King County

Metropolitan King County Council
Budget and Fiscal Management Committee

Staff Report

Agenda Item No.:	7	Date:	June 29, 2010
Proposed Ordinance No.:	2010-0361	Prepared by:	Wendy Soo Hoo

SUBJECT

Proposed Ordinance 2010-0361 would authorize an amendment of the county's existing agreements related to variable rate demand bonds issued on behalf of the Wastewater Treatment Division (WTD) in 2001.

SUMMARY

The proposed ordinance would authorize an amendment of the county's existing reimbursement agreements with a state-owned bank in Germany (Helaba) related to variable rate demand bonds that were issued on behalf of the Wastewater Treatment Division (WTD) in 2001.

The proposed amendment would add the full faith and credit pledge of the county as additional security for the county's payments to Helaba under the reimbursement agreements. This would effectively create a "double-barreled" financing arrangement such as has been used on previous WTD bond issues to help reduce borrowing costs.

The County's financial advisor indicates that the action will not affect the county's bond ratings and not approving the amendments would likely result in increased costs to the county.

BACKGROUND

In 2001, the county issued two series of variable rate demand bonds totaling $100 million to provide financing for the WTD ongoing capital program. The 2001 bonds were secured solely by WTD's sewer revenues, with enhanced credit support provided by letters of credit from Helaba bank, resulting in Aaa/AAA bond ratings from Moody's and S&P. Helaba pays the debt service payments to bondholders directly and, pursuant to the agreements, is reimbursed by the county from available WTD sewer revenues.

Unless Helaba approves a renewal of the letters of credit, the current reimbursement agreements will expire in August 2010. Recently, Helaba informed the county that, as a result of the turmoil in the financial markets in recent years, it will only extend the letters of credit if the credit reimbursement agreements are amended to add a pledge of the full faith and credit of the county as additional security beyond the lien on sewer revenues.

ANALYSIS

The County's financial advisor indicates that the requirement to add the full faith and credit of the pledge county is reasonable based on current market conditions. The County would likely be required to offer a full faith and credit pledge to alternative bank providers or pay a significantly higher annual fee for an alternative credit facility that is backed solely by sewer revenues.

The county has used double-barreled financing arrangements in the past to support WTD's capital financing program, including $730 million of WTD's currently outstanding fixed rate bonds. The economic benefits include lower borrowing costs and no requirement to set aside additional cash in the form of a bond reserve account. In January 2010, the County issued $100 million of new variable rate demand bonds on behalf of WTD that are also double-barreled.

Note that the full faith and credit would apply only to the Helaba reimbursement agreements rather than to the 2001 bonds themselves. This means that the county would effectively create the benefits of double-barreled financing without reducing its overall general obligation debt capacity.

Helaba's proposal requires a fee increase from 27 basis points to 55 basis points. This will increase the financing costs by $280,000 per year. The financial advisor believes this is still a better price then could be obtained from another bank. The existing appropriation authority to cover the debt service is sufficient to absorb the increase in financing costs without any additional appropriation.

Executive staff indicate that Helaba is viewed as a very strong bank and has the added protection of grandfathered guarantees from two German states backing the letter of credit. While it is unlikely that the market's perception of Helaba would deteriorate which could cause an increase in the rates, if this did occur, the county would have the option of terminating the agreements at any time and either pursuing alternative credit support from another bank or converting the bonds to a fixed rate. (Termination during the first year of the agreement for other reasons would require the County to pay the full annual financing fee. During the second year, the County can terminate at any time without penalty.)

By extending the Helaba letter of credit and adding the full faith and credit pledge of the county, the county locks in an agreement with favorable pricing terms and retains the flexibility to make changes in the future if market conditions warrant. Given that the pricing and other terms of the Helaba proposal are viewed as reasonably favorable, the county's financial advisor therefore has recommended that the county continue with

Helaba rather than incur the additional time and expense of seeking a new letter of credit provider.

Because the current agreement expires on August 10, 2010, Council approval by mid-July is needed to ensure that Helaba's letter of credit is maintained. Otherwise, the County would need to use internal funds to retire the $100 million in bonds and re-issue the bonds at a later date.

