

# Consider Four Bond Resolutions:

July 18, 2019

- Two requests for new resolutions and two requests to amend existing resolutions to address current subordinate lien revenue bond opportunities.
- Proposed actions will not increase overall Port debt outstanding.
- Purpose is to reduce risk and eliminate a known increase in interest expense caused by changes in the US tax code.

## Consider Resolution 2019-07-PT:

A resolution of the Port Commission of the Port of Tacoma, authorizing the issuance and sale of revenue refunding bonds of the Port in the aggregate principal amount of not to exceed \$41,630,000, for the purpose of refunding certain outstanding obligations of the port and funding the common reserve requirement; setting forth certain bond terms and covenants; and delegating certain authority in connection with the sale.

## Consider Resolution 2019-08-PT:

A resolution of the Port Commission of the Port of Tacoma, authorizing the issuance and sale of subordinate lien revenue refunding bonds in an aggregate principal amount not to exceed \$90,000,000, for the purpose of refunding certain outstanding bonds of the Port and paying costs of issuance, providing for alternative interest rate modes and methods of determining the dates, forms, terms, maturities, and interest rates of such bonds; authorizing the execution and delivery of credit and liquidity facilities relating to said bonds; authorizing the execution, delivery and performance of remarketing agreements relating to said bonds; authorizing the initial sale of the bonds, covenants and agreements with respect thereto.



## Consider Resolution 2019-09-PT:

A resolution of the Port Commission of the Port of Tacoma, amending and restating Resolution No. 2011-01, originally approved as Resolution No. 2008-04 on February 21, 2008 and initially amended and restated by Resolution No. 2011-01 on April 7, 2011, and most recently amended and restated by Resolution No. 2014-04, on April 17, 2014, which resolution authorized the issuance and sale of subordinate lien revenue refunding bonds in an aggregate principal amount not to exceed \$120,000,000, for the purpose of refunding certain outstanding senior and subordinate lien revenue bonds of the Port.

## Consider Resolution 2019-10-PT:

A resolution of the Port Commission of the Port of Tacoma, amending and restating Resolution No. 2008-09, originally approved on July 2, 2008, as amended and restated by Resolution Nos. 2009 09 2012-05 and 2015-02; which resolution authorized the issuance and sale of subordinate lien revenue bonds in an aggregate principal amount not to exceed \$133,000,000, for the purpose of financing or refinancing the cost of acquiring, improving and equipping Port capital facilities.

