



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8c

ACTION ITEM

Date of Meeting April 14, 2026

DATE: March 17, 2026

TO: Stephen P. Metruck, Executive Director

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

SUBJECT: **Adoption of Resolution No. 3845 – Subordinate Lien Master Resolution Authorizing Revenue Bonds of the Port District to be issued in series to finance any legal purpose of the Port District; Adoption of Resolution No. 3846, amending Resolution No. 3777 – which amended Resolution No. 3456 Commercial Paper Authorization; and Resolution No. 3847, amending Resolution No. 3598 – Authorizing the issuance and sale of Subordinate Lien Revenue Refunding Bonds, Series 2008.**

ACTION REQUESTED

Request adoption of:

1. Master Resolution No. 3845: A Resolution of the Commission of the Port of Seattle authorizing revenue bonds to be issued in series to finance any legal purpose of the Port; providing a subordinate lien upon revenues for the payment of such bonds; and making covenants and agreements in connection with the foregoing.
2. Series Resolution No. 3846, amending Resolution No. 3456, as previously amended by Resolution No. 3777, authorizing the issuance and sale of Subordinate Lien Revenue Notes (Commercial Paper)
3. Series Resolution No. 3847, amending Resolution No. 3598 - Authorizing the issuance and sale of Subordinate Lien Revenue Refunding Bonds, Series 2008

EXECUTIVE SUMMARY

The Port is seeking to modernize its Subordinate Lien debt structure by creating a new Subordinate Lien Master Resolution, which will govern all future Subordinate Lien Revenue Bonds. This new Subordinate Lien Master Resolution, if implemented, would update certain security provisions to current market standards while providing the Port with some added flexibility in managing current and future Subordinate Lien debt. The creation of this new Subordinate Lien Master Resolution will require amending existing resolutions governing our

Meeting Date: April 14, 2026

currently outstanding subordinate lien bonds, which include the commercial paper facility and the Series 2008 bonds, to match the covenants that will apply to future issuances.

BACKGROUND AND JUSTIFICATION

The Port's current revenue bond debt structure includes three liens of revenue bonds that have been used to fund a significant portion of the organization's capital needs over the past 30 years. These liens include the *First Lien*, *Intermediate Lien*, and *Subordinate Lien*, and as of January 3, 2026, the Port has outstanding \$146.2 million, \$4.47 billion, and \$230.3 million on these three liens, respectively.

The Port first issued Subordinate Lien Revenue Bonds in 1992, and this subordinate lien has been used primarily for the issuance of variable rate debt backed by bank provided letters of credit. Currently outstanding debt on the subordinate lien includes the Series 2008 Bonds and the commercial paper note program. Unlike most of the Port's debt, which has fixed interest rates, the 2008 bonds and the commercial paper notes have variable interest rates that are set or reset based on market conditions. Additionally, both are backed by bank provided letters of credit, which means investors are, in effect, buying the banks' credit rather than the Port's and have the banks' guarantee of payment.

Variable interest rates tend to be lower on average than long-term fixed interest rates. During the Great Recession and Pandemic, long-term interest rates were historically low and the Port used the opportunity to lock-in low fixed rates. Now that long-term interest rates have risen, the Port can achieve lower cost of debt by increasing its utilization of variable rate bonds and notes.

Variable rate obligations do carry some risks and the Port has safeguards to manage these risks and expects to continue to issue primarily fixed rate bonds while increasing its exposure to variable rate debt. Risks include:

- Interest rate risk. Increases in rates can add to the Port's variable rate debt service (interest) costs. However, those increases in rates would also apply to the Port's investment portfolio which would result in higher interest earnings.
- Remarketing risk. There are different types of variable rate debt but the Port has typically issued variable rate demand bonds backed by a letter of credit from a bank and commercial paper notes also backed by a letter of credit from a bank. The interest rate on variable rate demand bonds resets regularly (for example, weekly) through a remarketing process where the remarketing agent sets the interest rate at the lowest level needed to successfully remarket the bonds (i.e. the level where there is sufficient investor demand). Likewise, the interest rate on commercial paper notes is set each time the short-term notes are issued or rolled. There is a risk of remarketing failure where there is not sufficient investor demand for all the bonds or rolled notes and in this event the letter of credit bank purchases the bonds and the Port pays the bank a predetermined rate of interest until the bonds can be successfully remarketed. This remarketing failure occurred during the Great Recession. The Port has agreements with

Meeting Date: April 14, 2026

the banks that have been carefully negotiated to provide time to cure the problem before the Port needs to repay the bonds.

