



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
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MEMORANDUM

To: Kurt Triplett, City Manager
From: Michael Olson, Director of Finance and Administration
Date: June 4, 2015
Subject: DEFEASANCE OF THE 2011 LIMITED TAX GENERAL OBLIGATION BONDS

RECOMMENDATION:

The City Council adopts the attached resolution approving the defeasance of the 2011 Limited Tax General Obligation Bonds and authorizing the Director of Finance and Administration to perform the requirements necessary to defease the bonds.

BACKGROUND DISCUSSION:

Potential changes to the Park impact fee approach were presented to Council at the April 7, 2015 Study Session and at the May 29, 2015 Council Retreat. The new approach would be to set Park impact fees based on park investment per capita. Under the existing standard Park impact fees can only be used to fund indoor non-athletic recreation space and community parks with surplus capacity. Proposed changes to the Park impact fees will allow for a broader use of these funds. Impact fees are spent in the order that they are received, first in, first out. To simplify the implementation of the new approach, staff is recommending use of the existing impact fee balance as described below.

In the current budget, available Park impact fee balances are used to pay the debt service on McAuliffe Park (which retires in 2021) and a part of the debt on the Teen Center (which retires in 2019). In recent years collections have exceeded the annual debt service requirement, resulting in an accumulated balance sufficient to fully repay the impact fee portion of the debt obligations. A small portion of the Teen Center debt (13%) is paid by Real Estate Excise Tax (REET 1) because it does not represent excess capacity. To retire the bonds in their entirety, a use of \$41,467 in REET 1 is recommended. The debt would be retired in advance by way of a defeasance, which involves using existing cash balances to purchase securities that will be set aside in an escrow account to pay future debt service obligations. The defeasance process is described in greater detail below.

Using the existing Park impact fee balance to defease the 2011 LTGO bonds will free up future Park impact fees to be spent under the new standard when adopted by Council. The revised 2016 estimated ending balance for Parks Impact fees, after adjusting for the debt defeasance, is shown in the table on the following page.

| Park Impact Fees Uses | |
|------------------------------|-------------|
| 2016 Est. Ending Balance | \$2,007,936 |
| Teen Center Debt | (277,507) |
| McAuliffe Debt | (1,184,297) |
| Revised 2016 Ending Balance | \$546,132 |

The impact on REET 1 reserves and Park Impact Fee balances is detailed in the attached fiscal note (Attachment A).

Defeasance Process

The parties to the defeasance of the 2011 LTGO Bonds would be the City of Kirkland (City), Public Financial Management (Financial Advisor), K&L Gates (Bond Counsel), U.S. Bank (Escrow Agent) and Causey Demgen & Moore (Verification Agent). The defeasance of the 2011 LTGO Refunding Bonds would be documented and administered through a Defeasance Agreement prepared by Bond Counsel. The parties to the Defeasance Agreement would be the City and the Escrow Agent.

The Escrow Agent will hold the defeasance securities, which will consist of U.S Treasury securities, and make all required disbursements on the 2011 Bonds through the final payment date. Once the defeasance securities are deposited with the Escrow Agent and the Verification Agent delivers its opinion regarding sufficiency of the defeasance escrow the 2011 LTGO bonds will be legally defeased and no longer an obligation of the City for payment purposes or for inclusion in its determination of legal debt limit.

The City's Financial Advisor will structure the portfolio of defeasance securities and coordinate with the Escrow Agent to finalize their acquisition. The defeasance securities would normally consist of U.S Treasury State and Local Government Series (SLGS) acquired directly from the U.S. Treasury. Currently, sales of SLGS are suspended and if the suspension were to continue open market U.S. Treasuries would be used. If open market securities were necessary the Financial Advisor would arrange a competitive bid process for the acquisition.

Defeasance Cost

Based on U.S Treasury market conditions of June 1, 2015 the cost of defeasance securities is estimated to be \$1,503,271. This cost will vary with changing market conditions until final acquisition of the securities portfolio. Transaction costs for the parties involved in arranging the defeasance would be approximately \$8,000.

Staff recommends that the City Council authorize the use of the impact fee balances, supplemented by a small contribution of REET 1 funds, to defease the 2011 refunding bonds by approving the attached resolution.

FISCAL NOTE

CITY OF KIRKLAND

| Source of Request | | | | | | | |
|---|--|-------------------------|-----------------------------|----------------------------------|------------------------|-----------------------------|----------------|
| Michael Olson, Director of Finance and Administration | | | | | | | |
| Description of Request | | | | | | | |
| Request to use \$1,461,804 of Park Impact Fee balances and \$41,467 of REET 1 reserves to defease the 2011 Limited Tax General Obligation bonds as described in the attached memo. | | | | | | | |
| Legality/City Policy Basis | | | | | | | |
| | | | | | | | |
| Fiscal Impact | | | | | | | |
| One-time use of \$41,467 from REET 1 reserve. This reserve is fully able to fund this request. One-time use of \$1,461,804 from Park Impact fees balances. There are sufficient existing balances to fund this request. | | | | | | | |
| Recommended Funding Source(s) | | | | | | | |
| <i>Reserve</i> | Description | 2016 Est End Balance | Prior Auth. 2015-16 Uses | Prior Auth. 2015-16 Additions | Amount This Request | Revised 2016 End Balance | 2016 Target |
| | REET 1 Reserve | 8,361,750 | 429,500 | 0 | 41,467 | 7,890,783 | 1,732,329 |
| | Park Impact Fees Reserves | 2,007,936 | 0 | 0 | 1,461,804 | 546,132 | n/a |
| <i>Revenue/Exp Savings</i> | | | | | | | |
| <i>Other Source</i> | | | | | | | |
| Other Information | | | | | | | |
| | | | | | | | |
| Prepared By | Tom Mikesell, Financial Planning Manager | | | | Date | June 10, 2015 | |