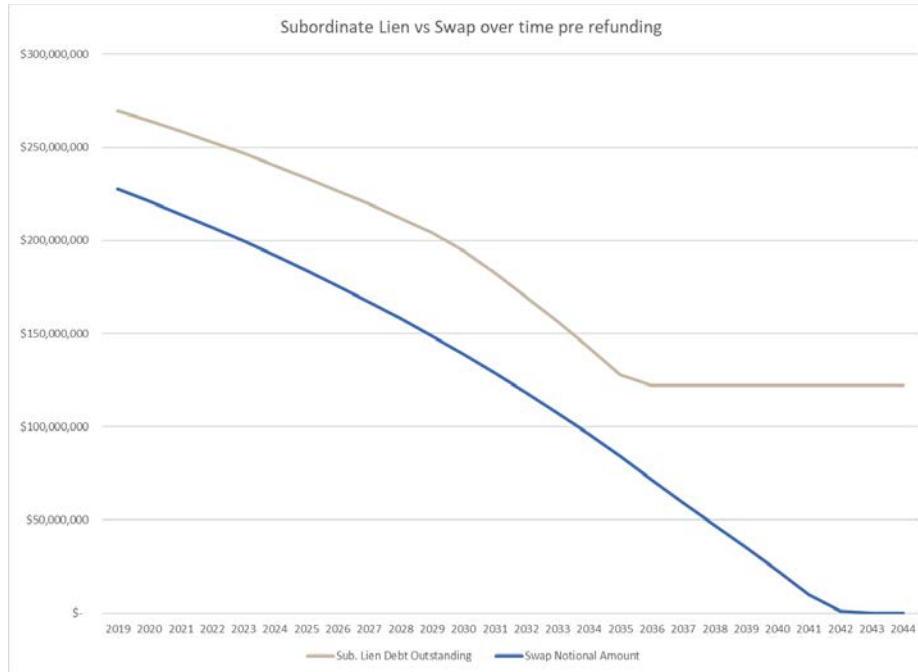
# Current Situation



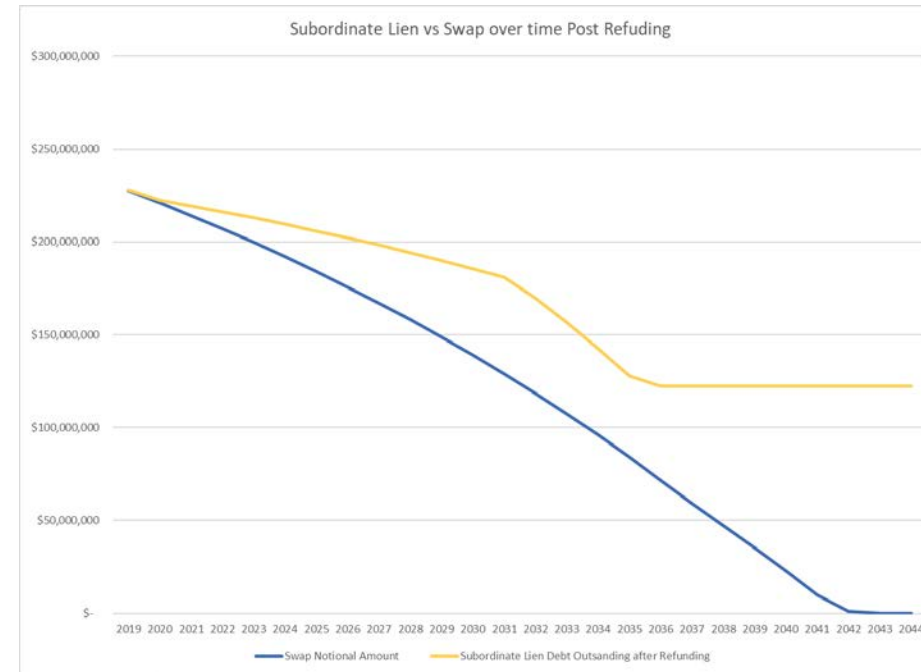
- Port has approximately \$41.6 million more subordinate lien debt at a variable interest rate than is needed to match our swaps.
- The amount of unhedged debt will grow to \$51 million by 2025, or 14.1% of total revenue bond debt.

- Market conditions allow the Port to refund portions of the 2014A sub lien bonds (2020-2031 maturities) currently at variable rates as senior lien bonds at fixed rates at historically attractive yields.
- This is a risk reduction strategy to eliminate uncertainty in interest payments:
  - We could forgo lower interest payments by fixing out this debt if short term rates decrease below current rates over the 10-year period.