REASONABLENESS

Council staff has completed its review. At this time, it would be a reasonable and prudent business decision for the committee to take action, unless committee members have any further questions.

ATTACHMENTS

1. Proposed Ordinance 2010-0361
2. Transmittal Letter
3. Fiscal Note

INVITED

1. Ken Guy, Director, Finance and Business Operations Division
2. Nigel Lewis, Senior Debt Analyst, Finance and Business Operations Division
3. Bill Starkey, Financial Advisor, Seattle Northwest
4. David Thompson, Bond Counsel, K&L Gates

Attachment 1

KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

June 28, 2010

Ordinance

Proposed No. 2010-0361.1 **Sponsors** Patterson

AN ORDINANCE approving forms of amendments to reimbursement agreements between the county and Helaba Bank to provide for extensions of the letters of credit securing $100,000,000 of the county's junior lien variable rate demand sewer revenue bonds issued in 2001 and authorizing the county's finance director to sign and deliver the amendments.

PREAMBLE:

The county's policy for debt of the county's regional water pollution control and wastewater treatment system (the "System") provides for a certain portion of such debt to be outstanding at variable rates. In accordance with that policy, the county issued $100,000,000 in junior lien variable rate sewer bonds in 2001 (the "2001 Bonds") pursuant to Ordinances 14171 and 14172, as amended by Ordinances 16719 and 16720, respectively. Payments of principal of and interest on the 2001 Bonds, as well as the payment of the purchase price of the 2001 Bonds when tendered by their holders, are secured by letters of credit that have been provided by Landesbank Hessen-Thüringen Girozentale, acting through its New York Branch, known as Helaba Bank (the "Bank").

The terms for the Bank's provision of the letters of credit are set forth in reimbursement agreements, one for each series of the bonds. The current reimbursement agreements expire in August 2010, and the letters of credit will terminate unless terms for extensions are established. The Bank and the county have agreed to the terms set forth in the attached form of amendment to each of the reimbursement agreements. To maintain the lowest cost for the county, the county wishes to amend the reimbursement agreements to provide additional security to the Bank.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

<u>SECTION 1.</u> **Definitions**. Unless otherwise defined in this ordinance, capitalized terms used in this ordinance have the meanings given them in Ordinances 14171 and 14172, as amended by Ordinances 16719 and 16720, respectively.

<u>SECTION 2.</u> **Findings**. The council finds that it is in the best interest of the county and customers of the System to maintain liquidity and credit support for the 2001 Bonds. The council further finds that the lowest cost for providing that liquidity and credit support may be obtained by extending the letters of credit provided by the Bank on the terms and conditions set forth in the amendments to reimbursement agreements approved by this ordinance.

<u>SECTION 3.</u> **Approval of Amendments to Reimbursement Agreements**. The amendments to reimbursement agreements are approved in substantially the form attached as Attachment A to this ordinance. In particular, Section 3.8 of each reimbursement agreement is amended, as follows (additions are underscored, deletions are stricken):

SECTION 3.8. Nature of County's Obligations.

All payment obligations of the County under this Agreement are **(i)** obligations of the Sewer System, payable from Revenue of the System available after making the payments described in Paragraphs First through Eleventh in Section 5.01(b) of the Bond Ordinance **and (ii) general obligations of the County, for which the County covenants that each year it will include in its budget and levy an *ad valorem* tax upon all property within the County subject to taxation, within and a part of the tax levy permitted to counties without a vote of the people, in an amount that will be sufficient, together with all other revenues and money of the County legally available for such purposes (including Revenue of the Sewer System, as provided in clause (i) above), to pay such obligations. The full faith, credit and resources of the County are hereby irrevocably pledged for the annual levy and collection of such taxes and for the prompt payment of such obligations**. ~~The payment obligations of the County under this Agreement are not general obligations of the County nor a pledge of the faith and credit of the County.~~

The council ratifies and confirms the authority of the finance director, pursuant to Section 9.3(b) of Ordinances 14171 and 14172, to execute and deliver the amendments to reimbursement agreements and other documentation on behalf of the county as may be necessary or advisable in providing for extensions of the Helaba letters of credit securing the 2001 Bonds.

