**2021 Annual Report on General Obligation Debt Issuances**

March 2022

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# Executive Summary

As required by Ordinances 19279[[1]](#footnote-1) and 19325,[[2]](#footnote-2) this report provides a detailed description of each of the four series of general obligation bonds totaling $567,650,000 that were sold during 2021. Because of the historically low level of interest rates that prevailed throughout the course of the year, as well as the continuation of the County’s excellent “AAA” credit ratings, 2021 was a year during which the County’s debt issuance activity was considered very successful.

Pursuant to both Ordinance 19279, adopted in May 2021, and Ordinance 19325, adopted in September 2021, (collectively “the Ordinances”) the Council authorized the King County Finance Director (i.e., the director of the Finance and Business Operations Division) to approve the sale of limited tax general obligation (LTGO) bonds and unlimited tax general obligation (UTGO) bonds respectively. The Ordinances specify, however, that such approval is conditional upon the results of the sales meeting certain parameters described therein.

Delegation of such authority enables King County to hold bond sales on a much larger number of dates during the year beyond just those when the Council is in session, as was previously the case. Such timing flexibility allows the County to be more responsive to changes in market conditions.

Section 13 of Ordinance 19279 and Section 12 of Ordinance 19325 require that the Finance Director provide an annual report to the Executive Finance Committee and the County Council describing each series of bonds approved pursuant to such authority. The report must be transmitted by March 31 of each year.

This report meets the requirements of the Ordinances for all the County’s general obligation bond issuances undertaken during 2021.

# Background

The Department of Executive Services (DES) provides internal services to King County agencies. DES has a variety of direct customers, from all county agencies in need of facilities maintenance and paycheck processing, to motor vehicle drivers applying for vehicle tab renewals. The Finance and Business Operations Division’s (FBOD) mission is to provide exceptional customer value for accounting, procurement, treasury, and small business services.

# Sales Undertaken

A total of four series of general obligation bonds totaling $567,650,000 were sold during 2021 pursuant to the Ordinances. Before providing details of each of these series, however, certain points that are common to all of them should be noted.

First, for each of these sales, the three rating agencies, Fitch, Moody’s, and Standard and Poor’s (S&P) all affirmed the County’s excellent “AAA” credit rating. This rating helps to ensure that the County’s interest rates received were extremely favorable. Second, consistent with the County’s preference as documented in the newly adopted Debt Management Policy (Motion 15984[[3]](#footnote-3)), each of the four series were sold competitively, meaning that any underwriting firm was able to bid to purchase the bonds from the County. The large number of bids received for each of these sales is itself a testament as to how highly the County’s credit is viewed in the market. The results of each sale were consistent with the required parameters specified in the Ordinances.

On June 9, 2021, the County sold its tax-exempt **Limited Tax General Obligation Bonds, 2021, Series A** in the par amount of $52,150,000. The County received a total of 10 bids, and the winning bid from Hilltop Securities offered a true interest cost (TIC) of 1.895 percent for the bonds, which have an average life of 13.6 years. The proceeds of these bonds will provide $65.8 million of funding for several County capital projects, including various open space land acquisitions, facility improvements at the Maleng Regional Justice Center (MRJC), and the Solid Waste capital program. This transaction closed on June 22nd.

It should be noted that this was the first sale of fixed rate bonds that utilized the newly granted delegated authority. With delegated authority in place, there is no longer a need for bond sales to take place on the same date as King County Council meetings. Accordingly, the County’s has more flexibility to avoid a sale date that might be expected to exhibit unusual market risk conditions.

The June sale provided an example of the benefits that may result from such flexibility. Prior to the adoption of Ordinance 19279, the sale had been tentatively scheduled for Tuesday June 8th to coincide with the Council’s meeting date. However, with the adoption of Ordinance 19279, the County’s bond team decided to postpone the sale by one day to avoid competing with some other large issuances that were scheduled to go to market on the 8th. It is estimated that the postponement resulted in a lowering of the TIC by as much as four basis points (0.04 percent) in interest, or approximately $21,000 in interest costs in the first year of the bonds alone.

On October 20, 2021, the County sold its tax-exempt **Unlimited Tax General Obligation Bonds, 2021** in the par amount of $18,885,000. The proceeds of these bonds provided $23 million of funding for the initial planning and design phase of the $1.74 billion Harborview Bond Project that was approved by voters in November 2020. The County received 12 bids, with the winning bid being provided by KeyBanc Capital Markets. This winning bid from KeyBanc resulted in a TIC for the bonds, which have an average life of 11.6 years, of just 2.07 percent. The transaction closed on November 3, 2021.

On November 16, 2021, the County sold its tax-exempt **Limited Tax General Obligation Refunding Bonds, 2021, Series B** in the par amount of $30,410,000. The County received 13 bids, with the winning bid provided by TD Securities offering a TIC of 0.69 percent for the bonds, which have an average life of 2.4 years. The proceeds were used to refund four series of outstanding LTGO bonds totaling $33 million that become callable within the 90 days of the closing date. This refunding reduced future debt service costs by $2.3 million, the present value of which equaled 6.8 percent of the bonds being refunded. This ratio comfortably exceeds the savings targets for evaluating such current refunding opportunities identified in the adopted Debt Management Policy. This transaction closed on December 1, 2021.

On November 16, 2021, the County also sold its **Limited Tax General Obligation Bonds, 2021, Series C (Taxable) (Social Bonds)** in the par amount of $466,150,000. Although the County only received five bids, this total is considered a success given the large size of the transaction. The winning bid for these bonds was provided by Bank of America (B of A) Securities and offered a TIC of 2.41 percent for the bonds, which have an average life of 11.2 years.

The proceeds of this issue will be used to provide $264.0 million of funding for the County’s Health Through Housing (HTH) Initiative and $202.5 million of funding for transit-oriented development (TOD) projects. Because the future ownership and/or management of these projects is uncertain, it was decided that these bonds should be issued on a taxable basis, especially given that the differential between taxable and tax-exempt interest rates was relatively narrow by historical standards.

Since the proceeds of the 2021C Bonds will all be used for affordable housing-related purposes, prior to the sale the County approached the firm of Kestrel Verifiers to pre-qualify a “Social Bond” designation for these bonds. With such pre-qualification, underwriters bidding for the bonds had the option of applying this designation to the series in order to make them more attractive to certain groups of investors. B of A Securities, the winning bidder, did choose to utilize this designation. While it is not possible to identify any direct quantifiable benefit from using this designation for the County, it is important to note that the full cost for such was incurred solely by B of A Securities and that it did not involve the imposition of any additional reporting requirements on the County.

# Next Steps

No further steps are necessary. The Executive will submit the next FBOD report in 2022.

1. [Link to Ordinance 19279](https://mkcclegisearch.kingcounty.gov/View.ashx?M=F&ID=9424600&GUID=5C5A86A1-3FB6-4772-AF3C-5A193E12F32F) [↑](#footnote-ref-1)
2. [Link to Ordinance 19325](https://mkcclegisearch.kingcounty.gov/View.ashx?M=F&ID=9832414&GUID=38ADB4EE-3291-4B06-95D5-F6B025857647) [↑](#footnote-ref-2)
3. [Link to Motion 15984](https://mkcclegisearch.kingcounty.gov/LegislationDetail.aspx?ID=5122763&GUID=6DB14047-6C76-4BBD-A669-9B8C8647C379&Options=Advanced&Search=) [↑](#footnote-ref-3)