# Swap vs variable debt



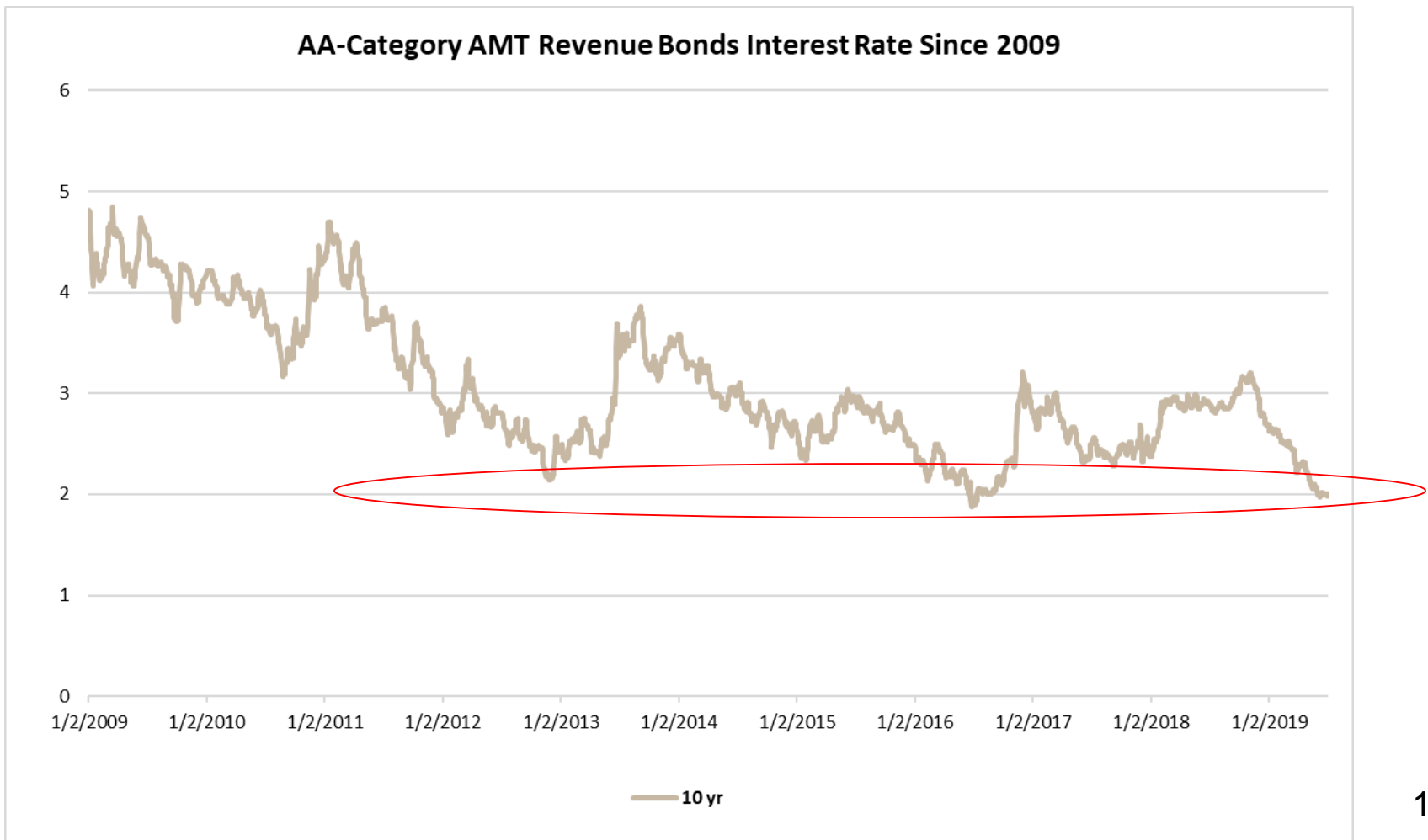
Current



Proposed

The gap between the two lines is the "unhedged debt" at variable rates

# Historical 10-year interest rates

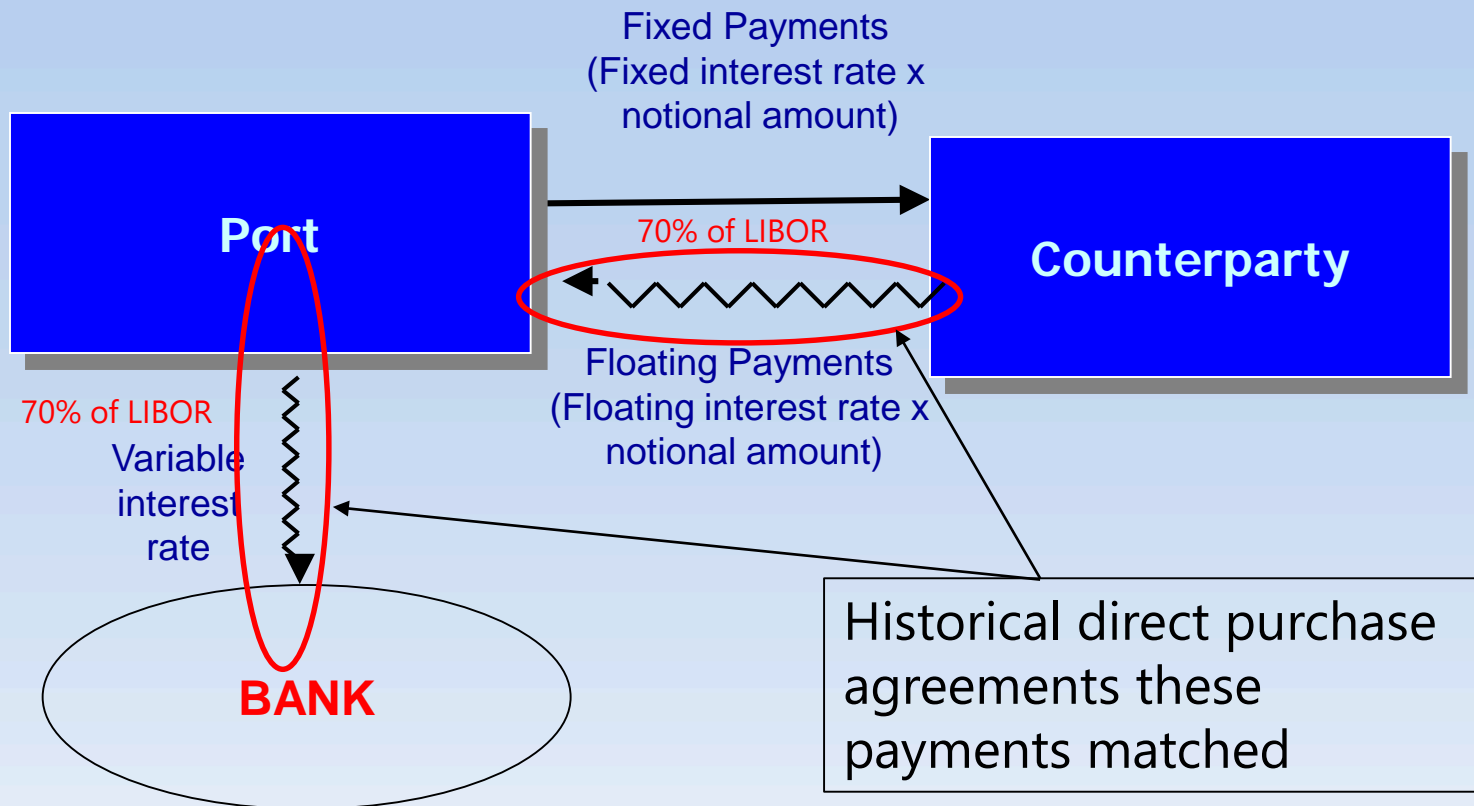


