a series of bonds that have a shorter final maturity estimated to be ten years.

Resolution No. 3749 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 Executive Director 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, maximum interest 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: \$700,000,000
Maximum interest rate: 5.25%
Expiration of Delegation of Authority: six months

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Upon adoption, Resolution No. 3749 will authorize the Designated Port Representative (the Executive Director or the Chief Financial Officer) to approve the Bond Purchase Contract, the official statement, 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; Barclays Capital Inc.; Goldman Sachs & Co. LLC; Morgan Stanley and Co. LLC.; and two small firms, Drexel Hamilton, LLC (a disabled veterans firm); and Siebert Cisneros Shank & Co., LLC (a minority firm). 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

Alternative 1 – Issue bonds for a smaller amount of project spending.

Pros:

- (1) Reduces the amount of bonds sold in 2018.

Cons:

- (1) A number of projects are under contract and spending quickly. By delaying a portion of the bond issue, the Port could risk a funding shortfall in 2019.
- (2) Exposes the Port to the risk of rising long-term interest rates.

This is not the recommended alternative.

Alternative 2 – Issue a combination of fixed rate and variable rate bonds in 2018.

Pros:

- (1) Adds additional variable rate debt. The Port currently has about 7% of its debt in variable form, at the low end of its target range.
- (2) Variable rate interest costs tend to be lower on average over time and can reduce interest costs.

Cons:

- (1) Reduces the amount of variable rate capacity for future years.
- (2) More complex, requiring two separate bond issues.

This is not the recommended alternative.

Alternative 3 – Issue fixed rate Intermediate Lien bonds.

Pros:

- (1) Provides sufficient funding for projects under contract.
- (2) Takes advantage of current favorable long-term rates.
- (3) Preserves variable rate capacity for a higher interest rate environment.

Cons:

- (1) Leaves the Port at the low end of its variable rate debt target.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

Draft Resolution No. 3749

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

October 24, 2017 – The Commission was briefed on the 2018-2022 Draft Plan of Finance

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EXHIBIT A

Service Tunnel Renewal/Replace
Ground Service Equipment Electrical Charging Stations
Airfield Pavement Program
NS NSAT Renovation NSTS Lobbies
International Arrivals Facility-IAF
Checked Bag Recap/Optimization
Concessions Infrastructure
Mechanical Energy Conservation (CA)
C3 Hold room Expansion
Restroom Upgrades Concourse B, C, D
Electric Utility SCADA
N. Terminals Utilities Upgrade
CT Infrastructure Upgrade Project
Concourse C New Power Center
SSAT Narrow Body Configuration
Passenger Loading Bridge Renew & Replace Phase 2
SSAT Structural Improvements
Security Exit Lane Breach Ctrl-Ph2
Surface Area Management System
Safedock Upgrade & Expansion
Replace Variable Frequency Drive
Arc Flash Mitigation
Terminal Security Enhancements
Fire Station - Westside
Employee Security Screening
Central Terminal Enhancements
Airport Signage Phase 1
ASL Conversion at Checkpoints
CDD & CPO Office Relocation