SECTION 4. **Effective Date.** This ordinance shall be effective 10 days after its enactment, in accordance with Article II of the county charter.

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

____

Robert W. Ferguson, Chair

ATTEST:

____

Anne Noris, Clerk of the Council

APPROVED this _____ day of _______________, ______.

____

Dow Constantine, County Executive

Attachments: A. Second Amendment relating to the Reimbursement Agreement

EXHIBIT A

SECOND AMENDMENT RELATING TO THE REIMBURSEMENT AGREEEMNT

This SECOND AMENDMENT RELATING TO THE REIMBURSEMENT AGREEMENT dated as of June __, 2010 (the "***Amendment***") between KING COUNTY, WASHINGTON (the "***County***") and LANDESBANK HESSEN-THÜRINGEN GIROZENTRALE, acting through its New York Branch (the "***Bank***"), amending the Reimbursement Agreement between the parties dated as of August 1, 2001, as amended by the Amendment to the Reimbursement Agreement dated as of May 18, 2004 (the "***Agreement***"), relating to the Bonds (as defined herein).

WITNESSETH

WHEREAS, the County heretofore issued its $50,000,000 Junior Lien Variable Rate Demand Sewer Revenue Bonds, Series 2001A (the "***Bonds***") pursuant to Ordinance 14171 of the County, passed by the Metropolitan King County Council on July 16, 2001;

WHEREAS, concurrently with the issuance of the Bonds, the County and the Bank entered into the Agreement in connection with the delivery by the Bank of its Letter of Credit to provide security for payment of the Bonds;

WHEREAS, pursuant to Section 8.12 of the Agreement no provision of the Agreement shall be amended, modified, discharged or waived unless such amendment or waiver is in writing signed by the County and the Bank; and

WHEREAS, the parties desire to effect certain amendments to the Agreement relating to, among other matters, the amount of the fees payable to the Bank.

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged by the parties hereto, the Bank and the County do hereby agree as follows:

SECTION 1. Amendments to Agreement.

Upon satisfaction of the conditions contained in Section 2 hereof, the Agreement is hereby amended by:

(a) adding a definition of "***Bank Bond CUSIP Number***" in Section 1.1 of the Agreement to read as follows:

> ""***Bank Bond CUSIP Number***" means with respect to any Bond that becomes a Bank Bond ___________."

(b) amending and restating the definition of "***Bank Rate***" in Section 1.1 of the Agreement to read as follows:

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""*Bank Rate*" means, for each day of determination, an interest rate per annum with respect to each Drawing specified as follows: (i) from and including the date of such Drawing to but excluding the 61st day following the date of such Drawing, the Base Rate, (ii) from and including the 61st day following the date of such Drawing to but excluding the 91st day following the date of such Drawing, the Base plus 1.0% and (iii) thereafter, the Base Rate plus 2.0%; *provided, however*, all amounts owed pursuant to Section 3.1(c) hereof shall bear interest at the Default Rate; *provided further*, that at all no time shall the Bank Rate be less than the applicable rate of interest on Bonds which are not Bank Bonds."

(c) adding a definition of "***Base Rate***" in Section 1.1 of the Agreement to read as follows:

""*Base Rate*" means, for any day, an interest rate per annum equal to the highest of (a) the sum of the Prime Rate for such day plus two percent (2.0%), (b) the sum of the Federal Funds Rate for such day plus two percent (2.0%) and (c) eight percent (8.0%), calculated on the basis of a year of 365 days or 366 days, as applicable, and the actual number of days elapsed."

(d) amending and restating the definition of "***Letter Agreement***" in Section 1.1 of the Agreement to read as follows:

""*Letter Agreement*" means that certain Second Amended and Restated Letter Agreement dated June __, 2010 between the County and the Bank."

(e) amending and restating Section 2.4 of the Agreement to read as follows:

"*SECTION 2.4. Optional Termination of Commitment.*

The Bank may terminate its commitment hereunder on August 10, 2012 or August 10, 2014, such termination to be effective at 5:01 pm (New York time) on such applicable termination date (each, an "***Optional Expiration Date***") if it provides written notice, in the form set forth in Annex 1 hereto, to the County and the Registrar designating such Optional Expiration Date not later than April 13, 2012 or April 11, 2014, respectively. In the event the Bank does not provide notice of an Optional Expiration Date as provided hereunder, then the Bank's commitment hereunder will terminate on the Expiration Date."