# Current Situation



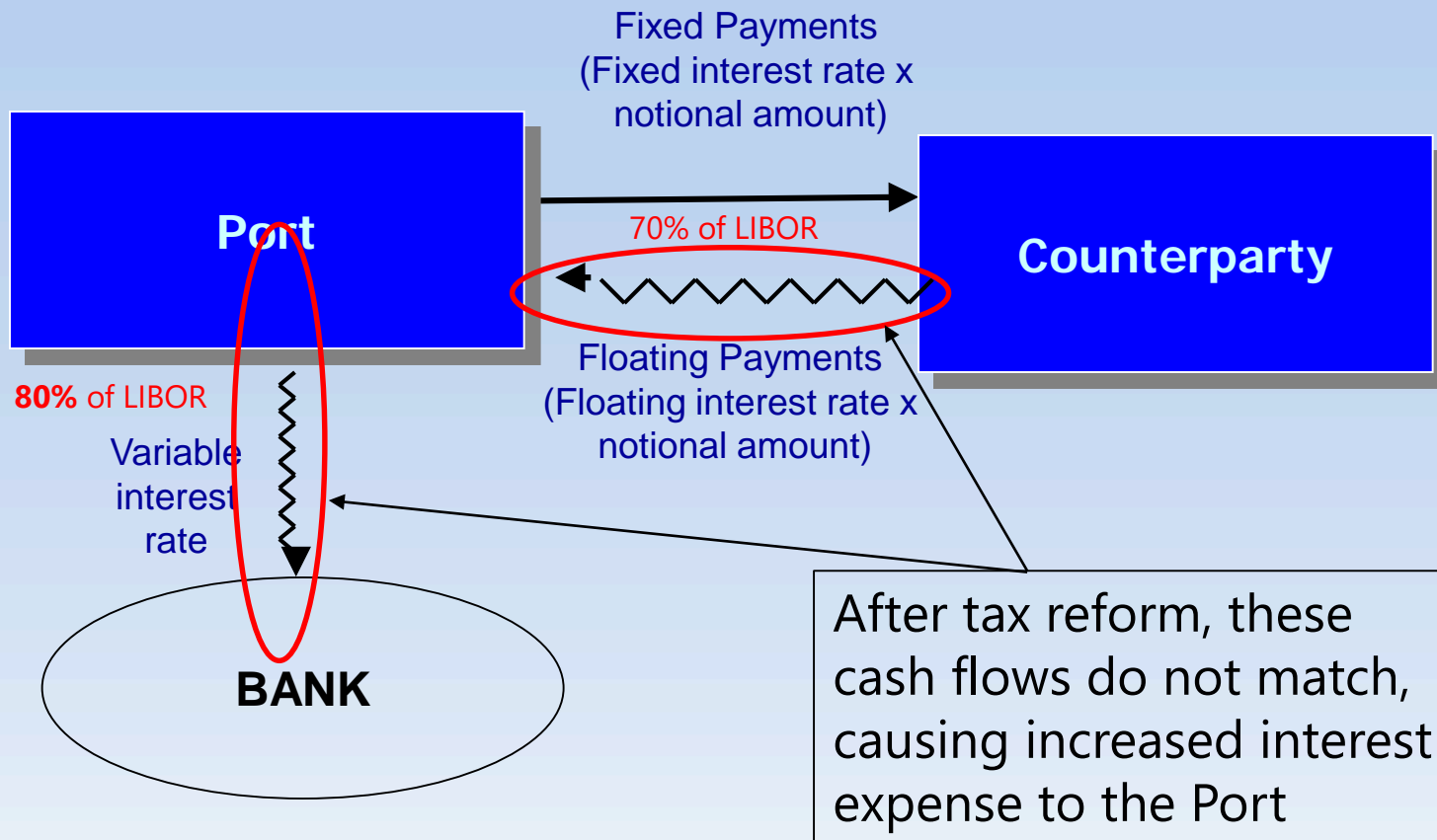
- Assuming approval of refunding \$41.6M as senior bonds at a fixed interest rate, Port will have \$227.9 million of subordinate lien bonds matched to the swaps.
  - If market conditions are not favorable on the proposed sale date, we will keep the \$41.6M as subordinate lien bonds in a variable rate mode.
- Due to changes in the tax code, the current mode of the bonds causes approximately \$500,000 per year in additional interest payments vs proposed mode.

