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COMMISSION AGENDA Item No. 8f

ACTION ITEM

Date of Meeting September 12, 2023

DATE: August 25, 2023

TO: Stephen P. Metruck, Executive Director

FROM: Elizabeth Morrison, Director, Corporate Finance

Scott Bertram, Manager, Corporate Finance

SUBJECT: Solicitation for Financial Advisory Services for debt and financial management

Amount of this request: \$7,500,000

Total estimated service cost: \$7,500,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute a contract for Financial Advisory Services for five (5) years with the Right to Extend for up to five (5) Additional Years, for a potential total of ten (10) years at an estimated cost of \$7,500,000.

EXECUTIVE SUMMARY

The Port of Seattle (Port) uses an independent financial advisor (FA) to assist with the issuance and management of its debt. The FA assists with the day-to-day management of debt, including new debt issuance, and provides information and advice on general financial management matters. This request will authorize the Executive Director to enter into a new contract for financial advisory services not to exceed \$7,500,000. The contract will be procured through a competitive selection process and replace the current contract that expires on March 22, 2024.

BACKGROUND

When issuing debt, governmental entities, including the Port, employ the services of independent FA, who advises the issuer on overall debt and financial management activity. FAs are able to provide current information on market trends, rates, debt structures and investor concerns, and provide analytical support and insights into the municipal market. FAs maintain a fiduciary responsibility to the issuers such as the Port and must be a registered Municipal Advisor with the Securities Exchange Commission and Municipal Securities Rulemaking Board. The use of an FA is deemed a "best practice" by the Government Finance Officers Association.

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The Port's debt management needs include both new issuances to fund capital projects as well as the management of the Port's existing debt, currently ~\$4.3 billion. The FA's scope of work includes:

- advise on the Port's overall debt structure and financial management, incorporating the perspective of investors and rating agencies;
- identify and advise on opportunities to refund existing debt for debt service savings;
- participate in all aspects of a bond issuance;
- advises on and participates in extensions, replacements, and amendments of letters of credit pertaining to the Port's variable rate debt and other debt instruments;
- evaluate proposals and new financial products;
- provide an independent perspective at Commission briefings on financial matters; and
- assist with the coordination of the Port's bond and disclosure counsel and with the Port's team of investment banks (recently selected and includes six medium and large firms and five smaller WMBE/veteran owned firms).

In addition, the FA provides knowledge of other local government issuers and of other airports and seaports nationwide to assist the Port in its debt and financial management. The FA can provide analysis of the financial impact of pending or new legislation. Finally, the FA provides recommendations for improving the long-term financial position of the Port.

The current financial advisory contract is a five-year contract with two one-year extensions (both exercised) that expires on March 22, 2024. Due to the expected timing of bond issues, it is important to have the new financial advisory contract signed and the FA fully functioning prior to this expiration date.

Staff is requesting a contract term of five years with five one-year extensions. Financial and

debt management are on-going functions that benefit from a consistent approach and a longterm view. A five-year contract should also encourage wider participation among potential respondents, since there is considerable effort required for the successful firm to become familiar with the Port's businesses, financial structure, and management of the Port's debt – including familiarity with voluminous legal documents. A longer-term contract will encourage firms to submit a response and invest their time.

Diversity in Contracting

Diversity in Contracting has evaluated this contract and concluded that due to the nature of the work there is no formal goal for small business subcontracting. However, evaluation criteria will include assessment of firms' support for the Port's values for equity, diversity, and inclusion which could include small business subcontracting. In addition, the Port will reach out to smaller firms that provide FA services to provide awareness of this opportunity.

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ALTERNATIVES AND IMPLICATIONS

Alternative 1 – Do not use a financial advisor.

Forgoing the use of an FA has the benefit of saving the out-of-pocket cost of up to \$7,500,000. However, this puts the Port at risk, by not having an independent fiduciary assist with complex transactions and market access. The Port would lose the benefit of advice that ultimately saves the Port money and protects the Port's interests. Forgoing a n FA is not a “best practice” for municipal issuers.

This is not the recommended alternative.

Alternative 2 – Procure a new contract for each bond issue.

This alternative would create an on-going competitive process for this function. This would provide the Port with frequent updates on fees and services and could be a viable option if the Port were an infrequent issuer. Due to the Port's frequent use of an FA, the added time to procure a new contract for every transaction would greatly slow the debt management and issuance process and make the Port less nimble. Also, as a complex entity, there would be inefficiencies from a frequent change in provider.

This is not the recommended alternative.

Alternative 3 – Procure a new multi-year contract for a financial advisor.

This alternative would provide an independent advisor acting as a fiduciary to assist with bond issues and overall financial management. This alternative would provide consistency and would be more efficient than alternative 2.

This is the recommended alternative.

FEES

The FA would be compensated in three ways. For certain specific transactions like bond issues, the FA would receive a pre-established fee. Separately, the FA would be paid an annual fee or retainer for all work not related to certain specific transactions that are otherwise part of the Port's on-going financial and debt management, e.g., extensions of letters of credit, debt structure advise, information on markets and businesses, investor, and rating agency updates, etc. Finally, for special projects that are especially time consuming, the FA will be compensated based on an hourly fee.

Because the timing and amount of debt depends on the capital needs of the operating divisions or on the market driven refunding opportunities, the dollar amount of the contract is set a level that is estimated to accommodate multiple transactions over a 10-year period, taking into

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account the Port's prior experience. The actual cost of the contract will be based on actual transactions up to the maximum \$7,500,000.

ATTACHMENTS TO THIS REQUEST

None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

October 11, 2016 – Authorization for Executive Director to execute a contract for financial

advisory services.

November 10, 2009 - Authorization for Executive Director to execute a contract for financial advisory services.

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