

## CITY COUNCIL REGULAR SESSION

Ordinance providing for the issuance and sale of one or more series of limited tax general obligation refunding bonds of the City in the aggregate principal amount of not to exceed \$65,000,000 to defease or refund certain limited tax general obligation bonds of the City and the Bellevue Convention Center Authority, including paying costs of issuance; authorizing the plan of defeasance and refunding; pledging lodging taxes to pay and secure the payment of debt service on bonds issued for Meydenbauer Center purposes; approving substantially final forms of amendments to the lease purchase agreement and the design, development, construction, financing and operating agreement with the Bellevue Convention Center Authority; and delegating the authority to approve the method of sale for and final terms of the bonds and agreements.

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*Finance & Asset Management*

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## EXECUTIVE SUMMARY

This Ordinance will authorize the Director of Finance & Asset Management to issue up to \$65,000,000 in principal debt for two purposes (1) to payoff through the use of an escrow agreement the 1994 Bellevue Convention Center (BCCA) Bonds and issue new bonds, and (2) to refund the 2010 bonds to reduce the interest rate. The bonds issued for Meydenbauer Center purposes will continue to be secured by the pledge of Transient Occupancy Tax (TOT)/lodging taxes and the full, faith and credit of the City.

Under existing agreements between the City and the BCCA, the City applies its TOT/lodging tax revenues to pay debt service on outstanding BCCA bonds, and to pay debt service on City bonds issued for Meydenbauer Center purposes. The proposed bond issuance would allow the City to prepay to an escrow account to defease/payoff the BCCA bonds, to refund 2010 City bonds issued to finance Meydenbauer Center costs, and issue new debt aligned with revised forecasts for TOT/lodging tax revenues. In addition, the Bond Ordinance approves amendments to the existing agreements between the City and the BCCA to conform their terms to the proposed defeasance and refunding plan.

The City also has outstanding 2010 bonds issued to finance a portion of the City's Capital Improvement Plan. Given current municipal bond market conditions, the City anticipates that all or a portion of the 2010 Bonds may be refunded to realize savings to the City and its taxpayers.

## RECOMMENDATION

Move to adopt Ordinance No. 6543.

## BACKGROUND/ANALYSIS

**BCCA 1994 Plan for Defeasance and New Bonds (Convention Center Debt Service Restructuring)**

Since August 1991, the City and the Authority have entered a series of agreements to provide for the construction, maintenance, and operation of the Meydenbauer Center with the BCCA. Pursuant to the First Amended Sublease and the First Amended Lease Purchase Agreement (the "Lease Purchase Agreement"), the City leases to the BCCA the site of the Meydenbauer Center, and leases back from the BCCA the property and improvements on the site. Pursuant to the First Amended Design, Development, Construction, Financing and Operating Agreement (the "Operating Agreement"), the BCCA constructed, maintains and operates the Meydenbauer Center.

To finance the costs of land acquisition, construction, and improvements to the Meydenbauer Center, and to refinance debt incurred to pay these costs, the BCCA and the City have issued various limited tax general obligation and revenue bonds. These bonds include the Authority's Special Obligation Revenue and Refunding Bonds, Series 1994 (the "1994 Bonds") and the City's Limited Tax General Obligation Refunding Bonds, 2010 (the "2010 Refunding Bonds"). The authorizing legislation for the 2010 Refunding Bonds provides that, on or after December 1, 2020, the City may call for redemption of all such bonds maturing on or after December 1, 2021. The 1994 Bonds are not subject to redemption but may be defeased to maturity through the issuance of taxable bonds.

Under the existing terms of the Lease Purchase Agreement and the Operating Agreement, the City pays debt service on the 1994 Bonds, and debt service on the 2010 Refunding Bonds, from City Transient Occupancy Tax (TOT), otherwise known as lodging tax revenues.

Staff recommends establishing an escrow to defease/payoff the 1994 BCCA bonds, and issue new 10-year bonds with an early call option to match the revised TOT/lodging tax revenue stream. The City would use the bond proceeds to (1) prepay the lease payments applied to pay debt service on the 1994 Bonds, thereby defeasing or paying off the 1994 Bonds, and (2) refund the 2010 Refunding Bonds.

