

INFORMATIONAL MEMORANDUM

Tukwila Pool Metropolitan Park District

TO: Tukwila Pool MPD Board President

FROM: Peggy McCarthy, Finance Director

DATE: January 16, 2013

SUBJECT: Capital Financing

ISSUE

Consider a revised financing structure for the capital project.

DISCUSSION

The MPD entered into an interlocal agreement with the City of Tukwila on November 19, 2012 for the purpose of obtaining financing for the pool capital project. At that time, a public bond sale with a 15 year payback period was contemplated. The bonds were scheduled to be sold on December 20, 2012. However, on the proposed sale date, volatility in the bond market and a lack of demand for bonds in general, and for smaller bond issues in particular, created a poor sale environment and the City made the decision to postpone the bond sale until 2013. In the meantime, other financing sources were considered and a private bond placement with Cashmere Valley Bank was identified as a beneficial alternative.

With a private bond sale to Cashmere Valley Bank, the bond proceeds would total \$1,000,000, annual debt service would be \$113,130 paid in semi-annual payments of \$56,565 over a 10 year term; and the interest rate would range from 1.75% per annum to 4.00% per annum over the term of the debt. Early payoff would be allowed at any time with no pre-payment penalties.

The chart below compares the terms of a Cashmere Valley Bank private bond sale with a public sale through Seattle Northwest Securities.

Terms	SCENARIO 1 -- Private Bond Sale with Cashmere Valley Bank (a)	SCENARIO 2 -- Public Bond Sale through Seattle Northwest Securities (b)
Proceeds	\$1,000,000	Not to exceed \$1,100,000
Issuance costs paid from bond proceeds	\$20,000 estimate	\$32,500 estimate
Net proceeds (c)	\$ 980,000	\$1,000,000 approximately
Term	10 years	15 years
Annual debt service	\$113,130	\$85,880 average
Pre-payment	Any time without penalty	After 10 years
Total debt service	\$1,131,285	\$1,288,211
Savings estimate (d)	\$136,926	

- (a) Based on the draft Bond Purchase Agreement (see attachment).
- (b) Estimated based on market conditions on January 3, 2013 (see attachment).
- (c) Net proceeds equal bond proceeds less cost of issuance paid from proceeds.
- (d) Savings is computed as the difference between the total debt service of Scenario 1 and Scenario 2, less the \$20,000 additional proceeds received in Scenario 2 (\$1,288,211 - \$1,131,285-\$20,000).

To determine the affordability of the higher annual debt service of \$113,130, the MPD 20-year plan was updated with this debt service amount and term, and for property tax revenue (the levy amount confirmed in December by the King County Assessor's office) and a more accurate estimate of the beginning 2013 fund balance. With these changes incorporated into the plan, the MPD meets its ending fund balance reserve requirements in all years of the 20-year plan except year 2021 and 2022 when the fund balances of \$145,221 and \$127,278 are \$20,846 and \$36,143 less than the targeted fund balance minimum of \$166,066 and \$163,421. However, in addition to these funds (\$145,221 at 2021 and \$127,278 at 2022), the Capital Reserve fund will have a balance of \$270,000 at 2021 and \$300,000 at 2022 if the \$30,000 annual reserve funding is accomplished. The Capital Reserve funds could be used for general MPD uses if the need arises.

FINANCIAL IMPACT

The cost savings to the MPD of the bond private placement financing with Cashmere Valley Bank is estimated at \$137,000.

DISCUSSION

A private bond sale to Cashmere Valley Bank under the terms described in this memo would save the MPD approximately \$137,000. The modified repayment plan appears affordable based on the MPD 20-year plan and the debt can be paid off at any time without penalty. For these reasons, it is considered in the best interest of the City of Tukwila and the Tukwila Metropolitan Park District for the City to adopt the draft bond ordinance and obtain capital project financing through a private bond sale to Cashmere Valley Bank.

Should the Council approve the bond ordinance, an addendum to the November 19, 2012 MPD Capital Financing Interlocal Agreement will be prepared to incorporate the revised bond ordinance number, bond issuance name, and revised repayment schedule into the agreement.