(f) adding a new Section 2.5 to the Agreement to read as follows:

"*SECTION 2.5. Voluntary Termination of the Letter of Credit.*

Notwithstanding Section 2.2 hereof, in the event the County terminates the Letter of Credit prior to August 10, 2011, the County shall pay the Bank a termination fee equal to the Annual Letter of Credit Fee which would have accrued from and including the date of such termination to but excluding August 10, 2011; *provided, however*, such termination fee shall not be due and payable if the County terminates the Letter of Credit due to a downgrade in the Bank's longterm credit ratings from "Aaa", in the case of Moody's, "AAA", in the case of Fitch, or "AA", in the case of S&P, or a downgrade in the Bank's short-term credit ratings from "P-1", in the case of Moody's, "F1+", in the case of Fitch, and "A-1+", in the case of S&P; *provided further*, the County pays to the Bank all principal and accrued interest owing on any Bank Bonds, and all costs, fees and payments due to the Bank on such date of termination."

(g) amending and restating Section 3.1(c) of the Agreement to read as follows:

"(c) interest on any and all amounts owed by it under this Reimbursement Agreement from and after the earlier of (i) the occurrence of an Event of Default and (ii) the date such amounts are due and payable but not paid until payment thereof in full, at a fluctuating interest rate per annum (computed on the basis of the actual numbers of days elapsed and a year of 365/366 days, as applicable) equal to the higher of (a) the sum of the Base Rate plus three percent (3.0%) and (b) twelve percent (12.0%) (the "***Default Rate***"). Notwithstanding the foregoing, interest payable with respect to Principal Purchase Drawings shall accrue and be payable as provided in Section 3.2(c)."

(h) amending and restating Section 3.8 of the Agreement to read as follows:

"***SECTION 3.8. Nature of County's Obligations.***

All payment obligations of the County under this Agreement are (i) obligations of the Sewer System, payable from Revenue of the System available after making the payments described in Paragraphs First through Eleventh in Section 5.01(b) of the Bond Ordinance and (ii) general obligations of the County, for which the County covenants that each year it will include in its budget and levy an *ad valorem* tax upon all property within the County subject to taxation, within and a part of the tax levy permitted to counties without a vote of the people, in an amount that will be sufficient, together with all other revenues and money of the County legally available for such purposes (including Revenue of the Sewer System, as provided in clause (i) above), to pay such obligations. The full faith, credit and resources of the County are hereby irrevocably pledged for the annual levy and collection of such taxes and for the prompt payment of such obligations."

(i) adding a new Section 6.11 to the Agreement to read as follows:

"***SECTION 6.11. Bank Bond Rating.***

Upon the purchase of any Bonds by the Bank, the County (i) shall promptly obtain, but in any event within thirty (30) days of such purchase and at the County's expense, a rating for Bank Bonds bearing the Bank Bond CUSIP Number from at least one of Moody's, Fitch or S&P and (ii) shall ensure that the ratings assigned to such Bank Bonds are available to the Bank in an electronic format (such as PDF form or electronic mail message). In the event that the County has not obtained such rating within thirty (30) days of such purchase, the

County agrees that the Bank may obtain such rating on behalf of the County and the County agrees to reimburse the Bank on demand for all costs (including reasonable attorneys' fees) incurred by the Bank in obtaining such rating."

(j) amending and restating Section 7.2(d) of the Agreement to read as follows:

"(d) *All Remedies.* Pursue any other available legal and equitable remedies, including the right to bring a writ of mandamus action against the County and its officials seeking the levying of taxes sufficient, together with other moneys lawfully available, in order to enforce the pledge of the County as to its payment obligations under this Agreement as set forth in clause (ii) of Section 3.8 hereof."

(k) amending and restating Annex 1 to the Agreement to read as set forth in the form of Annex 1 attached hereto.

SECTION 2. Conditions of Effectiveness.