# Fundamentals of a Fixed for Floating Interest Rate Swap – Index Rate Mode

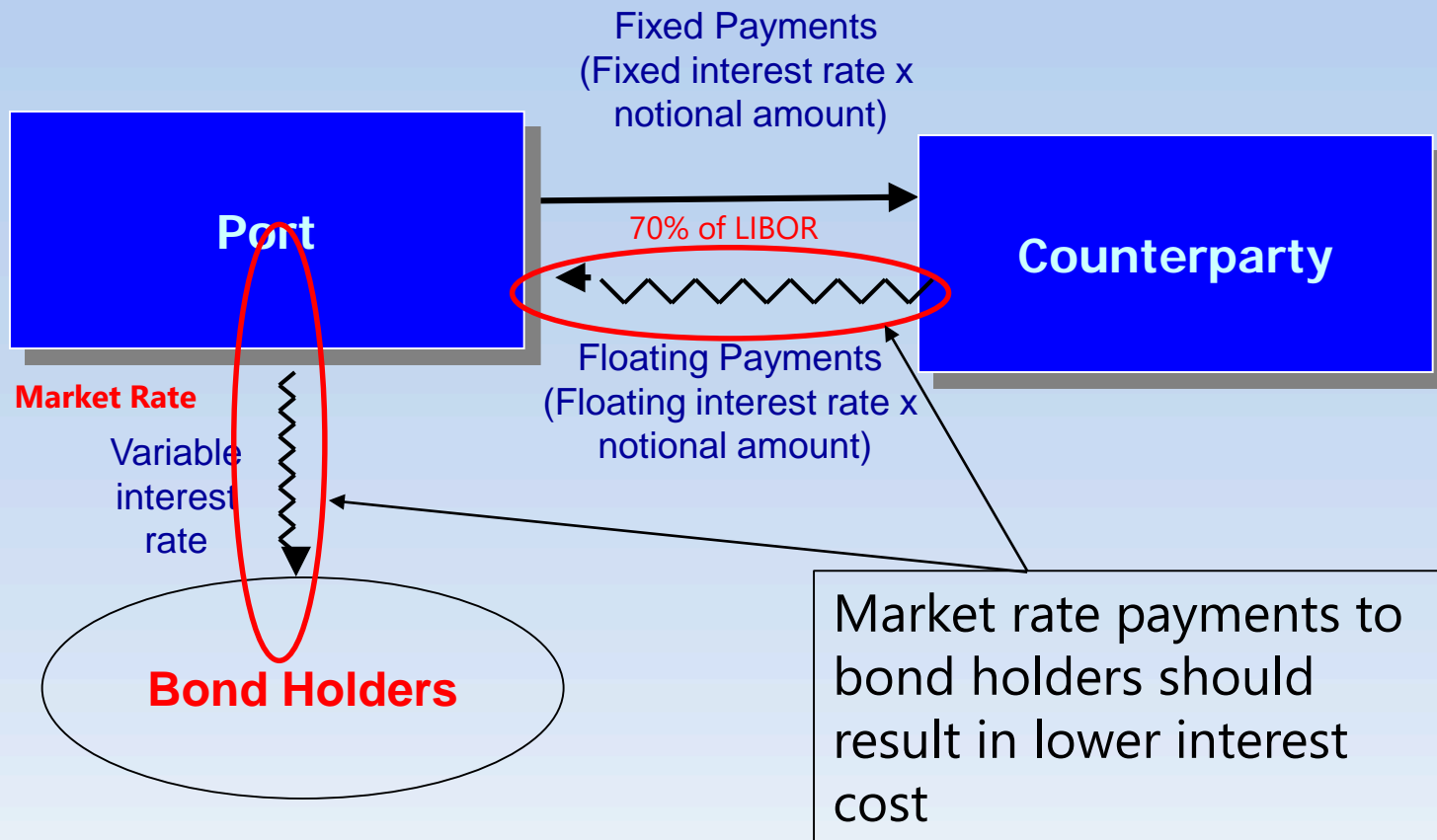




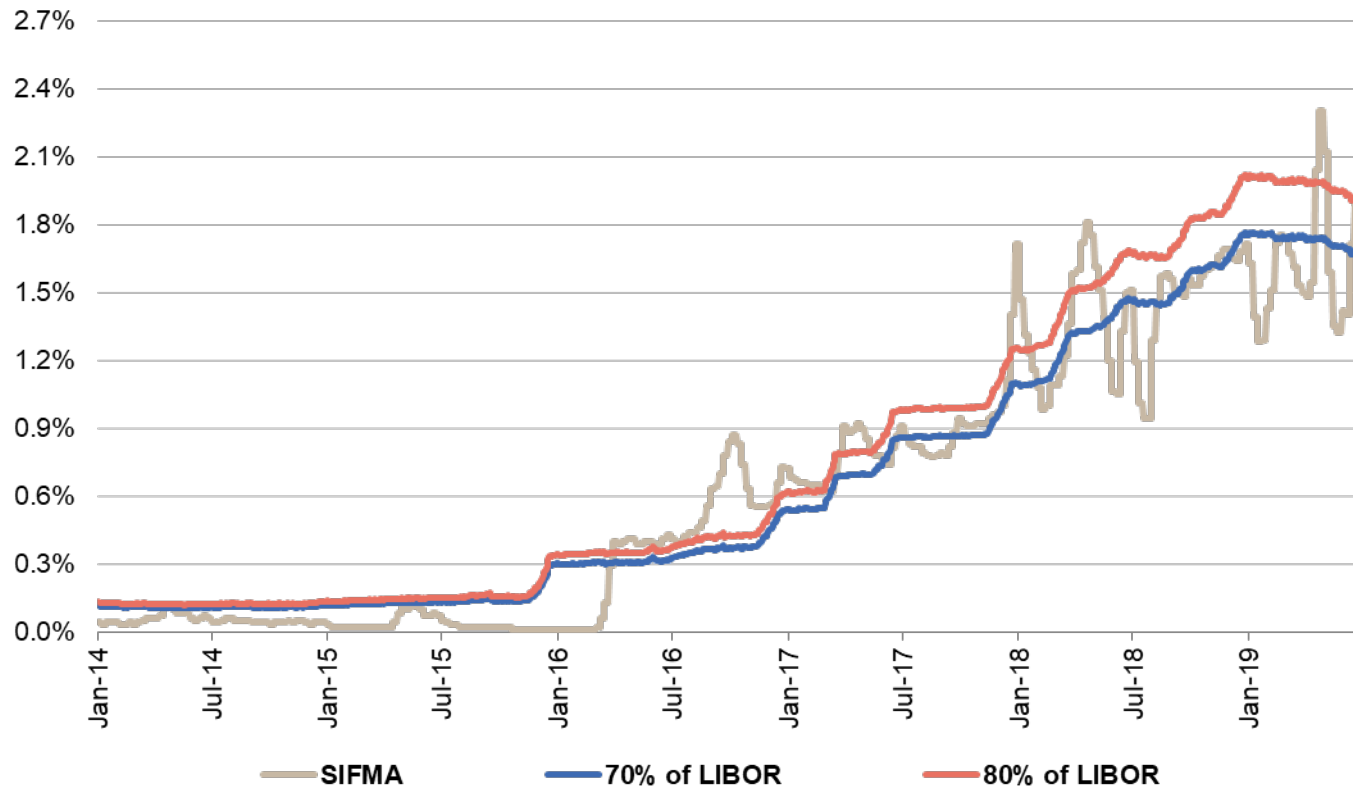
