CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.ci.kirkland.wa.us

MEMORANDUM

To: Dave Ramsay, City Manager

From: Tracey Dunlap, Director of Finance and Administration
Robin Jenkinson, City Attorney

Date: July 8, 2009

Subject: Resolution Authorizing City Manager to Execute Certifications to Enable the Cascade Water Alliance to Issue and Sell Bonds

RECOMMENDATION:

Council pass the attached resolution authorizing City Manager to execute certifications to enable the Cascade Water Alliance to issue and sell bonds.

POLICY IMPLICATIONS:

By executing the certifications, the City represents that: (1) the description of the City's water utility in the Final Official Statement accompanying the bond documents is accurate; (2) there is no litigation challenging the City's execution of the Cascade Water Alliance ("Cascade") Interlocal Contract or the City's water utility in any material way; 3) the City Council authorized the execution of the Interlocal Contract and authorized the execution of the certificates required by the bond purchase contract; and (4) it has agreed to provide continuing disclosure of material information related to the bonds as required by the rules of the Securities Exchange Act.

BACKGROUND DISCUSSION:

Cascade , of which Kirkland is a member, is prepared to issue water system revenue bonds in the amount of approximately $82 million. The bonds are being issued to implement Cascade's finance plan and 2009 adopted budget. The specific projects to be funded are listed and described in Attachment A. The majority of the $82 million amount represents financing of Cascade commitments already in place. On a 25-year debt issue of $82 million at an assumed 5.25% interest rate (not locked in yet), the annual principal and interest payment will be $5,964,734. Kirkland's relative obligation will be based on its demand share and its share of Regional Capital Facilities Charge (RCFC) contributions. Kirkland's projected demand share for 2010-2013 is about 14%, so an estimate of Kirkland's share is 14% of $5,964,734, or $835,063. The fiscal impact of repayment of the bonds has already been incorporated into Cascade's 2009 budget and financial forecast, and as such, is built into Kirkland's water rate projections.

The Cascade bonds will not pledge the full faith and credit of any member, nor will the bonds pledge any revenues except as the members commit under the Interlocal Contract which established Cascade. Each member has pledged in the Interlocal Contract to establish, maintain, and collect rates, fees or other charges for water at levels adequate to provide

revenues sufficient to enable the respective members to pay member charges to Cascade. The certifications and other bond documents are substantially similar to those executed in issuing the 2006 Cascade bonds and will be reviewed by the City's bond counsel, Cynthia Weed of K&LGates LLC, as well as City staff.

Attachment B summarizes the bond issuance schedule. City staff and financial advisors will be reviewing the final documents during the next few weeks. The original schedule had Cascade's Board adopting the bond resolution on July 22, but that action has been moved to August 26. Given that there are only two Council meetings before that date, staff is recommending approval of the resolution authorizing the City Manager to execute the required certifications at the meeting on July 21. Scott Hardin, Director of Finance & Administration for Cascade will be attending the July 21 Council meeting to answer any questions.

Cascade Water Alliance bond planning: funding needs summary		Funding needed	Estimated Amount
1.	TCP Central and North Segments	2009 and 2010	$2,000,000
2.	Lake Tapps Acquisition	September 2009	$43,000,000
3.	Tribal settlement costs	Sept. – Dec. 2009	$19,800,000
4.	State Route 900 Road Widening Reach	July 2009	$7,132,000
5.	Lake Tapps Operations Assessment	May 2009 – December 2010	$1,130,000
6.	Contingency	2009 and 2010	$2,000,000
Subtotal			**$75,012,000**
7.	Reserve funding requirement		$6,000,000
8.	Transaction costs		$925,000
Total financing			**~$82,000,000**

July 6, 2009

Cascade Water Alliance bond planning: funding needs		Estimated need	Estimated date funds needed	Timing, event triggers, requisites, other considerations
1. (EO)	TCP (Central / North Segments). The Tacoma Cascade Pipeline efforts are generally on hold pending the outcome of the 2009 planning study to update the Transmission and Supply Plan; 2010 Update. Ongoing work will take place by HDR for property acquisition and closeout of activities to enable the restart of the engineering work upon the completion of the 2009 planning efforts.	$1,000,000 to $2,000,000, depending on plans for Central Segment and whether 2008 Stewart property purchase is reimbursed from bond proceeds	2009-2010	HDR contract #3, Central Segment: $67,235 spent to date in 2009; remainder to be determined HDR contract #5, North Segment: $180,759 spent to date in 2009, $167,108 remaining in contract Easements ($81,727 total: BPA $73,030; Goodnight $1,070; Davis $5,645; PSE $1,582; Issaquah $400) Construction fund replenishment for Stewart purchase ($1,015,872) Noonan property (approx. $235,000; closing in June 2009)
2. (MG)	Lake Tapps acquisition. $25m due at closing, which is 45 business days from satisfaction of contingencies/conditions for closing. $5m due when water right is issued with settlement flows (earlier of issuance or closing) $7m - $7.5m PSE operations from 2004 to mid-2009. $4m reimbursement to PSE for construction costs. $1.5m PSE MOU purchase price adjustment. *Adjustments to purchase price; to be confirmed*	$43,000,000	September 2009	Sixteen boundary line adjustments are in process. Approval from UTC pending. Parties (Pierce Co., homeowners, 4 cities) may appeal water right. Appeal period is 30 days from issuance.

