

Ordinance No. 122838

Council Bill No. 116388

AN ORDINANCE relating to the electric system of The City of Seattle; amending Ordinance 121941 to authorize the issuance and sale of municipal light and power refunding revenue bonds for the purpose of refunding outstanding municipal light and power adjustable rate revenue bonds.

The City of Seattle - Legislative Department
Council Bill/Ordinance sponsored by: Bruce A. Hendell
Councilmember

Committee Action:

Nov. 10, 2008 Full Council PASSED 9-0

CF No. _____

Date Introduced:	<u>11.3.08</u>	
Date 1st Referred:	To: (committee) <u>Full Council</u>	
Date Re - Referred:	To: (committee)	
Date Re - Referred:	To: (committee)	
Date of Final Passage:	Full Council Vote: <u>9-0</u>	
Date Presented to Mayor:	Date Approved: <u>11/12/08</u>	
Date Returned to City Clerk:	Date Published: <u>3</u>	T.O. <input checked="" type="checkbox"/> F.T. <input type="checkbox"/>
Date Vetoes by Mayor:	Date Veto Published:	
Date Passed Over Veto:	Veto Sustained:	

This file is complete and ready for presentation to Full Council. Committee: _____ (initial/date)

LAW DEPARTMENT

Law Dept. Review	OMP Review	City Clerk Review	Electronic Copy Loaded	Indexed
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City of Seattle

Gregory J. Nickels, Mayor

Office of the Mayor

October 28, 2008

Honorable Richard Conlin
President
Seattle City Council
City Hall, 2nd Floor

Dear Council President Conlin:

I am pleased to submit the attached proposed Council Bill that provides authority to refund \$72 million of Light System Variable Rate Demand Bonds (VRDB) with fixed rate bonds in order to mitigate risks associated with the recent financial market crisis. With Council approval, this refunding will occur simultaneously with the new money bond issue that you recently authorized.

The recent financial crisis has caused a major disruption in the market for VRDB. The City's VRDB are very safe AAA rated securities and, as such, the primary investors in these bonds are money market funds. During the recent financial crisis, investors have made massive withdrawals from these funds. As a consequence, money market funds have been forced to sell their inventories of VRDB, regardless of their credit quality. As a result, rates on VRDB have increased and the risks associated with having variable rate debt outstanding have risen significantly.

Refunding the VRDB with fixed rate debt will create certainty about the City's future debt service costs and reduce exposure to the new level of risk in current financial markets. Thank you for your consideration of this legislation. Should you have questions, please contact Michael Van Dyck at 4-8347.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Nickels", written over a large, stylized flourish that extends across the signature line and into the text below.

GREG NICKELS
Mayor of Seattle

cc: Honorable Members of the Seattle City Council

600 Fourth Avenue, 7th Floor, P.O. Box 94749, Seattle, WA 98124-4749

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THE CITY OF SEATTLE, WASHINGTON

ORDINANCE 122838

AN ORDINANCE relating to the electric system of The City of Seattle; amending Ordinance 121941 to authorize the issuance and sale of municipal light and power refunding revenue bonds for the purpose of refunding outstanding municipal light and power adjustable rate revenue bonds.

Passed 11/10, 2008



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ORDINANCE 122838

1
2 AN ORDINANCE relating to the electric system of The City of Seattle; amending
3 Ordinance 121941 to authorize the issuance and sale of municipal light and power refunding
4 revenue bonds for the purpose of refunding outstanding municipal light and power adjustable
rate revenue bonds.

5 WHEREAS, The City of Seattle, Washington (the "City"), owns, operates and maintains an electric
system; and

6 WHEREAS, by Ordinance 121941, passed on September 26, 2005, the City authorized the issuance
7 and sale, subject to the provisions of Ordinance 121941, of municipal light and power
8 refunding revenue bonds (collectively, the "Bonds"), in one or more series, for the purpose of
9 paying all or part of the cost of refunding all or a portion of the Refundable Bonds, as defined
in Ordinance 121941, and of paying all or part of the costs of issuance and sale of the Bonds;
and

10 WHEREAS, after due consideration, the City finds that it is necessary and in the best interest of the
11 City and its ratepayers to amend Ordinance 121941 to also provide for the issuance of Bonds
12 for the purposes of (i) paying all or part of the cost of refunding all or a portion of the City's
municipal light and power adjustable rate revenue bonds, (ii) providing a bond reserve and
13 (iii) paying all or part of the costs of issuance and sale of the Bonds; NOW, THEREFORE,

14 BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

15 Section 1. Definitions. The meaning of capitalized terms used and not otherwise defined
16 in this ordinance shall be as set forth in Ordinance 121941.

