



**King County**  
**Metropolitan King County Council**  
**Budget & Fiscal Management Committee**

Agenda Item No.: 9

Date: March 16, 2010

Proposed No.: 2010-0070

Prepared By: Mike Alvine

**STAFF REPORT**

**SUBJECT:**

AN ORDINANCE relating to designating King County a Recovery Zone in order to qualify for Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds authorized by the federal American Recovery and Reinvestment Act.

**SUMMARY:**

Proposed Ordinance 2010-0070, if adopted, will declare King County as a Recovery Zone as authorized by the federal American Recovery and Reinvestment Act (ARRA). With this designation, King County businesses and the County itself will qualify for federally subsidized bonds to finance business capital investments and public economic development projects including infrastructure projects, job training and educational programs. The federal government subsidizes 45 percent of the interest costs of the public projects while the bonds for private projects are tax exempt, having the effect of lowering the cost of borrowing for businesses.

**BACKGROUND:**

Under ARRA congress created two new types of bonds that receive federal subsidies for the interest payments. The State of Washington is entitled to an allocation of the national limitation – also called volume cap – in proportion to Washington's loss of jobs in proportion to the loss of jobs nationally. The United States Department of Treasury has further allocated a portion of the state's volume cap to municipalities with a population of over 100,000. This methodology gives King County approximately \$23.2 million in issuing authority for taxable Recovery Zone Economic Development Bonds and just under \$34.8 million in tax-exempt Recovery Zone Facility Bonds. The cities of Bellevue and Seattle have their own allocations for each bond program. King County qualifies for this program through approximately eight measures of economic distress.

On November 29, 2009 the Washington State Department of Commerce adopted emergency amendments to the Washington Administrative Code (WAC) to implement these programs. Under these rules, the State acknowledges King County's authority to decide which projects get funded. ARRA requires that bonds under either program must be issued by December 31, 2010. Under the WAC rules, the State intends that any bond allocation not used by June 30, 2010 may be recaptured by the State and

reallocated to other qualifying jurisdictions. The timeline is aggressive if King County wants to use its allocation by June 30.

**ANALYSIS:**

The Recovery Zone Facility Bond program is somewhat similar to tax-exempt private activity bonds, known as Industrial Revenue Bonds (IRB), authorized under the federal Internal Revenue Code. The Recovery Zone bonds have fewer restrictions and apply to public sector projects and programs, which IRBs do not.

It is clear that private companies are still having difficulty accessing credit and that public sector revenues are down. The federal interest subsidies for public projects may make it more feasible to pursue them. Tax-exempt bonds for private projects have the effect of lowering the cost of borrowing so that these projects may become more viable. For private companies that want to finance a project with the bond program, typically their bank would purchase the bonds as a mechanism to make the loan to the business. They accept a lower rate of interest on the bond than they would for a loan because the interest on the bond is exempt from federal income tax.

The Recovery Zone Economic Development Bond program could save King County financing costs on projects already in the pipeline that are planned to be financed using general obligation bonds. The timeline means only projects ready to go will be considered.

For private sector projects, Executive staff indicates that the Washington Economic Development Finance Authority (WEDFA) will issue the bonds. WEDFA also issues Industrial Revenue Bonds and is well suited to perform this function. Executive staff has prepared an application for Recovery Zone Facility Bonds and is preparing one for Recovery Zone Economic Development Bonds. Due to the short timeline of June 30 to issue bonds in King County, the Executive proposes that he determine which projects are funded. This raises a policy issue.

**Policy Issue:** Should the Executive decide which public and private projects should use the allocations or should the Council have input or final approval? The Executive would prefer to have the authority due to the short timeline to issue the bonds. On the other hand, the Council may wish to determine which projects are selected. For either bond program one project could use the entire allocation. Given the size of many public infrastructure projects, it would be fairly easy for one project to use the entire allocation. There is the potential that if the public and private allocations are used by June 30, King County could receive additional allocations from the State.

**AMENDMENT:**

At the chair's request, staff has drafted an amendment to the ordinance that would require council staff to serve on a committee that recommends projects for Recovery Zone financing, and for the Council to approve the final list of projects by motion.

**REASONABLENESS:**

This program in general represents a reasonable business decision for the County.