An additional benefit of the variable rate demand bond structure is flexible repayment terms. The Port has typically chosen to amortize its variable rate debt in order to avoid a large principal payment(s) in the final years, but the Port has also paused principal payments during times of stress. For example, during the pandemic, the Port paused principal payments temporarily, which reduced the debt service amount charged to the airlines.

DETAILS

All current and future *First Lien* and *Intermediate Lien* Revenue Bonds require a bond series authorization resolution (“series resolution”) that are governed by First Lien and Intermediate Lien Master Resolutions, respectively. These Master resolutions contain the overarching security provisions for each lien, while the series authorizing resolutions include structural terms specific to the series.

The Port’s *Subordinate Lien* Revenue Bonds, however, are not currently governed by a Master resolution on the lien, but rather only by resolutions authorizing each series of subordinate lien debt. Port staff recommends updating the bond structure on the subordinate lien to include a new Master resolution on this lien.

This new Subordinate Lien Master resolution will provide the overarching security provisions and framework for the subordinate lien that will apply to all future subordinate lien bonds. It will include modification of certain security provisions within the Port’s subordinate lien security structure, which will bring the terms more in line with market standards and provide the Port with additional flexibility in managing current and future subordinate lien debt. These modifications include:

- Providing the Port with flexibility within the rate covenant and additional bonds test calculations to apply certain revenue(s), including passenger and customer facility charges (PFCs and CFCs), not currently pledged to the repayment of the Port’s subordinate lien bonds.
- Changing the debt service coverage calculation to an aggregate calculation. This would be calculated as Port net revenues divided by all revenue bond debt service. The current calculation is lien specific – net revenues minus prior lien debt service divided by subordinate lien debt service. The new aggregate calculation provides the Port and its investors with a more meaningful representation of debt service coverage and is in line with how investors and credit rating agencies calculate debt service coverage.
- Change the additional bonds test threshold. The additional bonds test is provided to investors at the time of a new bond issue to demonstrate that the Port has adequate resources to pay its current debt service obligations as well as the new bonds the Port is seeking to issue. The current test is based on subordinate lien specific coverage of 1.50x.

Meeting Date: April 14, 2026

The new test will be based on aggregate debt service coverage, which is more commonly used in the industry, and requires a 1.05x aggregate debt service coverage (or 1.10x if the Port pledges PFCs and/or CFCs).

In addition to creating a new Master Subordinate Lien Resolution, the Port must also amend the existing series authorizing resolutions associated with its outstanding subordinate lien bonds to conform to the terms in the Master Subordinate Lien Resolution. The Series 2008 Bonds were authorized by Resolution No. 3598 in 2008, and the CP program was authorized by Resolution No. 3546 in 2001 and Amended by Resolution No. 3777 in 2020. The amendatory resolutions incorporate the new Master Subordinate Lien Resolution provisions into the existing resolutions and make certain timing and technical updates to conform to current requirements.

ATTACHMENTS TO THIS REQUEST

- (1) Draft Subordinate Lien Master Resolution No. 3845
- (2) Draft Series Resolution No. 3846, amending Resolution No. 3456, as previously amended by Resolution No. 3777
- (3) Draft Series Resolution No. 3847, amending Resolution No. 3598
- (4) Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

March 24, 2026:

Introduction of Resolution No. 3845 – Subordinate Lien Master Resolution Authorizing Revenue Bonds of the Port District to be issued in series to finance any legal purpose of the Port District; Introduction of Resolution No. 3846, amending Resolution No. 3777 – which amended Resolution No. 3456 Commercial Paper Authorization; and Resolution No. 3847, amending Resolution No. 3598 – Authorizing the issuance and sale of Subordinate Lien Revenue Refunding Bonds, Series 2008.