RECOMMENDATION

This is for information only. The Board may be asked at a future Board meeting to approve an addendum to the Capital Financing Interlocal Agreement incorporating a revised bond ordinance number, bond issue description, and revised repayment schedule into the agreement.

ATTACHMENT

- Draft Bond Purchase Agreement – Cashmere Valley Bank
- Seattle Northwest Securities Debt Service Schedule - based on market conditions on January 3, 2013



January 22, 2013

Honorable City Council
City of Tukwila
6200 Southcenter Blvd
Tukwila, WA 98188

Honorable Council Members,

Thank you for the opportunity to propose an offer to purchase the City of Tukwila, King County, Washington, Limited Tax General Obligation Bond, 2013, (the "Bond"). Cashmere Valley Bank (the "Bank") has approved the borrowing outlined in this commitment letter under the following terms:

1. Borrower: City of Tukwila, King County, Washington (the "City").
2. Amount: \$1,000,000
3. Form: Fully registered, bank-qualified tax-exempt limited tax general obligation bond issued by the City and purchased by the Bank at private sale.
4. Purpose: For the purpose of making improvements to the Tukwila Metropolitan Park District swimming pool and to pay related costs of issuance of the Bond.
5. Bond Terms:
 - a) Interest Rate:

From the Date of Delivery through and including November 30, 2015, the unpaid principal amount of the Bond will bear interest at a fixed rate of 1.75% *per annum*. Commencing on December 1, 2015, through and including November 30, 2018, the unpaid principal amount of the Bond will bear interest at a fixed rate of 2.85% *per annum*. Commencing on December 1, 2018, through and including December 1, 2022 (the "Maturity Date"), the unpaid principal amount of the Bond will bear interest at a fixed rate of 4.00% *per annum*. Interest will be computed on

the basis of a 360-day year consisting of twelve 30-day months. The Bond will be dated the Date of Delivery and will bear interest from its date.

b) Terms:

Approximately equal semiannual installments of principal and interest will be due June 1 and December 1, beginning June 1, 2013 to the Maturity Date or earlier prepayment. A debt service schedule describing the above installments of principal and interest on the Bond is attached hereto as Exhibit A and incorporated herein by this reference. The final installment payment of principal of and interest on the Bond, whether on the Maturity Date or upon prepayment, shall be in an amount equal to the remaining principal and interest due on the Bond. The Bond Registrar and Paying Agent will be the City of Tukwila.

c) Security

The City will irrevocably covenant for as long as the Bond is outstanding and unpaid, that each year it will include in its budget and levy an *ad valorem* tax, within and as a part of the tax millage levy permitted to cities without a vote of the electorate, upon all the property within the City subject to taxation in an amount which will be sufficient, together with all other funds of the City which may legally be used and which the City may apply for such purposes to pay the principal of and interest on the Bond as the same shall become due and payable.

d) Transferability

The Bank will hold this Bond with no intent to sell or transfer. The Bond may be transferred only in whole, subject to the Bank Representations set forth in Section 9 herein, and as provided in the authorizing ordinance (the "Bond Ordinance") to be adopted by the City Council of the City (capitalized terms used herein will have the meanings given them in the Bond Ordinance), and the Bond Ordinance is by this reference incorporated herein.

6. Prepayment: The outstanding principal amount of the Bond may be prepaid in whole or in part at any time prior to the Maturity Date at par plus accrued interest to the date of prepayment. The City will provide the Bank with written notice of any intended prepayment at least 15 days prior to such prepayment date. At any time there is a partial prepayment, the remaining semiannual installment payments shall be recalculated as mutually agreed upon, in writing, by the City and the Bank to reflect either a reduction in the semiannual payment amount, or the earlier maturity date of the Bond. Within seven (7) business days of prepayment, the Bank shall provide to the City and the Bond Registrar a recalculated payment schedule.