**ATTACHMENTS:**

1. Proposed Ordinance 2010-0070
2. Transmittal letter received January 20, 2010
3. Amendment 1

**INVITED:**

Elissa Benson, Deputy Director, OSPPM, King County  
Ray Moser, Economic Development Manager, OSPPM, King County





**KING COUNTY**

**Signature Report**

**March 16, 2010**

**Ordinance**

**Attachment 1**

1200 King County Courthouse  
516 Third Avenue  
Seattle, WA 98104

**Proposed No. 2010-0070.1**

**Sponsors Patterson**

1 AN ORDINANCE relating to designating King County a  
2 Recovery Zone in order to qualify for Recovery Zone  
3 Economic Development Bonds and Recovery Zone Facility  
4 Bonds authorized by the federal American Recovery and  
5 Reinvestment Act.

6 **STATEMENT OF FACTS:**

- 7 1. The federal American Recovery and Reinvestment Act created two  
8 new bond programs to help stimulate nationwide economic recovery.
- 9 2. Recovery Zone Economic Development Bonds are taxable bonds that  
10 allow state and local governments to obtain lower borrowing costs,  
11 through a forty-five percent federal interest payment subsidy, to finance a  
12 broad range of qualified economic development projects including public  
13 works projects and job training and educational programs.
- 14 3. Recovery Zone Facility Bonds are tax-exempt private activity bonds  
15 that provide lower borrowing costs to private businesses to finance a broad  
16 range of depreciable capital projects.
- 17 4. The United States Department of the Treasury has allocated to King  
18 County \$23,169,000 in issuing authority for Recovery Zone Economic

19 Development Bonds and \$34,754,000 in issuing authority for Recovery  
20 Zone Facility Bonds.

21 5. Recovery Zone Economic Development Bonds and Recovery Zone  
22 Facility Bonds may only be used to finance eligible projects in designated  
23 Recovery Zones.

24 6. A Recovery Zone is defined as an area having significant  
25 unemployment, home foreclosures, poverty or general distress.

26 7. King County's economy has declined significantly during the national  
27 recession.

28 8. King County's unemployment rate at the end of September 2009 was  
29 8.8 percent.

30 9. The number of unemployed workers in King County grew by six  
31 thousand six hundred seventy in September 2009.

32 10. Through the end of October 2009, King County companies have laid  
33 off over fourteen thousand employees.

34 11. Small and medium-sized businesses have extreme difficulty obtaining  
35 credit.

36 12. The median price for a house in King County fell to \$350,000 in  
37 October 2009, a decline of fifteen percent from its high of \$410,000 in  
38 April 2008.

39 13. Seaport cargo has declined by 11.9 percent and air cargo has declined  
40 by 7.9 percent year-to-date at the Port of Seattle.

41           14. Bankruptcy filings in King County during September 2009 increased  
42           fifty-seven percent over September 2008.

43           15. Notice of Trustee Sales of homes have increased eighty percent year-  
44           to-date over 2008.

45           16. Significant public infrastructure and private business assets are at risk  
46           from potential flooding in the Green River valley.

47 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

48 SECTION 1. King County is designated a Recovery Zone.

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:** None



# Attachment 2

January 20, 2010

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

Dear Councilmember Ferguson:

The enclosed proposed ordinance, if adopted, will declare King County as a Recovery Zone as authorized by the federal American Recovery and Reinvestment Act (ARRA).

This declaration is required for King County to qualify for two new bond programs created by ARRA, also known as the federal Stimulus Program. These two new programs are Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds. Recovery Zone Economic Development Bonds are taxable bonds that allow state and local governments to obtain lower borrowing costs, through a forty-five percent federal interest payment subsidy, to finance a broad range of economic development projects such as capital projects and job training and educational programs. Recovery Zone Economic Development Bonds are a subset of Build America Bonds, also authorized by ARRA, which strictly fund capital projects at a thirty-five percent interest payment subsidy. Recovery Zone Facility Bonds are tax-exempt private activity bonds lower borrowing costs to private business to finance a broad range of depreciable capital projects. They are available for most private business activity.

Under both programs, the State of Washington is entitled to an allocation of the national bond limitation ("volume cap") in proportion to the state's 2008 state employment decline relative to the 2008 state employment decline of all of the states. The United States Department of the Treasury has further suballocated a portion of the state's volume cap to certain counties and large municipalities having a population greater than 100,000.

