



**King County**

**King County Council Budget and  
Fiscal Management Committee  
Bond Refinancing Discussion**

**Ken Guy**

KING COUNTY FINANCE DIRECTOR

Tel: + 1 206-263-9254

Email: ken.guy@kingcounty.gov

**Nigel Lewis**

KING COUNTY DEBT MANAGER

Tel: +1 206-263-2857

Email: nigel.lewis@kingcounty.gov

**Rob Shelley**

PIPER SANDLER, MANAGING DIRECTOR

Tel: +1 206-628-2879

Email: robert.shelley@psc.com

---

## Bond Refunding Overview

- Bonds are most frequently refunded to realize debt service savings.
- Most municipal debt can be paid off early (e.g. refunded, refinanced, redeemed, called) with available revenue or new debt.
- Municipal bonds are typically sold with an option to redeem the bonds ahead of their stated maturity.
  - Long-term debt is typically sold with a 10-year par call feature.
  - Bondholders are protected until the call date and this means that bonds maturing within the first 10 years of an issue are usually not callable.
  - This is unlike most home mortgages, which can be paid off at any time.
- All things being equal, a bond's refunding savings potential improves as the call date becomes closer.

---

## Current Refunding or Advance Refunding?



- Bonds issued not more than 90 days ahead of the initial call date of the refunded bonds or later are called “Current Refunding Bonds.”
- Current Refunding Bonds can be issued on a tax-exempt basis under current federal tax law if the original project proceeds were tax-exempt eligible.



- Bonds issued more than 90 days from the call date of the refunded bonds are called “Advance Refunding Bonds.”
- Prior to the 2017 Tax Cuts and Jobs Act, federal tax law allowed a single opportunity to advance refund outstanding tax-exempt bonds on a tax-exempt basis.
- Since December 31, 2017, issuance of tax-exempt advance refunding bonds is prohibited.

## Bond Refinancing Example (2010 Bonds)

### Refunding Results

Historically low interest rates in the summer of 2020 allowed the County to realize significant savings from the refinancing of its 2010 Sewer Bonds.

- Savings are calculated net of transaction costs.
- In evaluating refunding savings, debt service savings are usually discounted back to current dollars (present value or PV).
- To help measure the efficiency of a refunding, PV savings are typically expressed as a percentage of the amount of the refunded bonds.
- The term of the refunding bonds is usually the same as that of the refunded bonds.

#### Refunded Bonds

	Series 2010
Callable Principal	\$28,340,000
Callable Maturities	2033-2036
Average Coupon	4.25%
Call Date	7/1/2020

#### Refunding Results

	2020, Series A
Refunding Bond Amount <sup>(1)</sup>	\$24,055,000
Refunding Bond Maturities	2022-2036
All-In True Interest Cost	1.72%
Cash Flow Savings <sup>(2)</sup>	\$11,664,176
Net Present Value Savings \$	\$9,030,398
Net Present Value Savings %	31.86%

(1) \$3.6 million of bond funds were used to redeem a portion of the 2010 Bonds.

(2) Net of \$3.6 million bond fund contribution

---

## County Savings Thresholds for Current Refundings

- Established in the County's Debt Management Policy as adopted by Motion 15984 in November 2021.
- Stated in terms of present value savings as a % of the par amount of the refunded bonds.
- Sliding scale of thresholds for current refundings reflects higher savings potential of longer bonds.

Savings Thresholds for Current Refundings	
Remaining Life (in years)	Present Value Savings
<=2	1%
>2 & <=4	2%
>4 & <=7	3%
>7 & <=10	4%
>10	5%

---

## County Savings Thresholds for Advance Refundings

- Taxable advance refundings must achieve a savings threshold of 10%.
  - Interest rates at the call date are unknown so an advance refunding locks in savings and eliminates interest rate risk.
  - The alternative is waiting until within 90 days of the call date to issue tax-exempt current refunding bonds. Since a future tax-exempt refunding is a possibility, the threshold is higher than it would be for a tax-exempt advance refunding.
- Should tax-exempt advance refundings ever be re-authorized, the savings threshold would be 5%, which matches the County's policy from before the Tax Cuts and Jobs Act.
- The same 5% savings threshold is used for defeasance transactions that are done for debt service savings purposes.

---

## County Refunding Authorization

- In order to allow the County to move quickly to capture refinancing opportunities available in the market, Council has passed two ordinances that provide omnibus refunding authority for the County's outstanding bonds.

**Ordinance 19530** – Provides for the refunding of outstanding LTGO bonds

**Ordinance 19377** – Provides for the refunding of outstanding sewer bonds

- Each authorizing ordinance references the County's refunding savings thresholds contained in its adopted Debt Management Policy.
- The ordinances authorize the County's Finance Director to serve as the County's designated representative to approve the sale of refunding bonds.
- The Finance Director provides an annual report to the Executive Finance Committee and Council describing the sale of any series of bonds approved pursuant to this delegated authority and documenting the refunding savings achieved.
- The authority granted to the Finance Director expires after a set period established in each ordinance, at which time a new authorizing ordinance could be approved by Council.

## County Refunding/Defeasance Savings Results, 2018 to Present

Refunding Series	Refunding Bonds Amount	Refunded Bonds Amount	Total Savings	PV Savings	PV Savings as % of Refunded Bonds
2019 LTGO (Various Purpose)	\$14,845,000	\$16,950,000	\$3,163,415	\$2,800,295	16.52%
2019 LTGO (Open Space)	13,020,000	13,880,000	912,950	895,861	6.45%
2020A Sewer Revenue	24,055,000	28,340,000	12,632,850	9,030,398	31.86%
2020B Sewer Revenue (Taxable)	186,745,000	167,000,000	43,686,034	36,542,427	21.88%
2020 LTGO	74,040,000	64,770,000	9,124,662	8,430,476	13.02%
2021A LTGO (Sewer) (SRF Loans)	126,425,000	147,201,449	13,330,323	12,943,218	8.79%
2021B LTGO (Sewer) (Taxable)	94,510,000	81,235,000	17,711,941	14,296,444	17.60%
2021A Sewer Revenue	231,200,000	198,735,000	58,766,437	41,036,351	20.65%
2021C LTGO	30,410,000	32,970,000	2,320,975	2,239,921	6.79%
2022A LTGO	40,910,000	44,250,000	2,390,170	2,311,639	5.22%
Subtotal	\$836,160,000	\$795,331,449	\$164,039,757	\$130,527,030	
Defeasance Transaction		Defeased Bonds Amount	Total Savings	PV Savings	PV Savings as % of Defeased Bonds
2018 Sewer Revenue		\$135,800,000	\$19,952,441	\$14,941,718	11.00%
2019 Sewer Revenue & LTGO (Sewer)		87,145,000	21,521,931	17,321,714	19.88%
2020 Sewer Revenue		80,000,000	50,196,402	31,942,381	39.93%
2021 Sewer Revenue & LTGO (Sewer)		130,150,000	24,701,034	23,635,650	18.16%
Subtotal		\$433,095,000	\$116,371,808	\$87,841,463	
Total		\$1,228,426,449	\$280,411,565	\$218,368,493	