

THE BOND BUYER

The role tax-exempts played to add a new link to the airline network

By

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With a boost from tax-exempt debt, air travelers in the northern suburbs of Seattle will soon have an alternative to Seattle-Tacoma International Airport.

The private developer that is building and will operate the passenger terminal at Paine Field in Everett, Washington, sold \$50 million in bonds through a privately placed transaction in February to finance the \$40 million project. The remaining funds will be set aside as reserves.

The new two-gate terminal at Paine Field, 28 miles north of Seattle, is expected to be completed by September. Flights could begin in late 2018 once the Federal Aviation Administration clears it for operations.

Alaska Airlines, Southwest Airlines and United Airlines have already announced that they will offer a combined 24 flights a day, said Brett Smith, chief executive of Propeller Airports LLC, which is building the terminal.

“That really speaks for itself,” he said. “We’re sold out. We are at capacity at day one.”

Propeller began leasing space at the airport in 2015 and last year entered into a 50-year agreement with Snohomish County, which owns Paine Field, to build and operate the terminal. According to Propeller, it will make annual rental payments totaling more than \$25 million over the term of lease. The county, which is providing no public financing, will also share in terminal revenues.

The project consists of a 29,300-square-foot terminal building that will include a security screening area, baggage claim, concessions and check-in and boarding areas. Existing lots are being reconfigured into four surface parking lots with 574 stalls for employees and travelers.

The bonds were sold through the Washington Economic Development Finance Authority. Using the conduit issuer gave the company access to tax-exempt municipal bonds, said Rodney Wendt, executive director of the authority.

Barclays Capital bought all the bonds in a private placement, he said. K&L Gates served as bond counsel.

The bonds, with interest subject to the Alternative Minimum Tax, carry a 6.5% coupon, according to [information posted](#) on the Municipal Securities Rulemaking Board's EMMA website.

Wendt said the project is an important one for meeting transportation needs in Snohomish County. Driving to Sea-Tac, which is 13 miles south of downtown Seattle, can be inconvenient for residents in the northern Seattle metropolitan area, Wendt said.

“To try to make it through the north-south corridor to get from Everett to Sea-Tac is a chore at any time of the day,” he said. “It’s darn near impossible during rush hour. Having some additional options would certainly help.”

The terminal is the only ingredient needed to add commercial airline service at Paine Field. The facility already has runways long enough to serve the 747, 777 and 787 jumbo aircraft Boeing builds at its adjacent manufacturing plant – aircraft far larger than the single-aisle jets that will be used to offer commercial service.

Propeller is leasing 10.5 acres of the 1315-acre field, which also houses large aircraft repair and maintenance facilities and offers private and corporate flights.

Under the county’s master plan, offering commercial flights has long been a goal.

Paine Field was first built in 1936 and was used by the Army Air Corps during World War II and later as an Air Force base from 1951 to 1968. Snohomish County took over once it was deactivated.

Paine Field is designated with the FAA as a reliever airport that can help ease congestion at the larger metropolitan Sea-Tac.

Propeller's Smith said the company’s marketing studies show a big demand for such service in Snohomish County where the population has grown to almost 800,000.

“What brought us here was really the huge need in the Pacific Northwest for this relief airport,” he said.

Smith doesn’t see the terminal as competing with Sea-Tac, noting that the airlines are not reducing their flights at Sea-Tac but simply adding more at Paine.

“This is an increase in capacity,” he said. “This is not a market shift.”

The airlines will fly as far east as Denver. Other destinations planned are Portland, San Francisco, San Jose, Los Angeles, Phoenix, San Diego and Las Vegas. About 17,500 takeoffs and landings a year are expected.

As a private company, Smith said, Propeller offers advantages that a publicly run airport doesn't have.

“Speed, efficiency, changing things that don't work – those are the kinds of things having a private operator bring,” he said.

Jack Keady, an aviation consultant in Playa Del Rey, California, said privately operated commercial airports are rare but not unheard of. The advantages are that they can operate with less bureaucracy although consumers could see higher costs due to the profit motive, he said.

Getting Alaska Airlines, which is based in Seattle, to offer flights from Paine is a good sign of its prospects, Keady said.

“It is a good strategy,” he said. “Seattle has too much concentrated in one airport and they are having a tough time meeting that demand.”

Providing a decent inbound and outbound schedule of flights and competitive fares will be a big factor in attracting customers, he said.

“If the airlines price it right and market it correctly they should have success,” he said.

Corrected May 25, 2018 at 12:48PM: The original version of the story misspelled the name of the airport developer. It is Propeller Airports LLC.