Pursuant to such federal suballocation, King County has been allocated \$23,169,000 in issuing authority for Recovery Zone Economic Development Bonds and \$34,754,000 in issuing authority for Recovery Zone Facility Bonds. Once King County designates itself as a Recovery Zone, these allocations will be available for use by the county and its cities, excluding the cities of Bellevue and Seattle, which have received their own federal suballocations of the state's volume cap.

The Honorable Bob Ferguson

January 14, 2010

Page 2

The Washington State Department of Commerce adopted emergency amendments to the Washington Administrative Code (WAC) to implement these programs on November 24, 2009. The public hearing for adoption of permanent amendments to the WAC was held on January 6, 2010 in Olympia. Pursuant to these rules, the state acknowledges King County's authority to decide which projects are funded. Under federal law, bonds under either program must be issued prior to January 1, 2011, and there is no limit on project size up to the allocation limit. Under the emergency rules adopted by the state, the state proposes that any bond allocation not used by the end of June, 2010 may be recaptured by the State and reallocated to other jurisdictions.

The Recovery Zone designation is required by the Internal Revenue Service, and no project may be financed under either bond program without it. A Recovery Zone is defined as an area having significant poverty, unemployment, home foreclosures, or general distress. I believe King County qualifies under this definition give the following economic data:

- The unemployment rate at the end of September, 2009 was 8.8 percent;
- The number of unemployed workers grew by 6,670 in September, 2009;
- Through the end of October, King County companies have laid off over 14,000 employees in 2009.
- Small and medium-sized businesses continue to have difficulty accessing credit;
- The median price for a house fell to \$350,000 in October 2009, a decline of fifteen percent from its high of \$410,000 in April, 2008;
- Seaport cargo has declined by 11.9 percent and air cargo has declined by 7.9 percent year-to-date at the Port of Seattle;
- Bankruptcy filing during September, 2009 increased fifty-seven percent over September, 2008;
- Notice of Trustee Sales of homes have increased eighty percent year-to-date over 2008; and
- Significant public infrastructure and private business assets are at risk from potential flooding in the Green River Valley this coming winter.

The Honorable Bob Ferguson

January 20, 2010

Page 3

If adopted, this ordinance will designate King County, excluding the cities of Bellevue and Seattle, as a Recovery Zone for the purpose of financing eligible projects with Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds.

If you have any questions regarding this transmittal, please contact Elissa Benson, Deputy Director of the Office of Strategic Planning and Performance Management, at 206-263-9682.

Sincerely,

Dow Constantine  
King County Executive

Enclosure

cc: King County Councilmembers

ATTN: Tom Bristow, Chief of Staff

Anne Noris, Clerk of the Council

Toni Rezab, Acting Director, Office of Management and Budget

Bob Cowan, Acting Chief Administrative Officer, Department of Executive Services (DES)

Ken Guy, Director, Finance and Business Operations Division, DES

Elissa Benson, Deputy Director, Office of Strategic Planning and Performance Management (OSPPM)

George Northcroft, Manager, Business Relations and Economic Development, OSPPM



March 16, 2010

1

ma Sponsor: Patterson  
Proposed No.: 2010-0070

1 **AMENDMENT TO PROPOSED ORDINANCE 2010-0070, VERSION 1**

2 On page 4, after line 48, insert

3 "SECTION 2. The executive or the executive’s designee shall form a working group to  
4 review and rank projects requesting Recovery Zone financing for consideration by the executive.  
5 The working group shall have as few as three and no more than five members, one of whom  
6 shall be a King County council staff member appointed by the chair of the Budget and Fiscal  
7 Management Committee or its successor. The remaining members shall be appointed by the  
8 executive or the executive’s designee.

9 SECTION 3. The executive shall transmit a motion to the council containing the  
10 executive’s recommendations for projects that should receive Recovery Zone financing. The  
11 timing for transmittal of the motion shall conform to the federal American Recovery and  
12 Reinvestment Act and relevant Washington state Administrative Code. The motion shall be  
13 transmitted to the clerk of the council in the form of an original and nine copies for distribution  
14 to all councilmembers."

15 **EFFECT: Requires the creation of a working group of 3 to 5 members to rank projects**  
16 **requesting Recovery Zone financing for consideration by the Executive. One member of**  
17 **the working group must be a Council staff member. Also requires the Executive to**  
18 **transmit a motion to the Council with his recommendations for projects to receive**  
19 **Recovery Zone financing.**