Cascade Water Alliance bond planning: funding needs		Estimated need	Estimated date funds needed	Timing, event triggers, requisites, other considerations
3. (MG)	Puyallup Indian Tribes and Muckleshoot Indian Tribes settlement costs. Muckleshoot: $600k due within ten days of closing on asset purchase agreement; $6.2m due within 60 calendar days after final appeal. Puyallup: $13m due within 45 calendar days of final water right issuance (after appeals).	$600,000 $19,200,000	September 2009 December 2009 or later	Payment due per settlement agreements following issuance of water rights.
4. (EO)	State Route 900 Road Widening Reach. The Tacoma Cascade Pipeline State Route 900 Road Widening contract with the Washington State Department of Transportation is approximately $6.5 million, of which $1,390,114.56 has been spent in 2008 and 2009 (to be reimbursed from bond proceeds). The balance will be expended in 2009. Other expenses (contingency, project management, inspections, etc.) are estimated to total $682,000.	$7,132,000	July 2009	Contract has been signed and construction is underway. Payment will be in installments from March 2009 to July 2009.
5. (MG)	Lake Tapps operations assessment. Estimated cost of AECOM contract for Lake Tapps operations and assessment. Phase 1: $65,000 to scope the full project. Completed. Phase 2-A: $715,000 evaluation of options and make recommendations, ends April 2010 Phase 2-B: $300,000 implementations of recommended improvements, May 2010 – December 2010	$1,130,000	May 2009 through December 2010	Need to confirm that this is capitalizable and therefore eligible for bond funding.

Cascade Water Alliance bond planning: funding needs		Estimated need	Estimated date funds needed	Timing, event triggers, requisites, other considerations
6.	Contingency	$2,000,000	2009 and 2010	
	Total projects	*$75,012,000*		
7.	Reserve funding requirement	$6,000,000		
8.	Transaction cost: Bond counsel	$80,000		
9.	Transaction cost: Financial advisor	$70,000		
10.	Transaction cost: Rating agencies	$70,000		
11.	Transaction cost: Underwriter ($8/$1000)	$705,000		
12.	Transaction cost: Underwriter's counsel			
13.	**Total financing**	**~$82,000,000**		

Other notes:

The “Short Term Supplemental Supply Projects” for $1,300,000 that appeared on prior version of this list has been removed. It is no longer a likely project.

The “Eastside Storage Reservoir” for $15,000,000 that appeared on a prior version of this list was removed after Cascade’s Board decided not to acquire the reservoir in 2009 (June 24, 2009, Board meeting).

Another potential capital funding need: Lake Tapps powerhouse valve replacement, to occur within two or three years of closing (2010 probably), per the Compliance Schedule. Estimated cost is $2,000,000 ($1.5m equipment plus $500k installation).

Lake Tapps Dike 3 repair may be done in conjunction with county road repair work, if the county funds it. If not, Cascade must submit a repair schedule to the Department of Ecology within three years.

Bond proceeds may reimburse prior expenses paid from operating funds that were spent for the above projects, for the period back to three years prior to closing. These potential reimbursements to the Operating Fund may serve as contingency funding to cover needs that arise between the two bond phases. Ed Cebron will research reimbursement categories.

DashenMusselman
INCORPORATED
FINANCIAL CONSULTING FOR PUBLIC ENTITIES

CASCADE WATER ALLIANCE
WATER SYSTEM REVENUE BONDS, SERIES 2009
TIME AND RESPONSIBILITY SCHEDULE

Revised: July 7, 2009

July

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

August

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

September

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

October

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Cascade Water Alliance Staff:..... CWA
Cascade Water Alliance Board:.....Board
Cascade Water Alliance - Member Finance Directors: .....Members
FCS Group, Planning Consultant: .....FCSG
Foster Pepper PLLC, Bond Counsel: ..... FP
DashenMusselman, Inc., Financial Advisor: .....DMI
Gordon Derr, Legal Counsel: ..... Counsel
Underwriter (to be determined): .....UW
Financing Team: .....CWA/FCSG/FP/DMI/UW
"All Parties" refers to any participants specified by CWA staff (generally all-inclusive)

