

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
FAS	Michael Van Dyck 4-8347	Jennifer Devore 5-1328

Legislation Title:

AN ORDINANCE providing for the defeasance and redemption of certain of the City’s outstanding Limited Tax General Obligation Improvement and Refunding Bonds, 2007; authorizing the execution of a defeasance trust agreement; authorizing the purchase of certain investments and the use of their proceeds; and appropriating amounts in the defeasance account to carry out the defeasance, and ratifying and confirming certain prior acts.

Summary of the Legislation:

This legislation provides for the use of \$55 million received from the sale of the Pacific Place Garage for the defeasance of allocable bonds pursuant to IRS regulations. The defeasance will reduce the City’s annual debt service from about \$5.5 million to an average of \$1.3 million.

Background:

The Pacific Place Garage was financed with tax-exempt bonds. When the garage is sold, the IRS will require the City to take what is called a “remedial action” with respect to the bonds. The most common way to meet this requirement is to use the sale proceeds to pay off the allocable bonds. However, these particular bonds are not “callable” until 2017. This means that the City cannot pay off this debt “early” (before 2017). In such a case, the IRS allows the City to “defease” bonds allocable to the Garage. In a “defeasance”, the City deposits the sale proceeds with a trustee who uses them to make payments on the bonds until they are callable. The trustee then calls the bonds in 2017. This is what the City did with Key Arena settlement proceeds. When the City defeases bonds, this debt is no longer on the City’s “books”. The City no longer makes payments on the debt and these bonds no longer count against the City’s debt capacity. The sale proceeds will pay off about \$46 million of the remaining \$59 million of bonds. Two factors account for the difference: 1) The City owes more on the facility than it expects to receive in the proposed sale and 2) The Trustee needs to pay both principal and interest on the bonds until they are callable (2017). (The interest rate paid on bonds until the call date is much higher than the reinvestment rate.)

This legislation does not have any financial implications.

This legislation has financial implications.

Appropriations:

Fund Name and Number	Department	Budget Control Level*	2013 Appropriation	2014 Anticipated Appropriation
Pacific Place Garage Sale City Fund	Debt Service	Bond Interest and Redemption	\$55,000,000	None
TOTAL			\$55,000,000	

**See budget book to obtain the appropriate Budget Control Level for your department.*

Spending/Cash Flow:

Fund Name & #	Department	Budget Control Level*	2013 Expenditures	2014 Anticipated Expenditures
Pacific Place Garage Sale City Fund	Debt Service	Bond Interest and Redemption	\$55,000,000	
TOTAL			\$55,000,000	

** See budget book to obtain the appropriate Budget Control Level for your department.*

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
 Yes, this legislation reduces the City’s annual debt service related to the Garage from about \$5.5 million to an average \$1.3 million.
- b) **What is the financial cost of not implementing the legislation?**
 Defeasance of bonds is a legal requirement when selling the Garage.
- c) **Does this legislation affect any departments besides the originating department?**
 No.
- d) **What are the possible alternatives to the legislation that could achieve the same or similar objectives?**

The City had considered an alternative “remedial action” involving the use of sale proceeds for other qualified projects. While the cost of this approach is about the same as a defeasance, it has multiple practical and legal disadvantages: 1) The City would be using very high interest rate garage debt (5%) to finance projects that could otherwise be financed at a much lower interest rate. By locking in rates below 3% on new debt today, the City lowers costs (and eliminates the risk that rates will rise in the future). 2) Garage bonds have escalating debt service that lasts 16 years. Neither the term nor the structure of this debt is suited for new project financing. For example, the City intends to finance upgrades to its financial information system with 5 year debt. The rate on this debt will likely be less than 2%. Using 5% debt that lasts 16 years instead is much more expensive and violates other IRS regulations and the City’s own debt policies. 3) The City’s future financing needs are uncertain, as spending on capital projects is difficult to forecast. In fact, most of the projects that had been considered for a “swap” last year no longer need

financing at all in 2013. Consequently, there are no obvious “swap” candidates, introducing the risk that the City might have difficulty meeting the federal legal requirement with this alternative approach.

- e) **Is a public hearing required for this legislation?** No.
- f) **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?** No.
- g) **Does this legislation affect a piece of property?** Yes. Please see Council Bill 117719.
- h) **Other Issues:** None.

Garage Bond Defeasance:
Estimated Debt Service Impact

	Existing Debt Service						2013 Defeasance		Debt Service after Defeasance		
	1998E			2007			2007 Bonds Defeased		Principal	Interest	Total
	Principal	Interest	Debt Svc	Principal	Interest	Debt Svc	Principal	Interest			
2013	1,262,158	1,377,842	2,640,000	-	2,881,500	2,881,500	-	(1,158,875)	1,262,158	3,100,467	4,362,625
2014	696,920	858,080	1,555,000	1,160,000	2,881,500	4,041,500	(935,000)	(2,317,750)	921,920	1,421,830	2,343,750
2015	-	-	-	2,950,000	2,823,500	5,773,500	(2,370,000)	(2,271,000)	580,000	552,500	1,132,500
2016	-	-	-	3,280,000	2,676,000	5,956,000	(2,640,000)	(2,152,500)	640,000	523,500	1,163,500
2017	-	-	-	3,630,000	2,512,000	6,142,000	(2,920,000)	(2,020,500)	710,000	491,500	1,201,500
2018	-	-	-	4,010,000	2,330,500	6,340,500	(3,225,000)	(1,874,500)	785,000	456,000	1,241,000
2019	-	-	-	4,415,000	2,130,000	6,545,000	(3,550,000)	(1,713,250)	865,000	416,750	1,281,750
2020	-	-	-	4,840,000	1,909,250	6,749,250	(3,895,000)	(1,535,750)	945,000	373,500	1,318,500
2021	-	-	-	5,295,000	1,667,250	6,962,250	(4,260,000)	(1,341,000)	1,035,000	326,250	1,361,250
2022	-	-	-	5,780,000	1,402,500	7,182,500	(4,650,000)	(1,128,000)	1,130,000	274,500	1,404,500
2023	-	-	-	6,295,000	1,113,500	7,408,500	(5,065,000)	(895,500)	1,230,000	218,000	1,448,000
2024	-	-	-	6,845,000	798,750	7,643,750	(5,505,000)	(642,250)	1,340,000	156,500	1,496,500
2025	-	-	-	7,115,000	456,500	7,571,500	(5,720,000)	(367,000)	1,395,000	89,500	1,484,500
2026	-	-	-	690,000	100,750	790,750	(555,000)	(81,000)	135,000	19,750	154,750
2027	-	-	-	670,000	66,250	736,250	(540,000)	(53,250)	130,000	13,000	143,000
2028	-	-	-	655,000	32,750	687,750	(525,000)	(26,250)	130,000	6,500	136,500
2029											
2030											
2031											
2032											
2033											
Total	1,959,078	2,235,923	4,195,000	57,630,000	25,782,500	83,412,500	(46,355,000)	(19,578,375)	13,234,078	8,440,048	21,674,125

*2013 includes debt service paid prior to June 1, 2013 defeasance.