7. Fees: There is no loan fee due to the Bank. The City is responsible for all other costs of issuance of the Bond. An amount of \$ 18,900, representing fees and costs of bond counsel, will be withheld from Bond proceeds and wire transferred, on behalf of the City, directly to bond counsel at closing.
8. Additional Terms: The Bond documents will be in the standard forms customarily required by the Bank for municipal funding and will include additional terms and conditions not discussed above. The City will designate the Bond as a "qualified tax-exempt obligation" under Section 265(b) (3) of the Internal Revenue Code of 1986, as amended, for investment by financial institutions. The City will provide its annual financial report to the Bank during the period the Bond is outstanding and held by the Bank. At the date of closing the Bond, the financial condition and credit of the City and all other features of this transaction will be as represented to the Bank without material adverse change. In the event of adverse material changes in the credit worthiness of the City, including litigation involving or claims filed against the City, this commitment will terminate upon notice by the Bank. This commitment is non-assignable by the City. This commitment supersedes any prior commitments, offers, or agreements, written or oral concerning this financing and can only be modified in writing.
9. Bank Representations: As a material inducement to the City's promise to sell the Bond to the Bank, the Bank hereby makes the following representations:
 - a) The Bank is a bank as defined in Section 3(a)(2) of the Securities Act of 1933, as amended, or a savings and loan association or other institution as defined in Section 3(a)(5)(a) of the Securities Act of 1933.
 - b) The Bank is sufficiently knowledgeable and experienced in financial and business matters, including the purchase and ownership of debt securities, to be able to evaluate the risks and merits of the investment represented by the purchase of the Bond, and it is capable of and has made its own investigation of the City and the use of the Bond proceeds in connection with its decision to purchase the Bond. The Bond is being acquired by the Bank for investment and not with a view to, or for resale in connection with, any distribution of the Bond, and the Bank intends to hold the Bond for its own account and for an indefinite period of time, and does not intend at this time to dispose of all or any part of the Bond. The Bank understands that it may need to bear the risks of this investment for an indefinite time, since any sale prior to maturity may not be possible.
 - c) The Bank acknowledges that (i) it has received a copy of the Bond Ordinance and all other documents, certificates and instruments with respect to the Bond and the transactions contemplated thereby that it deems necessary to make a decision with respect to an investment in the

Bond and (ii) it is familiar with the conditions, financial and otherwise, of the City and understands the security pledged for payment of the Bond. Further, the Bank understands and acknowledges that, among other risks, principal of and interest on the Bond is payable solely from the sources described in the Bond Ordinance. The Bank has made such inquiry with respect to all of the foregoing as it believed to be desirable for its purposes.

- d) It is acknowledged that no official statement, offering circular or other securities disclosure document has been provided by the City, and that any written information furnished by the City or any other party to the transaction does not purport to fully disclose all information pertinent to the Bond. In entering into this transaction, the Bank has not relied upon any representations or opinions made by the City relating to the legal consequences or other aspects of the transaction, nor has it looked to, nor expected, the City to undertake or require any credit investigation or due diligence reviews relating to the City, its financial condition or business operations, the use of the Bond proceeds, or any other matter pertaining to the merits or risks of the transaction, or the adequacy of the funds pledged to secure repayment of the Bond.
 - e) The Bank has independently evaluated the factors associated with its investment decision. The Bank has been given full and complete access to and has been furnished with all information requested by the Bank regarding the City and the use of the Bond proceeds, and has conducted such other investigations relating to the City, the use of the Bond proceeds and the Bond, as in the opinion of the Bank was necessary in connection with its purchase of the Bond.
 - f) The Bank will not transfer the Bond to a subsequent investor unless the Bank causes such investor to receive such information regarding the City and the Bond as is necessary to comply with Rule 10b-5 of the Securities and Exchange Commission. The Bank agrees to indemnify the City and all of its agents and attorneys, with respect to any claim asserted against the City or any of its agents or attorneys that is based on or related to the Bank's sale, transfer or other disposition of the Bond, other than any claim that is based upon the willful misconduct of the City or any of its agents or attorneys.
10. Closing: The Bond is anticipated to close on or about February 1, 2013.
11. Acceptance: This commitment is not binding unless the City signs and returns this letter to the Bank prior to the close of business on January 30, 2013 at which time the commitment will expire without notice. If, after acceptance, the Bond has not closed by February 15, 2013, this commitment will expire without notice.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

Thank you for this opportunity to work with the City.

