City of Seattle

M E M O R A N D U M

Date: **February 5, 2014**

To: **Finance and Culture Committee Members**

From: **Ben Noble, City Budget Director**

Subject: **2014 Multipurpose General Obligation Bond Issue**

As you may recall, last fall the City Council approved Ordinance 124341, which authorizes the issuance of the 2014 Multipurpose Limited Tax General Obligation (LTGO) Bonds. These bonds, also known as "councilmanic bonds," will be used to finance various projects, including a share of the City's capital program.

As the City began preparations to issue these bonds, we identified that the planned spending of bond proceeds will likely be less than originally projected As a result, we plan to reduce the amount of borrowing for certain projects. The reduced borrowing for 2014 represents a conscious shift toward a more conservative approach to "sizing" bond sales in an effort to reduce the debt service costs paid by the City.

CBO and FAS have worked cooperatively with SDOT and DoIT to implement this approach and plan to continue this model going forward. Overall, the LTGO borrowing is expected to be reduced from about $93.5 million to $71.4 million. By reducing the size of this bond issue, the City intends to lower the carrying cost (interim interest) on bonds issued prior to their actual expenditure. Debt service savings from reducing and delaying these bond sales are estimated at approximately $700,000 for 2014. These savings accrue to various funds, not just the General Fund, but the full amount represents a significant cost reduction for Seattle tax payers. Details regarding spending changes for the specific projects are provided below.

I am providing this update largely for informational purposes, as no Council action is needed for the bond sale to proceed at the reduced amount. That said, this new approach may require that we seek future Council approval for a short-term loan from the City's cash pool late in 2014. One reason we can reduce the 2014 bond sale without having concerns about access to the necessary funding is that the City has significant liquid resources (the City's cash pool) that can be used to address short-term financing needs.

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Thus, if our current projections for spending prove too conservative and additional funding is needed, we plan to provide the necessary resources through a short-term loan from the cash pool (and then repay that loan when bonds are sold in early 2015). The use of an inter-fund loan as a temporary bridge is a low-cost (approximately 1% interest), efficient mechanism of coping with uncertainty about the precise timing of cash-flows. Such loans can be authorized by the Budget Director for up to 90 days, but require Council approval for longer-periods. Depending on when the need arises and when we sell bonds in 2015, the loan term might extend beyond 90 days and require Council approval. We will notify you immediately if we foresee that such a circumstance may arise.

Project Details

1. Mercer West: Borrowing for Mercer West has been reduced from $8.4 million to zero. As a result of cost savings on the Mercer East project, old bonds originally issued for this project were re-purposed to the 23rd Ave. project. However, SDOT now believes that the 23rd Ave. project will not need the cash until 2015 or 2016, so these old bond proceeds will be re-purposed to Mercer West. As a consequence, no new borrowing for Mercer West is needed at this time.

2. S. Park Bridge: Borrowing for S. Park Bridge has been reduced from $15 million to $10 million. The City is contractually obligated to pay the County $15 million for S. Park Bridge. $10 million of this total is expected to be due within the next 6 months. The final $5 million installment is due upon project completion. This final installment will be financed with the City's 2015 LTGO bond issue.

3. Waterfront ROW: Borrowing for the Central Waterfront right-of-way has been reduced from $5 million to zero. SDOT believes there is significant uncertainty about the timing of this transaction and has therefore suggested a delay in the financing.

4. Pike Place Market Bond Refunding: The Pike Place Market has decided to retire its outstanding bonds with cash rather than refund (refinance) them. Therefore, the City's 2014 bond issue will not include any amount for this purpose.

Based on updated cash-flow projections from departments, borrowing for all other projects in 2014 will remain the same.

Voter-Approved Seawall Bonds

Finally, Ordinance 124125 authorized the City to issue $290 million of Unlimited Tax General Obligation (UTGO) Bonds for the voter-approved Seawall. In 2013, the City issued the first $50 million tranche of these bonds. There is currently considerable uncertainty about the timing of cash needs for this project and there were about $32 million of the 2013 bonds remaining at the end of last year. To avoid excessive carrying costs, the Executive now anticipates issuing only $17 million of additional UTGO bonds in 2014 with an expectation that some share of the $29 million inter-fund bridge financing authorized by Ordinance 124125 would be used on a temporary basis until early in 2015 when additional bonds are issued.

If you have any questions about these revisions, please do not hesitate to call me.

2014 Multipurpose LTGO Bond Issuance ($000s)
Revised 1/29/14 (compared to Adopted by Ordinance 124341)

	Approved		Revised				Approved		Revised		
Project	**Project Fund Deposit (max.)**	**Approx. Par Amount (1)**	**Project Fund Deposit (max.)**	**Revised Approx. Par Amount (1)**	**Max. Term**	**Approx. Rate**	**Debt Service Adopted 2014**	**Debt Service Estimated 2015**	**Debt Service Adopted 2014**	**Debt Service Estimated 2015**	**Debt Service Funding Source**
Mercer West	8,378	8,629	-	-	20	5.0%	324	692	-	-	SDOT (CPT) (2)
South Park Bridge	15,000	15,450	10,000	10,300	20	5.0%	579	1,240	386	826	GF
Waterfront ROW	5,000	5,150	-	-	20	5.0%	193	413	-	-	GF
North Precinct (2 of 3)	6,650	6,850	6,650	6,850	20	5.0%	257	550	257	550	GF
Critical Infrastructure - SMT	2,300	2,369	2,300	2,369	5	3.0%	53	517	53	517	FAS
Financial IT Upgrades (issue 2 of 3)	7,038	7,249	7,038	7,249	5	3.0%	163	1,583	163	1,583	FAS
Data Center Short (2a of 3)	18,200	18,746	18,200	18,746	5	3.0%	422	4,093	422	4,093	DoIT
Data Center Long (2b of 3)	8,000	8,240	8,000	8,240	10	4.0%	247	1,016	247	1,016	DoIT
IT-Electronic Records	3,000	3,090	3,000	3,090	5	3.0%	70	675	70	675	DoIT
IT-Computing Architecture	1,000	1,030	1,000	1,030	5	3.0%	23	225	23	225	DoIT
IT-Enterprise	2,170	2,235	2,170	2,235	5	3.0%	50	488	50	488	DoIT
Golf	5,561	5,728	5,561	5,728	20	5.0%	215	460	215	460	DPR
SCIDPDA Refinancing (2002 A& B)	4,325	4,455	4,325	4,455	18	Various	230	355	230	355	Int'l District PDA
Pike Place Market Refinancing (2002)	3,055	3,147	-	-	5	Various	836	821	-	-	PPM
Symphony Various Capital	1,100	1,133	1,100	1,133	10	3.0%	25	133	25	133	BHMC
Total	**90,777**	**93,500**	**69,344**	**71,424**			**3,688**	**13,261**	**2,142**	**10,921**	

(1) Includes 3% for costs of issuance and pricing adjustments.
(2) Proceeds from Bridging the Gap - Commercial Parking Tax receipts.