

**SUMMARY and FISCAL NOTE\***

<b>Department:</b>	<b>Dept. Contact/Phone:</b>	<b>CBO Contact/Phone:</b>
FAS	Michael Van Dyck 206-619-0393	Caleb Wagenaar (206) 733-9228

**1. BILL SUMMARY**

**Legislation Title:** AN ORDINANCE relating to the municipal water system of The City of Seattle; providing for the defeasance of the claim or lien of certain of the City’s outstanding water system revenue bonds and payment of the administrative costs of such defeasance; providing for and authorizing the purchase of certain obligations and for the use and application of the money derived from those investments; authorizing the execution of a defeasance trust agreement to establish a defeasance escrow; authorizing the call for redemption prior to their maturity of those outstanding bonds that are to be defeased; and ratifying and confirming certain prior acts.

**Summary and background of the Legislation:** As part of its duty to manage debt for the City and its utilities, FAS actively monitors opportunities to reduce the interest rates on outstanding debt. One strategy for doing so involves using cash to pre-fund an escrow (a “defeasance escrow”) established to repay the debt on the scheduled payment dates. This legislation authorizes the deposit, from time to time, of Water System revenues in a defeasance escrow held by a bank for the purpose of paying debt service on, and eventually redeeming at maturity, high-interest rate outstanding bonds. The intent is to save the City and its ratepayers money by reducing its debt service costs.

In the past, issuers of municipal bonds were allowed to refund (refinance) their high interest rate outstanding tax-exempt bonds prior to their call dates (“advance refunding”) by depositing the proceeds of new lower-interest rate tax-exempt bonds into a defeasance escrow for the redemption of those bonds. This enabled cities to trade high interest rate debt for lower interest rate debt, thereby reducing their interest costs. However, the 2017 Tax Cuts and Jobs Act eliminated the ability to do this on a tax-exempt basis, thereby reducing the savings available to the local government.

An alternative strategy (“Debt Optimization”) for capturing the maximum amount of savings for the local government is to use available cash, rather than proceeds of tax-exempt bonds, to fund the defeasance escrow. This may also require reallocating proceeds of new tax-exempt bonds to pay for the capital purposes that would otherwise have been paid with cash. Using a Debt Optimization strategy, FAS can manage the aggregate debt portfolio so that the new debt does not increase the overall debt burden and does not extend the term of outstanding debt. Debt Optimization has the net result of replacing higher interest rate debt with lower interest rate debt, which, of course, reduces overall interest costs for the issuer (and its rate payers).

## 2. IMPLICATIONS

- a. Does this legislation affect any departments besides the originating department?**  
This legislation lowers debt service costs for SPU and is administered by FAS.
- b. Is a public hearing required for this legislation?**  
No.
- c. Does this legislation require landlords or sellers of real property to provide information regarding the property to a buyer or tenant?**  
No.
- d. Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?**  
No.
- e. Does this legislation affect a piece of property?**  
No.
- f. Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities? What is the Language Access plan for any communications to the public?**  
N/A
- g. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s).**  
N/A

**List attachments/exhibits below:**