



**COMMISSION
AGENDA MEMORANDUM**

Item No. 10b

ACTION ITEM

Date of Meeting April 27, 2021

DATE: April 9, 2021

TO: Stephen Metruck, Executive Director

FROM: Elizabeth Morrison, Director, Corporate Finance
Scott Bertram, Manager Corporate Financial Analysis

SUBJECT: Resolution No. 3786 – Issuance and Sale of Intermediate Lien Revenue and Refunding Bonds in the Aggregate Principal Amount of Not-to-Exceed \$950,000.000

ACTION REQUESTED

Request introduction of Resolution No. 3786: 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 \$950,000.000, 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 \$950,000.000 (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 \$233,395,000 outstanding Intermediate Lien revenue bonds, Series 2010B & C and \$51,110,000 of Passenger Facility Charge revenue bonds, Series 2010A for debt service savings and refinance \$20,805,000 commercial paper (CP) that refunded bonds due in 2021.

JUSTIFICATION

As part of the Port’s debt management program, the Port monitors opportunities to reduce debt service. In 2010, the Port issued Intermediate Lien Revenue bonds to fund or to refund capital improvements at the Airport; the bonds are currently callable. Current low interest rates and anticipation of rising interest rates provide a favorable refunding opportunity. The estimated present value savings of refunding approximately \$233.4 million of outstanding debt is currently \$23.6 million.

Also, in 2010, the Port issued Passenger Facility Charge (PFC) Revenue bonds to refund bonds issued in 1998 and secured solely by the receipt of PFC’s. The 2010 PFC bonds are currently

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callable. More typically, the Port uses PFC's to pay debt service on Intermediate Lien revenue bonds that funded PFC eligible projects. This usage provides greater flexibility on the use of PFC's and generally carry a lower interest rate. Therefore, staff recommends that the PFC Revenue bonds be refunded as Intermediate Lien revenue bonds. The estimated present value savings of refunding approximately \$51.1 million is currently \$1.9 million.

In 2020, as part of the Port's efforts to manage revenue and cash reductions in response to the COVID-19 pandemic, the Port issued CP to refund Intermediate Lien revenue bonds, series 2010 B&C principal payments due in 2021. The CP can will be refinanced with Intermediate Lien bonds.

In addition, the Bonds will include funding for an estimated \$600 million in Airport project costs. The Bonds will fund a portion of the Airport capital improvement plan; cash, grants, passenger facility charges and existing and future bond proceeds will also provide funding. The major projects to be funded with this bond issuance include the final stages of International Arrivals Facility and North Satellite Renovation, continuation of Checked Baggage Optimization and airfield paving replacement, initial funding for terminal improvements such as C1 expansion and Checkpoint 1 relocation along with various other Airport improvements; a list of projects currently identified for 2021 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. 3786. The Bonds will be issued in multiple series based on the tax status of the projects to be funded or refunded. Four series are anticipated.

- One series will be issued as governmental bonds exempt from all federal income tax (non-AMT) and used to refund the 2010A PFC bonds which funded a portion of the costs of the third runway; it also may fund costs of projects eligible for governmental bond funding.
- The second series will be issued as private activity bonds exempt from all federal income tax. This is a special tax status that was temporarily allowed by the American Recovery and Reinvestment Act (ARRA) bill of 2009 in the wake of the financial crisis and was used to issue the 2010B bonds; this series may only be used to refund those bonds.
- The third series will be issued as private activity bonds exempt from regular income tax but subject to the Alternative Minimum Tax (AMT). This is the most common type of tax-exempt bond that the Port issues because it allows the Port to lease facilities to airport and seaport tenants. This series will be used to refund the 2010C bonds and to provide funding for airport investments.

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- Finally, there may be a series of bonds the interest on which is subject to federal income taxation. This series will be used for investments that are not eligible for tax-exempt bond funding or would otherwise benefit from greater flexibility of not needing to comply with tax-exempt bond restrictions.

The table summarizes the refunding candidates by tax status.

<u>Refunding Candidates (1)</u>	<u>Total Principal (\$)</u>	<u>Tax Status</u>
PFC Revenue Bonds, Series 2010A	51,110,000	Governmental (Non-AMT)
Intermediate Lien Revenue Bonds, Series 2010B	184,995,000	Private Activity (Non-AMT)
Intermediate Lien Revenue Bonds, Series 2010C	48,400,000	Private Activity (AMT)
Commercial Paper	<u>20,805,000</u>	TBD
TOTAL	305,310,000	

(1) Most or all of these bonds are expected to be refunded for savings

Resolution No. 3786 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, 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: \$950,000.000

Maximum interest rate:

Tax-exempt series: 4%

Taxable series: 5%

Expiration of Delegation of Authority: six months

Upon adoption, Resolution No. 3786 will authorize the Designated Port Representative (the Executive Director 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 Barclays Capital Inc.; BofA Merrill Lynch; J.P. Morgan Securities LLC; Morgan Stanley and Co. LLC.; and two small firms, Drexel Hamilton, and Siebert Williams Shank. Piper

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Sandler 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

- (1) Draft Resolution No. 3786
- (2) Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

October 27, 2020 – The Commission was briefed on the Draft Plan of Finance

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EXHIBIT A

Checked Bag Recap/Optimization
2021-25 AFLD Pavement and support Infrastructure
NS NSAT Renovation NSTS Lobbies
Parking Revenue Infrastructure
Restroom Upgrades Conc B, C, D
GSE Electrical Charging Stations
Perimeter Intrusion Detect Systems
N. Terminals Utilities Upgrade
Parking Garage Elevators Modernization
Air Cargo Rd Safety Improvements
International Arrivals Fac-IAF
Electric Utility Supervisory Control Data Acquisition (SCADA)
Fire Pump Replacement
Remote Aircraft Deicing
Concourse C New Power Center
Employee Services Center
Emergency Backup Water Supply
Passenger Loading Bridget Renew & Replace Phase 2
Main Terminal Space Conversion
Highline School Insulation
Checkpoint 1 Relocation
Main Terminal Low Voltage System Upgrade
C1 Building Floor Expansion
Upgrades STS Train Control
Passenger Loading Bridge Renew and Replacement
Building Controls Upgrade 2018
Widen Arrivals Roadway
Air Cargo 4 Maintenance Upgrade
N. Main Terminal Re-development
Concourse A Expansion
Concourse A Duty Free
Conc C Low Volt. Sys. Upgrade
Port Shared-Lounge Conc A
Parking Garage Low Volt. Sys
Concourse D Electrical Upgrade
Conc B Low Volt. Sys. Upgrade
IWTP Improvements
IWTP Controls Conversion