RESOLUTION R-5128

A RESOLUTION OF THE CITY OF KIRKLAND, WASHINGTON, APPROVING THE DEFEASANCE OF ALL OR A PORTION OF THE CITY'S OUTSTANDING LIMITED TAX GENERAL OBLIGATION REFUNDING BONDS, 2011 IN THE AMOUNT OF NOT TO EXCEED \$1,530,000 AND AUTHORIZING THE DIRECTOR OF FINANCE AND ADMINISTRATION OF THE CITY TO PERFORM THE REQUIREMENTS NECESSARY ON BEHALF OF THE CITY TO DEFEASE SUCH BONDS INCLUDING THE SUBMISSION OF ANY DOCUMENTATION RELATING THERETO.

1 WHEREAS, the City of Kirkland, Washington (the "City"), by
2 Ordinance No. 4317 (the "2011 Ordinance"), authorized the issuance of
3 its Limited Tax General Obligation Refunding Bonds, 2011 in the
4 aggregate principal amount of \$4,255,000 (the "2011 Bonds"); and
5

6 WHEREAS, the 2011 Bonds currently mature in principal
7 amounts and bear interest as follows:

| <u>Year (December 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> |
|------------------------------|-----------------------------|--------------------------|
| 2015 | \$ 205,000 | 2.00% |
| 2016 | 210,000 | 2.00 |
| 2017 | 210,000 | 3.00 |
| 2018 | 220,000 | 3.00 |
| 2019 | 230,000 | 3.00 |
| 2020 | 175,000 | 3.00 |
| 2021 | 175,000 | 3.00 |

8 WHEREAS, Section 11 of the 2011 Ordinance provides for the
9 defeasance of the 2011 Bonds; and
10

11 WHEREAS, the City now has funds available and set aside to
12 establish an escrow account for all or a portion of the outstanding 2011
13 Bonds (the "Defeased Bonds"); and
14

15 WHEREAS, the City Council wishes to authorize the Director of
16 Finance and Administration of the City (the "Director of Finance and
17 Administration") to perform the requirements necessary to accomplish
18 such defeasance including the authority to enter into any agreements
19 or complete such forms required by U.S. Bank National Association, as
20 registrar for the 2011 Bonds (the "Registrar");
21

22 NOW THEREFORE, be it resolved by the City Council of the City
23 of Kirkland as follows:
24

25 Section 1. Defeasance of the Defeased Bonds; General
26 Authorization to the Director of Finance and Administration.

- 27 a. The City has set aside sufficient funds out of the available funds
- 28 of the City to defease the Defeased Bonds.
- 29
- 30 b. The City Council hereby authorizes and directs the Director of
- 31 Finance and Administration to arrange for the defeasance of the
- 32 Defeased Bonds in accordance with the provisions of the 2011
- 33 Ordinance providing for the defeasance of the Defeased Bonds
- 34 and to provide notice of such defeasance to the Registrar. The
- 35 Director of Finance and Administration is authorized to select an
- 36 escrow agent and enter into any agreements with an escrow
- 37 agent to establish the defeasance escrow and further provide for
- 38 the submission of information in regard to the Defeased Bonds
- 39 as requested by the Registrar.
- 40
- 41 c. The Registrar is hereby authorized and directed to provide for
- 42 the timely giving of notice of defeasance of the Defeased Bonds
- 43 in accordance with the applicable provisions of the 2011
- 44 Ordinance. The Director of Finance and Administration is
- 45 authorized and requested to provide whatever assistance is
- 46 necessary to accomplish such defeasance and the giving of
- 47 notice therefor. The costs of publication of such notice shall be
- 48 an expense of the City.
- 49
- 50 d. The City will take such actions as are found necessary to see
- 51 that all necessary and proper fees, compensation and expenses
- 52 of the Registrar for the 2011 Bonds shall be paid when due.

53
 54 Section 2. Effective Date. This resolution shall become
 55 effective immediately upon its adoption.

56
 57 Passed by majority vote of the Kirkland City Council in open
 58 meeting this ____ day of ____, 2015.

59
 60 Signed in authentication thereof this ____ day of ____, 2015.

 MAYOR

Attest:

 City Clerk

Approved as to Form:

 Cynthia M. Weed, Bond Counsel
 K&L Gates LLP

CERTIFICATE

I, the undersigned, City Clerk of the City of Kirkland, Washington (the "City") and keeper of the records of the City Council (the "City Council"), DO HEREBY CERTIFY:

1. That the attached Resolution is a true and correct copy of Resolution No. 5128 of the City Council (the "Resolution"), duly passed at a regular meeting thereof held on the 16th day of June, 2015.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a legal quorum was present throughout the meeting and a legally sufficient number of members of the City Council voted in the proper manner for the passage of the Resolution; that all other requirements and proceedings incident to the proper passage of the Resolution have been duly fulfilled, carried out and otherwise observed; and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of _____, 2015.

City Clerk