This Amendment shall become effective on June __, 2010, provided that (i) counterparts of this Amendment have been executed and delivered by the County and the Bank, which execution and delivery by the County shall be deemed to constitute a representation and warranty by the County that the statements in Section 3 hereof are true, (ii) the Bank shall have received from the County an incumbency certificate with respect to the officer or agent of the County who is authorized to execute and accept and agree to any documents or instruments on behalf of the County under this Amendment, (iii) the Bank shall have received evidence to the effect that this Amendment has been duly authorized, executed and delivered by the County, (iv) the Bank shall have received such other documents as it shall reasonably request, (v) the Bank shall have received evidence satisfactory to it that the County has obtained CUSIP numbers for any bonds that become Bank Bonds and (vi) the Bank shall have received an opinion of K&L Gates LLP, counsel to the County, as to the enforceability of the Agreement as amended by this Amendment.

SECTION 3. Representations and Warranties.

As of the date this Amendment becomes effective pursuant to Section 2 hereof, the County represents and warrants to the Bank that:

(i) the County has duly authorized, executed and delivered this Amendment;

(ii) no authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory agency or other party is required for the due execution, delivery and performance by the County of this Amendment, except such as have been duly obtained or made and are in full force and effect;

(iii) this Amendment is the legal, valid and binding obligation of the County enforceable against it in accordance with its terms;

(iv) the representations and warranties made by the County in Article V of the Agreement are correct on and as of such date as though made on and as of such date; and

(v) since the last day of the fiscal year for which financial statements have been provided to the Bank, there has been no material adverse change in the financial condition or operations of the County.

SECTION 4. Definitions; Reference to, Effect on and Ratification of Agreement.

(a) Capitalized terms used in this Amendment and not specifically defined herein shall have the same meanings assigned to them in the Agreement.

(b) Upon the effectiveness of this Amendment, each reference in the Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import referring to the Agreement, and each reference in the Related Documents to the Agreement, shall mean and be a reference to the Agreement as amended by the Amendment to the Reimbursement Agreement, dated as of May 18, 2004, and this Amendment.

(c) The Agreement is and shall continue to be in full force and effect and, except as specifically amended herein, is hereby ratified and confirmed.

(d) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Bank under the Agreement, or constitute a waiver of any provision of the Agreement.

SECTION 5. Costs and Expenses.

The County agrees to pay on receipt of an invoice all reasonable costs and expenses of the Bank (including an amendment fee of $1,000 payable to the Bank) in connection with the preparation, reproduction, execution and delivery of this Amendment and the other instruments and documents to be delivered hereunder, including the reasonable fees and disbursements of counsel for the Bank.

SECTION 6. Execution in Counterparts.

This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

SECTION 7. Governing Law.

THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF WASHINGTON AND APPLICABLE LAWS OF THE UNITED STATES OF AMERICA; PROVIDED, HOWEVER, THE OBLIGATIONS OF THE BANK HEREUNDER SHALL BE GOVERNED BY AND

CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK AND APPLICABLE LAWS OF THE UNITED STATES OF AMERICA.

SECTION 8. Headings.

Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

SECTION 9. Effect on Notice of Optional Termination.

In connection with the execution of this Amendment, the Bank hereby rescinds its Notice of Optional Termination dated April 8, 2010, relating to the Agreement.

[Signatures appear on the following pages]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized with effect from the date first above written.

LANDESBANK HESSEN-THÜRINGEN GIROZENTRALE, NEW YORK BRANCH

By:________________________________
Name: Peter Morse
Title: Senior Vice President

By:________________________________
Name:
Title:

KING COUNTY

By:____________________________________
Name:
Title:

Signature page of County to Second Amendment to Reimbursement Agreement
relating to Junior Lien VRD Sewer Revenue Bonds – Series 2001A

ANNEX 1

FORM OF NOTICE OF OPTIONAL TERMINATION

[Date]

The Bank of New York Mellon, as Registrar
101 Barclay Street, 21W
New York, New York 10286
Attention: Joann La Barbera,
Assistant Treasurer

King County
Department of Finance
Seattle, Washington 98104-1598
Attention:

$50,000,000
King County Junior Lien Variable Rate
Demand Sewer Bonds, Series 2001A

Ladies and Gentlemen:

The undersigned duly authorized representatives of Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch (the "***Bank***"), in connection with its Irrevocable Letter of Credit No. HLG 28962, as amended (the "***Letter of Credit***") and its Reimbursement Agreement between King County, Washington and the Bank dated as of August 1, 2001, as amended by the Amendment to the Reimbursement Agreement dated as of May 18, 2004 and the Second Amendment to the Reimbursement Agreement dated as of June __, 2010 (the "***Reimbursement Agreement***"), hereby notify you that the Bank has elected to designate [August 10, 2012] [August 10, 2014] an Optional Expiration Date, within the meaning of the Reimbursement Agreement, on which it shall terminate the Available Commitment pursuant to Section 2.4 of the Reimbursement Agreement. The Optional Expiration Date is not less than 120 days after the date of this notice.

Very truly yours,

LANDESBANK HESSEN-THÜRINGEN
GIROZENTRALE, New York Branch

By:______________________________
Name:
Title:

By:______________________________
Name:
Title:

Acknowledged:

THE BANK OF NEW YORK MELLON

By:______________________________
Name:
Title:

Acknowledged:

KING COUNTY

By: ______________________________
Name:
Title:

Attachment 2

June 17, 2010

The Honorable Bob Ferguson
Chair, King County Council
Room 1200
COURTHOUSE

Dear Councilmember Ferguson:

Enclosed is a proposed ordinance authorizing an amendment of the county's existing reimbursement agreements with a state-owned bank in Germany (Helaba) related to variable rate demand bonds that were issued on behalf of the Wastewater Treatment Division (WTD) in 2001. The proposed amendment would add the full faith and credit pledge of the county as additional security for the county's payments to Helaba under the reimbursement agreements. This would effectively create a "double-barreled" financing arrangement such as has been used on previous WTD bond issues to help reduce borrowing costs.

As background, the county issued two series of variable rate demand bonds totaling $100 million in 2001 (the 2001 bonds) to provide financing for the WTD ongoing capital program. The 2001 bonds were secured solely by WTD's sewer revenues, with enhanced credit support provided by letters of credit from Helaba bank. On the strength of this enhanced credit support, the bonds carry Aaa/AAA ratings from Moody's and S&P respectively. Currently, Helaba pays the debt service payments to bondholders directly and, pursuant to the agreements, is reimbursed by the county from available WTD sewer revenues.

Unless Helaba approves a renewal of the letters of credit, the current reimbursement agreements will expire in August 2010. Recently, Helaba informed the county that, as a result of the turmoil in the financial markets in recent years, it is unable to renew the agreements based on the existing terms. However, Helaba did propose that it would be able to extend the letters of credit if the current agreements are amended to add the full faith and credit pledge of the county as additional security beyond the lien on sewer revenues. Given the recent changes in the market for bank credit support, the county's financial advisor does not view this requirement as unreasonable. This is a preferred alternative to the scenarios wherein and anticipates that the county would either be required to offer a full faith and credit pledge to alternative bank providers or would have to pay a significantly higher annual fee for an alternative credit facility that is backed solely by sewer revenues.

The county has used double-barreled financing arrangements in the past to support WTD's capital financing program. The economic benefits include lower borrowing costs and no requirement to set aside additional cash in the form of a bond reserve account. To date, approximately $730 million of WTD's outstanding fixed rate bonds are double-barreled. In January 2010, the County issued $100 of new variable rate demand bonds on behalf of WTD that are also double-barreled. It is also worth noting that because the proposed pledge of the full faith and credit would apply only to the Helaba reimbursement agreements rather than to the 2001 bonds themselves, the county would effectively create the benefits of double-barreled financing without reducing its overall general obligation debt capacity.

