

# COMMISSION AGENDA

Item No: 3A

Meeting: 07/20/17

**DATE:** July 12, 2017

**TO:** Port Commission

**FROM:** John Wolfe, Chief Executive Officer  
Sponsor: Erin Galeno, Chief Financial Officer  
Project Manager: David Morrison, Treasurer

**SUBJECT:** Consider Resolution 2017-05-PT authorizing the issuance of Limited Tax General Obligation Refunding Bonds.

## A. ACTION REQUESTED

Adopt Resolution 2017-05-PT providing for the issuance and sale of Limited Tax General Obligation Refunding Bonds of the Port in the principal amount of not to exceed \$21,585,000 for the purpose of providing funds to refund certain outstanding limited tax general obligation 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.

## B. BACKGROUND

- Resolution 2007-17 authorized issuance of LTGO bonds of \$21,740,000 par value of AMT bonds. The bonds were issued in January 2008 and are named the Limited Tax General Obligation Bonds, Series2008B (AMT) bonds.
- The outstanding 2008B LTGO bonds carry a fixed coupon rate of 4.75% to 4.85%.
- The 2008B LTGO bonds were issued as tax exempt bonds. The interest earned on these bonds are exempt from federal income taxes except for bond holders who are subject to the Alternative Minimum Tax (AMT).
- To qualify for the tax exemption, bond proceeds must be spent on “docks and wharfs” per the Internal Revenue Service (IRS) regulations
- These bonds were used to fund several projects including Pier 25 cleanup, the Port’s contribution to the D Street grade separation, and improvements to the Milwaukee auto yard. Additionally, funds were used to purchase three parcels of land for terminal use. Currently, use of these parcels is limited to docks and wharfs due to their tax exempt status.
- Current market conditions permit refunding portions of these bonds that will result in savings.

## C. AUTHORIZATION

- Authorize staff to execute a public offering through a negotiated or competitive process when timing and conditions will result in lower debt service due to market interest rates from the date of approval to December 31, 2018.
- The bonds to be issued may be taxable or tax exempt. The decision on the taxability of the refunding bonds will be made based on market conditions and trends. Concerns with

increasing rates and potential changes to corporate tax structure may reduce the value off issuing tax exempt bonds.

- Limit LTGO refunding bonds of no more than \$21,585,000.
- Require a minimum return of no less than 3% savings over the par amount refunded.
- Refunding bonds will be callable, and carry a similar maturity structure, as the existing bonds.

#### **D. ESTIMATED TIMEFRAME/PROJECT SCHEDULE**

Publish Preliminary Official Statement	08/4/2017
Bond Pricing	08/17/2017
Bond Closing	08/28/2017

#### **E. FINANCIAL SUMMARY**

Commission is approving a refunding of general obligation debt. Savings realized by the Port will depend on interest rates and the tax status of the bonds. At interest rates as of Approximately July 7th, the Port will achieve approximately 7.0% savings on the refunded bonds, equating to approximately \$105,000 per year in debt service payment savings.

Potential reductions to the maximum corporate tax rates would reduce the value to bond holders of purchasing tax exempt bonds. Bond purchases will require higher interest rates on tax exempt bonds. Additionally, the Federal Reserve has communicated plans to increase interest rates through their actions. Given these two factors, the plan is to issue taxable LTGO bonds based on the known current market conditions. The resolution allows flexibility to issue tax exempt bonds in case the interest rate market conditions change.

A benefit of refunding these tax exempt bonds with taxable bonds is that it will allow the three parcels purchased by the 2008B bonds to be used for other than “docks and wharfs” without restrictions.

A risk associated with all refunding’s is that rates could go lower in the future, resulting in more savings than if staff execute the refunding now. Alternatively, rates could increase and the Port could forgo savings that will be captured now. Staff will use the Washington State Treasurer’s Office guidelines for refunding bonds to ensure that staff meet or exceed adequate savings.

#### **F. NEXT STEPS**

Adopt Resolution 2017-05-PT providing for the issuance and sale of Limited Tax General Obligation Refunding Bonds of the Port in the principal amount of not to exceed \$21,585,000 for the purpose of providing funds to refund certain outstanding limited tax general obligation 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.

Staff will report back to Commission the final terms and savings of the refunding upon completion of the transaction.

**G. ATTACHMENTS TO THIS REQUEST**

A copy of Resolution 2017-05-PT was provided to Commissioners in the package sent out on July 13, 2017.