17 Section 2. Amendment of Ordinance 121941. Section 1 of Ordinance 121941 is hereby
18 amended to amend the definition of "Refundable Bonds" as follows and to add the following
19 definition of "Refundable Subordinate Lien Bonds":

20 * * *

21 "Refundable Bonds" means, collectively, all or a portion of any Outstanding
22 Parity Bonds, the Refundable Subordinate Lien Bonds and the Bonds, and all or a
23 portion of those Future Parity Bonds that have been designated as Refundable Bonds
24 in the applicable Parity Bond Ordinance.

25 "Refundable Subordinate Lien Bonds" means, collectively, all or a portion of
26 the City's outstanding Municipal Light and Power Adjustable Rate Revenue Bonds,



2008 FISCAL NOTE

Department:	Contact Person/Phone:	DOF Analyst/Phone:
DOF	Michael van Dyck 4-8347	Michael van Dyck 4-8347

Legislation Title:

AN ORDINANCE relating to the electric system of The City of Seattle; amending Ordinance 121941 to authorize the issuance and sale of municipal light and power refunding revenue bonds for the purpose of refunding outstanding municipal light and power adjustable rate revenue bonds.

- Summary of the Legislation:

This legislation provides authority to refund \$72 million of Light System Variable Rate Demand Bonds (VRDB) with fixed rate bonds in order to mitigate risks associated with the recent financial market crisis.

- Background:

Historically, interest rates on VRDB have been very low, saving rate payers millions of dollars. Recently, the market for VRDB has become extremely unstable. Over the past 10 months, rates have ranged from about 0.96% to 8.7% with dramatic swings from week to week. Over the past 4 weeks, \$20 million of these bonds have been put back by investors. Fortunately, the remarketing agents have successfully found alternative investors for all of these bonds. Fixing the interest rate on these bonds will eliminate significant risk associated with the current crisis.

Interest rates on the refunding bonds are estimated to range from 2.3%-5.4%, depending on maturity length. Rates on the refunded VRDB had been estimated to be 4% in 2009, but it is not possible to predict what actual rates on VRDB will be in the future. They could be substantially higher or lower. It is also not possible to know whether the VRDB market will continue to function. Nevertheless, refunding these bonds with fixed rates will provide certainty about future debt service costs.

If the City were not to refund these bonds, it would face interest rate risk and the risk of failed remarketing. In a failed remarketing, bonds would be purchased by the letter of credit bank (assuming it is solvent), and the City would be required to start repaying all bonds held by the bank in equal quarterly installments over a very short, four-year period, together with accrued interest. If all \$72 million were held by the bank, the Light System would be required to redeem \$9 million semiannually (\$18 million per year) until fully repaid.



- Please check one of the following:

This legislation does not have any financial implications.

This legislation has financial implications.

- *Estimated Debt Service (in \$1,000s):*

The refunding bonds will be structured with level debt service over the same period as the term of the refunded VRDB. These existing VRDB have various remaining terms, ranging from 3-13 years (final maturities in 2011, 2015, 2016, 2018, 2021). Annual debt service on the refunding bonds is expected to be about \$9 million in 2009 and then rapidly decline to \$1.6 million in 2021.

- What is the financial cost of not implementing this legislation?

Given the unprecedented nature of the current financial market crisis, it is not possible to determine the cost of not implementing this legislation. While long term rates have risen significantly over the past year, they are still low by historical standards, so fixing the rate on these bonds is an attractive risk mitigation strategy.

- Is the legislation subject to public hearing requirements? *(If yes, what public hearings have been held to date)*

No

- Other Issues *(including long-term implications of the legislation):*

None

STATE OF WASHINGTON – KING COUNTY

--SS.

231426
CITY OF SEATTLE, CLERKS OFFICE

No.

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT:TITLE ONLY

was published on

11/17/08

The amount of the fee charged for the foregoing publication is the sum of \$ 49.18, which amount has been paid in full.



Affidavit of Publication

M. J. [Signature]

Subscribed and sworn to before me on
11/24/08
[Signature]

Notary public for the State of Washington,
residing in Seattle

State of Washington, King County

City of Seattle

TITLE-ONLY PUBLICATION

The full text of the following ordinances, passed by the City Council on November 10, 2008, and published here by title only, will be mailed, at no cost, on request for two months after this publication. For further information, contact the Seattle City Clerk at 684-8344.

ORDINANCE NO. 122839

AN ORDINANCE appropriating money to pay certain audited claims and ordering the payment thereof.

ORDINANCE NO. 122838

AN ORDINANCE relating to the electric system of The City of Seattle; amending Ordinance 121941 to authorize the issuance and sale of municipal light and power refunding revenue bonds for the purpose of refunding outstanding municipal light and power adjustable rate revenue bonds.

ORDINANCE NO. 122837

AN ORDINANCE relating to the municipal water system of The City of Seattle; amending Ordinance 121939 to authorize the issuance and sale of water system refunding revenue bonds for the purpose of refunding outstanding water system adjustable rate revenue bonds.

Publication ordered by JUDITH PIPPIN,
City Clerk

Date of publication in the Seattle Daily
Journal of Commerce, November 17, 2008.

11/17(231426)