# Fundamentals of a Fixed for Floating Interest Rate Swap – Post tax reform



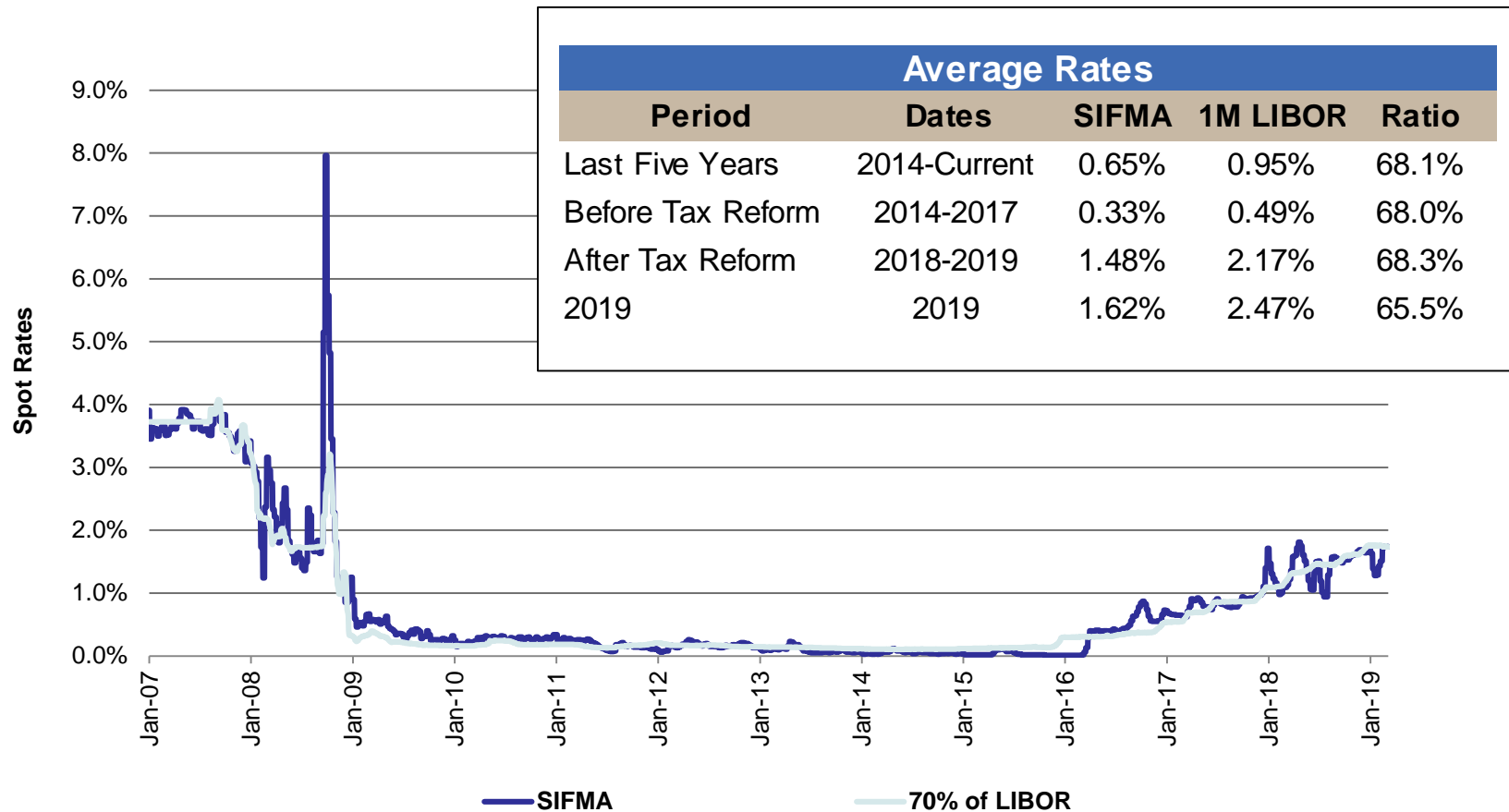
# Fundamentals of a Fixed for Floating Interest Rate Swap – Variable Mode