Sincerely,

CASHMERE VALLEY BANK



Ron Olsen
Director Municipal Services

Acknowledged and accepted this 22nd day of January, 2013

CITY OF TUKWILA
KING COUNTY, WASHINGTON

By: _____

Title: _____

cc: Alice Ostdiek, Foster Pepper

EXHIBIT A

<u>Payment Period</u>	<u>Beginning</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Ending</u>	<u>Cash flow</u>
02/01/13					1,000,000.00	1,000,000.00
06/01/13	1,000,000.00	(50,731.67)	1.75%	(5,833.33)	949,268.33	(56,565.00)
12/01/13	949,268.33	(48,258.90)	1.75%	(8,306.10)	901,009.43	(56,565.00)
06/01/14	901,009.43	(48,681.17)	1.75%	(7,883.83)	852,328.26	(56,565.00)
12/01/14	852,328.26	(49,107.13)	1.75%	(7,457.87)	803,221.13	(56,565.00)
06/01/15	803,221.13	(49,536.82)	1.75%	(7,028.18)	753,684.31	(56,565.00)
12/01/15	753,684.31	(49,970.26)	1.75%	(6,594.74)	703,714.05	(56,565.00)
06/01/16	703,714.05	(46,537.07)	2.85%	(10,027.93)	657,176.98	(56,565.00)
12/01/16	657,176.98	(47,200.23)	2.85%	(9,364.77)	609,976.75	(56,565.00)
06/01/17	609,976.75	(47,872.83)	2.85%	(8,692.17)	562,103.92	(56,565.00)
12/01/17	562,103.92	(48,555.02)	2.85%	(8,009.98)	513,548.90	(56,565.00)
06/01/18	513,548.90	(49,246.93)	2.85%	(7,318.07)	464,301.97	(56,565.00)
12/01/18	464,301.97	(49,948.70)	2.85%	(6,616.30)	414,353.27	(56,565.00)
06/01/19	414,353.27	(48,277.93)	4.00%	(8,287.07)	366,075.34	(56,565.00)
12/01/19	366,075.34	(49,243.49)	4.00%	(7,321.51)	316,831.85	(56,565.00)
06/01/20	316,831.85	(50,228.36)	4.00%	(6,336.64)	266,603.49	(56,565.00)
12/01/20	266,603.49	(51,232.93)	4.00%	(5,332.07)	215,370.56	(56,565.00)
06/01/21	215,370.56	(52,257.59)	4.00%	(4,307.41)	163,112.97	(56,565.00)
12/01/21	163,112.97	(53,302.74)	4.00%	(3,262.26)	109,810.23	(56,565.00)
06/01/22	109,810.23	(54,368.80)	4.00%	(2,196.20)	55,441.43	(56,565.00)
12/01/22	55,441.43	(55,441.43)	4.00%	(1,108.83)	-	(56,550.26)
				<u>(131,285.26)</u>		

BOND DEBT SERVICE

City of Tukwila, Washington
Proposed Limited Tax General Obligation Bonds, 2013
PRELIMINARY NUMBERS

Period Ending	Principal	Coupon	Interest	Debt Service
12/01/2013	45,000	2.000%	29,561.11	74,561.11
12/01/2014	55,000	2.000%	33,100.00	88,100.00
12/01/2015	55,000	2.000%	32,000.00	87,000.00
12/01/2016	55,000	3.000%	30,900.00	85,900.00
12/01/2017	55,000	3.000%	29,250.00	84,250.00
12/01/2018	60,000	3.000%	27,600.00	87,600.00
12/01/2019	60,000	4.000%	25,800.00	85,800.00
12/01/2020	65,000	4.000%	23,400.00	88,400.00
12/01/2021	65,000	4.000%	20,800.00	85,800.00
12/01/2022	70,000	4.000%	18,200.00	88,200.00
12/01/2023	70,000	4.000%	15,400.00	85,400.00
12/01/2024	75,000	4.000%	12,600.00	87,600.00
12/01/2025	75,000	4.000%	9,600.00	84,600.00
12/01/2026	80,000	4.000%	6,600.00	86,600.00
12/01/2027	85,000	4.000%	3,400.00	88,400.00
	970,000		318,211.11	1,288,211.11