COMMISSION
AGENDA MEMORANDUM

ACTION ITEM

Item No. 8b

Date of Meeting November 16, 2021

DATE: October 15, 2021

TO: Stephen Metruck, Executive Director

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

SUBJECT: Resolution No. 3796 authorizing the issuance and sale of limited tax general obligation and refunding bonds of the Port in the aggregate principal amount of not to exceed $135,000,000

ACTION REQUESTED

Adoption of Resolution No. 3796: A Resolution of the Port of Seattle authorizing the issuance and sale of General Obligation and Refunding Bonds, Series 2022 in the aggregate principal amount of not to exceed $135,000,000 (the "Bonds"), for the purpose of financing or refinancing capital improvements to Port facilities and refunding certain outstanding obligations of the Port; and authorizing a Designated Port Representative to approve certain matters relating to the bonds.

EXECUTIVE SUMMARY

The 2022 General Obligation (G.O.) bonds will be used to provide approximately $75 million for capital improvements in the Seattle Harbor and in support of maritime industries. The Bonds will also refund an estimated $24.4 million of G.O bonds issued in 2011 and to refinance $17.7 million of outstanding commercial paper issued for improvements at Terminal 91.

JUSTIFICATION

As part of the Port's debt management program, the Port monitors opportunities to reduce debt service. In 2011, the Port issued G.O. bonds to refund bonds originally issued to pay for improvements at various Port facilities, including Terminal 18, Terminal 5, Terminal 91 and Fishermen's Terminal. These bonds are currently callable and can be refunded for debt service savings of an estimated $2 million. In 2006 and 2007 the Port issued commercial paper to fund improvements to docks C and D and to upgrade utilities at Terminal 91; these investments qualify for G.O. bond funding. There is currently $17.7 million outstanding and staff recommends refinancing with the 2022 G.O. bonds.

In addition, the Bonds will include new funding for an estimated $75 million for Port and Northwest Seaport Alliance (NWSA) project costs. The 2022-2026 Plan of Finance estimated future G.O. bond needs of $292 million to pay for capital costs for Maritime, Economic Development and NWSA North Harbor investments. The 2022 G.O. bonds will provide the first $75 million of funding and will be used to support investments associated with the Terminal 5 modernization and Pier 66 shorepower projects. Other projects that might use a portion of the bond proceeds include Terminal 91 berths 6 & 8 improvement, Terminal 91 uplands development and Fishermen's Terminal Maritime Innovation Center. Exhibit A provides a list of projects. If project spending is delayed, Bond proceeds may be redirected to other projects identified in the Plan of Finance for tax levy or G.O. bond funding. Use of any bond proceeds is identified in Port project authorization requests and bond proceeds may not be spent on any project without the appropriate project authorization. The total Bond amount will also include proceeds sufficient to pay cost of issuance.

DETAILS

The G.O. Bonds are being issued pursuant to Resolution No. 3796 which is similar in all material respects to other G.O. Bond Resolutions. G.O. Bonds are backed by the full faith and credit of the Port and require that the Port levy taxes sufficient, along with other funds, to pay scheduled principal of and interest on the Port's outstanding G.O. Bond obligations.

The bonds are expected to be issued as taxable bonds and the interest on the bonds will be subject to federal income tax. The Port generally uses tax-exempt debt, particularly for the Airport where use of facilities is unlikely to change. Taxable debt is best when the Port benefits from the flexibility to use facilities for a variety of purposes that might or might not qualify for tax-exemption during the life of the bonds. For example, if the tenant at Terminal 5 does not assume phase II acres, the Northwest Seaport Alliance might look for alternative uses that do not qualify for tax-exempt bonds; Terminal 91 Uplands and the Maritime Innovation Center do not qualify. The current low interest rates mean that taxable bonds are attractive and are only modestly higher in cost than tax exempt bonds. The resolution does provide for a tax-exempt, private activity series (exempt from regular income tax, but subject to the alternative minimum tax – AMT) and a portion of the bonds may be suitable for that tax-exemption. However, the marginal extra cost is likely outweighed by the benefits of flexible use over time and the efficiency of issuing one taxable series along with the flexibility to use facilities more broadly may outweigh any benefit from moderately lower interest rates.

The G.O. Bond Resolution delegates to the Designated Port Representative (the Port's Executive Director or the Port's Chief Financial Officer) the authority to approve the manner and date of the sale of the G.O. Bonds within parameters established by the Commission in the G.O. Bond Resolution. Commission parameters that limit the delegation are a maximum principal amount, maximum interest rate, and expiration date for the delegated authority. If the G.O. Bonds cannot be sold within these parameters, further Commission action would be required.

The recommended delegation parameters are:

Maximum size:	$135,000,000
Maximum interest rate:	4.5%
Minimum savings rate:	2.0%
Expiration of Delegation of Authority:	June 30, 2022

Upon adoption, Resolution No. 3796 (the G. O. Bond Resolution) will authorize the Designated Port Representative to select the manner and date of the sale, approve the final sale terms, pay the cost of issuance, execute all documents, prepare and disseminate a preliminary official statement and final official statement, provide for continuing disclosure and take other action appropriate for the prompt execution and delivery of the G.O. Bonds.

Unlike Port revenue bonds that are sold through a negotiated process with the Port's underwriting team, the G.O. Bonds are expected to be sold through a competitive sale in which, any banking firm can bid on the Bonds. The Port's debt management procedures allow for competitive sales for appropriate transactions where, in consultation with the Port's Financial Advisor, a competitive sale is likely to provide better financial results than a negotiated sale. Competitive sales are well suited to transactions that have a relatively simple, high quality credit like the Port's G.O. Bonds and are sold in relatively stable market environments. Should market conditions change, in consultation with the Port's Financial Advisor, the Designated Port Representative may determine that a negotiated sale is a more effective approach. A negotiated sale would also need to be executed within the Commission established parameters.

Piper Sandler is serving as Financial Advisor, K&L Gates LLP is serving as bond counsel and Pacifica Law Group, LLP is serving as disclosure counsel on the transaction.

ATTACHMENTS TO THIS REQUEST

(1) Draft Resolution No. 3796
(2) PowerPoint presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

November 9, 2021 – Resolution 3796, General Obligation and Refunding Bonds, Series 2022, was introduced to the Commission.

October 26, 2021 – The Commission was briefed on the draft plan of finance and tax levy including the 2022 G.O. bonds

EXHIBIT A

Terminal 5 Modernization
Pier 66 Shorepower
Terminal 91 Berths 6 and 8 Redevelopment
Terminal 91 Uplands Development Phase I
Fishermen's Terminal Maritime Innovation Center