		EVENT	RESPONSIBILITY
7/10	■	Underwriter proposals due – review starts	CWA/DMI
7/15	■	Discuss Underwriter proposals received – determine short list	CWA/DMI
7/21 -3 pm	■	POS review and discussion - conference call or meeting	DMI/CWA
7/22	■	Draft POS distributed to Financing Team	DMI
7/22	■	Cascade Board Meeting (Update by Scott Hardin only)	CWA/Board
7/24	■	Underwriter Interviews	CWA/DMI
7/27	■	Comments provided on Draft POS	Financing Team
7/29	■	Appointment of Underwriter	CWA/DMI
7/30	■	Draft Bond Resolution distributed to Financing Team	FP
	■	Draft POS distributed to Financing Team	DMI
[8/6 or 7]	■	*Document Review Meeting*	Financing Team
8/11	■	POS and documentation provided to rating agencies	DMI
[8/17-20]	■	*Proposed Rating agency meetings*	*Selected Parties*
Steps beyond this point may be delayed based on timing and status of Lake Tapps closing			
8/11	■	Draft Member documents & POS provided to Members for review	DMI/FP/CWA
August 26	•	***Cascade Board Meeting - Adoption of Bond Resolution***	All Parties
9/1	•	Ratings received	DMI/CWA
9/1	•	POS distributed for final sign-off by Financing Team & Members	DMI
9/3	•	Final comments/sign-off on POS	Financing Team & Members
9/4	•	POS distributed to potential investors	DMI/UW
9/7	•	LABOR DAY HOLIDAY	
Wk of 9/14	•	Bond Sale	DMI/FP/CWA
	•	***Cascade Board Meeting - Adoption of Bond Sale Resolution***	All Parties
Wk of 9/28	•	Bond Closing – funds delivered	DMI/FP/CWA

Council Meeting: 07/21/2009
Agenda: Other Business
Item #: 8. h. (2).

RESOLUTION R-4770

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND AUTHORIZING AND DIRECTING THE CITY MANAGER TO EXECUTE CERTIFICATIONS INCLUDING A CONTINUING DISCLOSURE UNDERTAKING AND DO ALL THINGS NECESSARY TO ENABLE CASCADE WATER ALLIANCE TO ISSUE AND SELL ITS BONDS.

WHEREAS, the City of Kirkland, Washington (the "City") entered into an Interlocal Contract effective April 1, 1999, as amended and restated as of December 5, 2004, (the "Interlocal Contract") with Cascade Water Alliance ("Cascade"); and

WHEREAS, pursuant to the Interlocal Contract, Cascade is authorized to issue bonds for its purposes upon approval of the Cascade Board; and

WHEREAS, the Cascade Board has determined to issue its second series of bonds in a principal amount of approximately $82,000,000 to pay the costs of carrying out a portion of the capital program described in its Watershed Management Plan; and

WHEREAS, pursuant to the Interlocal Contract, debt service on the bonds will be paid directly from net revenue of Cascade and, indirectly, from Member Charges to be paid by the City and other members of Cascade; and

WHEREAS, the Interlocal Contract includes a "step up" provision, which provides that if any member fails to pay its share of member charges, the other members shall pay to Cascade (in addition to its own member charges otherwise due) the defaulting member's charges in proportion to each remaining members' share; and

WHEREAS, the City Council now desires to recognize the issuance of bonds by Cascade and the City's responsibilities with respect thereto under the Interlocal Contract and to authorize and direct the City Manager or his designee to sign closing certificates including a continuing disclosure undertaking in connection with the bonds;

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

Section 1. The City Council hereby acknowledges the issuance of approximately $82,000,000 principal amount of bonds by Cascade (the "Cascade Bonds"), and acknowledges the City's responsibilities with respect thereto set forth in the Interlocal Contract. The City Council hereby authorizes and directs the City Manager to execute one or more certificates (the "Certificates") required by the bond purchase contract with respect to the Cascade Bonds. The certificates to be executed by the City Manager relate to (a) the accuracy of information regarding the City included in Appendix A to the Preliminary and Final Official Statements for the Cascade Bonds, (b) the

absence of relevant litigation, (c) the due authorization and execution by the City of the Certificates and Interlocal Agreement, (d) the obligation of the City to provide ongoing disclosure with respect to financial and operating information regarding the City's water utility included in Appendix A to the Official Statement, and (e) other related matters.

Section 2. The City Manager is authorized to take any actions and to execute documents as in his judgment may be necessary or desirable in order to assist Cascade in the issuance of the Cascade Bonds. All acts taken pursuant to the authority of this resolution but prior to its effective date are hereby ratified.

Passed by majority vote of the Kirkland City Council in open meeting this _____ day of _____, 2009.

Signed in authentication thereof this ____ day of _____, 2009.

_____
MAYOR

Attest:

_____
City Clerk