## STAFF REPORT

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| **Agenda Item:** | 5 | **Name:** | Patrick Hamacher |
| **Proposed No**.: | 2016-0268 | **Date:** | September 14, 2016 |

**SUBJECT**

An ordinance authorizing the Executive to refund (refinance) existing Limited Tax General Obligation debt should better interest rate conditions exist.

**SUMMARY**

Proposed Ordinance 2016-0268 would authorize the Executive to advance refund existing debt should the County be able to save 5 percent of the principal amounts outstanding. This is consistent with the County’s existing debt management policy approvied via Motion 12660.

This ordinance does not impact any existing project or appropriation – it only applies to existing outstanding debt that may be able to be financed at lower amounts.

**BACKGROUND**

There are typically three types of long-term debt instruments used by King County. These are:

1. **Unlimited Tax General Obligation Bonds** (UTGO) (or just General Obligation Bonds). These bonds come with the full faith and credit of King County. These are voter-approved bonds with pledged repayment of obligations coming from the bond proceeds. The outstanding Harborview Medical Center bonds are an example of current UTGO bonds issued by the County.
2. **Limited Tax General Obligation Bonds** (LTGO). These bonds come with the full faith and credit of the County that is not subject to voter approval. These bonds can be issued by the County without voter approval and are the bonds typically being referred to when discussing the County’s credit rating as repayment is not guaranteed by the voters. This is the most common county debt issuance and King County typically has several LTGO bond sales each year.
3. **Revenue Bonds.** Revenue bonds are those backed by revenues by a particular source and are not backed by the full faith and credit of the County. Typically these bonds are only used by major county funds with a long-history of successfully borrowing and repayment. The Wastewater Treatment Division is the only county agency that regularly uses revenue bonds.

This ordinance would only apply to existing LTGO bonds and would provide authority to refinance existing debt until the termination of the authority in the ordinance, which is proposed at December 31, 2021.

**ANALYSIS**

The County currently has $965 million in LTGO bonds outstanding. The Executive currently estimates that $36 million of these bonds may be candidates for refinancing over the next several years. This will depend upon interest rate conditions at various times throughout the period.

If the Executive were to save the 5 percent of remaining principal as required by policy then the savings would equate to $1.8 million in principal saved. However, it should be noted that the Executive currently expects to achieve savings of more than 5 percent –based upon market conditions, the savings could be quite a bit higher.

As there is a firm policy in place as to savings targets that must be achieved and the County Council retains final approval authority for any bond sale that might occur, there is little risk associated with this ordinance. The Executive currently intends the first sale under this ordinance to occur in late October or November.

**ATTACHMENTS**

1. Proposed Ordinance 2015-0268
2. Transmittal Letter
3. Fiscal Note

**INVITED**

1. Nigel Lewis, Senior Debt Analyst, FBOD
2. Rob Shelley, Financial Advisor, Piper Jaffray
3. Ken Guy, Finance Director, FBOD