COVID-19 has greatly reduced the TOT/lodging tax in 2020 and for the near term. The revised TOT/lodging tax forecast does not show the revenue stream returning to 2019 levels for five years. If the City does not issue new bonds within the revised TOT/lodging tax forecast, the City general fund will need to provide the amount of the debt service payment that is not covered by the TOT/lodging tax or reserves of the BCCA. By establishing an escrow for defeasance and issuing new bonds, the debt service payments will remain within the updated TOT/lodging forecast. The new bonds will be issued by the City and backed with the pledge of TOT/lodging tax revenue and the full, faith and credit of the city.

The Bond Ordinance would also approve amendments to the Lease Purchase Agreement and Operating Agreement to conform their terms to the proposed defeasance and refunding plan. These amendments provide for the prepayment of rent and defeasance of the 1994 Bonds, the refunding of the 2010 Refunding Bonds, and for the pledge of TOT/lodging revenues to the bonds issued to accomplish this defeasance and refunding.

### **2010 Bond Refunding**

In October 2010, the City issued its Limited Tax General Obligation Bonds, 2010 (the "2010 Bonds") to finance a portion of the City's Capital Improvement Plan. The authorizing bond legislation provides that, on or after December 1, 2020, the City may call for redemption all such 2010 Bonds maturing on or after December 1, 2021.

Staff recommends refunding the 2010 Bonds. The refunding issuance is expected to achieve a net present value savings of approximately \$2.3 million or 17 percent of the principal amount of the refunding debt over the remaining life of the bonds. Actual savings from the refunding will vary depending on the market conditions on the date of sale. Under the City's financial policy, the actual savings from refunding must yield at least 3 percent of net present value of the principal amount of the refunding debt. Should such savings not materialize on the day of bond sale, the City reserves the right to proceed with refunding only a portion of the bonds, or none at all.

See Attachment A for detailed analysis of the bond refunding by Piper Sandler, the City's Financial Advisor.

### **Bond Closing Authority**

In keeping with prior Council bond actions, the Bond Ordinance provides flexibility to adjust the timing of the sale to take advantage of when rates are lowest by delegating authority to a "designated representative" (herein designated as the Finance & Asset Management Director) for a limited time not to exceed June 30, 2021. The Finance & Asset Management Director would have the authority to approve method of sale and final terms of the bonds within certain key parameters (e.g. to approve bonds not to exceed \$65 million, through a competitive or negotiated sale, to ensure the 2010 refundings yield a minimum of 3 percent net present value, to establish an escrow, and issue new bonds to defease/payoff the 1994 BCCA Bonds, and to sign a Bond Purchase Contract consistent with these terms.).

## **POLICY & FISCAL IMPACTS**

### **Policy Impact**

Debt Policy: The City's debt portfolio is regularly reviewed and monitored by staff and the City's Financial Advisor for cost saving opportunities including refinancing options.

### **Fiscal Impact**

The Bond Ordinance authorizes issuance of LTGO Councilmanic Bonds ("the Bonds") in an aggregate principal amount not to exceed \$65,000,000 to:

- (1) prepay the lease payments applied to pay debt service on the 1994 Bonds, thereby defeasing the 1994 Bonds, and to refund the 2010 Refunding Bonds, to ensure the debt service payments remain within the new forecasted TOT revenue stream and thereby avoid requiring funding from the City's general fund, and
- (2) refund the 2010 Bonds to reduce the interest rates and debt service payments. The refundings will net at a minimum a 3 percent net present value savings. At current rates, the savings estimate is \$2.3 million or 17 percent.

## **OPTIONS**

1. Adopt the Ordinance providing for the issuance and sale of one or more series of limited tax general obligation refunding bonds of the City in the aggregate principal amount of not to exceed \$65,000,000 to defease or refund certain limited tax general obligation bonds of the City and the Bellevue Convention Center Authority, including paying costs of issuance; authorizing the plan of

defeasance and refunding; pledging lodging taxes to pay and secure the payment of debt service on bonds issued for Meydenbauer Center purposes; approving substantially final forms of amendments to the lease purchase agreement and the design, development, construction, financing and operating agreement with the Bellevue Convention Center Authority; and delegating the authority to approve the method of sale for and final terms of the bonds and agreements.

2. Do not adopt the Ordinance and provide alternative direction to staff.

#### **ATTACHMENTS & AVAILABLE DOCUMENTS**

A. 2010 Bond Refunding Analysis  
Proposed Ordinance No. 6543

#### **AVAILABLE IN COUNCIL LIBRARY**

N/A