# Historical tax exempt rates (SIFMA)



# Historical tax exempt rates (SIFMA)



- Resolution for the 2014A subordinate lien bonds needs to be amended to allow additional modes that should result in eliminating the additional interest cost.
- Current resolutions for 2008 and 2008B subordinate lien bonds allow staff to change mode of interest payment that should result in eliminating the additional interest cost.

# Delegation in Resolutions



Commission is delegating the refunding of the 2014A subordinate lien revenue refunding bonds into two new series:

- Senior lien Revenue Refunding Bonds, 2019
  - Fixed Rate, AMT
- Subordinate lien Revenue Refunding Bonds, 2019
  - Variable rate, multi-modal, AMT
  - 90,000,000 authorization needed in case market conditions prevent issuance of 2019 Senior bonds

## Senior Lien Revenue Refunding Bonds, 2019

- Manner of sale: negotiated or competitive
  - Plan is competitive sale
- Terms and conditions of the bonds subject to maximum par value
  - Maturity dates
  - Principal amounts
  - Interest rates
  - Timing of sale
- Ability to pay all fees and execute all documents associated with the refunding

## Subordinate Lien Revenue Refunding Bonds, 2019

- Manner of sale: negotiated or competitive
  - Plan is competitive sale
- Terms and conditions of the bonds subject to maximum par value
  - Maturity dates
  - Principal amounts
  - Interest rates and interest rate modes
  - Timing of sale
- Ability to pay all fees and execute all documents associated with the refunding



# Delegation in Resolution



Commission is approving modifications to two existing bond resolutions to allow different bond modes at the same time:

- Subordinate lien Revenue Refunding Bonds, 2008
- Subordinate lien Revenue Refunding Bonds, 2008B

# Refunding Team



- Team includes
  - Legal Team: K&L Gates
  - Financial Advisor: Public Financial Management
  - Senior lien Bond Underwriter: Determined by lowest bid based on lowest True Interest Cost (TIC) on day of sale
  - Subordinate lien LOC provider and Remarketing Agent: Based on RFP results
  - Estimated transaction cost of \$1M

## Recommend approval of Resolutions:

- 2019-07-PT
- 2019-08-PT
- 2019-09-PT
- 2019-10-PT