The county has been pleased with the pricing performance of the 2001 bonds since their inception. Even during the 2008 financial crisis, the weekly rate resets on the bonds have been consistent with the Securities Industry and Financial Markets Association (SIFMA) short-term index. Helaba is viewed as a very strong bank and has the added protection of grandfathered guarantees from two German states backing the letter of credit. Given that the pricing and other terms of the Helaba proposal are viewed as reasonably favorable, the county's financial advisor therefore has recommended that the county continue with Helaba rather than incur the additional time and expense of seeking a new letter of credit provider. Helaba's proposal involves an increase in their fee for providing the letters of credit that will increase the rest of the financing by $280,000 per year. The financial advisor believes this is still a better price then could be obtained from another bank. If the market's perception of Helaba were to deteriorate, however, causing an unacceptable increase in the interest rates for the 2001 bonds, the county would have the option of terminating the agreements and either pursuing alternative credit support from another bank or converting the bonds to a fixed rate. By extending the Helaba letter of credit and adding the full faith and credit pledge of the county, the county locks in an agreement with favorable pricing terms and retains the flexibility to make changes in the future if market conditions warrant.

While Ordinances 14171 and 14172, which authorized the 2001 bonds, delegated considerable authority to the Finance Director to accept the terms of the original and subsequent reimbursement agreements, the addition of the full faith and credit pledge of the county as security for the payments does require that the council approve the proposed amendment of these ordinances.

Because the current agreement expires on August 10, 2010, it is important that the council approves this proposed amendment by mid-July. Absent such timely action, there would not be sufficient time to obtain a replacement letter of credit provider prior to the expiration date and the county would therefore need to use internal funds to retire the $100 million of the 2001 bonds and would subsequently bear the cost and administrative efforts associated with a replacement issuance in the future.

Thank you for your consideration of this request. If you have any questions regarding these proposed bonds, please contact Ken Guy, Director, Finance and Business Operations Division at 263-9254 or Nigel Lewis, Senior Debt Analyst in the Treasury Operations Section, at 296-1168.

Sincerely,

Dow Constantine
King County Executive

Enclosures

cc: King County Councilmembers
ATTN: Tom Bristow, Chief of Staff
Anne Noris, Clerk of the Council
Mark Melroy, Senior Principal Legislative Analyst
Pat Hamacher, Senior Principal Legislative Analyst
Fred Jarrett, Deputy County Executive
Rhonda Berry, Assistant Deputy County Executive
Joe Woods, Council Relations Manager, Executive Office
Dwight Dively, Director, Office of Management and Budget and the Office of Strategic Planning and Performance Management
Bob Burns, Interim Director, Department of Natural Resources and Parks
Caroline Whalen, Chief Administrative Officer, Department of Executive Services (DES)
Ken Guy, Director, Finance and Business Operations Division, (FBOD) DES
Nigel Lewis, Senior Debt Analyst, Treasury Operations, FBOD, DES

Attachment 3

FISCAL NOTE

2010-XXXX

Ordinance/Motion No. 2010-XXXX	
Title:	An Ordinance approving forms of amendments to reimbursement agreements between the county and Helaba Bank to provide for extensions of the letters of credit securing $100,000,000 of the county's junior lien variable rate demand sewer revenue bonds issued in 2001 and authorizing the county's finance director to sign and deliver the amendments.
Affected Agency and/or Agencies:	Wastewater/General Fund
Note Prepared By:	Nigel Lewis, 296-1168
Note Reviewed By:	

Impact of the above legislation on the fiscal affairs of King County is estimated to be:

THERE IS NO IMMEDIATE FISCAL IMPACT ANTICIPATED AS A RESULT OF THESE AMENDMENTS.

Revenue to:

Fund/Agency	Fund Code	Revenue Source	Current Year 2010	1st Year 2011	2nd Year 2012	3rd Year 2013
TOTAL			0	0	0	0

Expenditures from:

Fund/Agency	Fund Code	Department	Current Year	1st Year 2011	2nd Year 2012	3rd Year 2013
TOTAL			0	0	0	0

Expenditures by Categories

	Current Year	1st Year 2011	2nd Year 2012	3rd Year 2013
TOTAL	0	0	0	0

The proposed ordinance will not have a direct fiscal impact on King County. Under their proposal the annual cost of Helaba's letter of credit will increase form 27 basis points to 55 basis points. This change will result in an increase in the cost of this financing $280,000 for each of the next two years. This change in pricing does not need to be approved by ordinance.