## STAFF REPORT

|  |  |  |  |
| --- | --- | --- | --- |
| **Agenda Item:** | 6 | **Name:** | Sam Porter  Nick Bowman |
| **Proposed No**.: | 2020-0176 | **Date:** | June 16, 2020 |

**SUBJECT**

Proposed Ordinance 2020-0176 would place a $1.74 billion capital improvement bond for health and safety improvements of Harborview Medical Center on the November 3, 2020 General Election ballot.

**SUMMARY**

Proposed Ordinance 2020-0176 would place a $1.74 billion capital improvement bond on the November 2020 General Election ballot, the proceeds of which would go towards new construction, renovation, seismic retrofitting, and other health and safety improvements of Harborview Medical Center (HMC) facilities. Attachment A of the Proposed Ordinance provides a high level overview of the improvements which may be funded with levy proceeds. These improvements are based on the Harborview Leadership Group (HLG) Recommendation Report that was transmitted to Council on April 8, 2020.[[1]](#footnote-1) This report, requested through Motion 15183, provides background and detail on the HLG efforts and summarizes the size and scope of the HLG bond recommendation.

Under the Proposed Ordinance the term of any series of bonds issued would have a maximum term of 20 years from the date the bonds are sold, resulting in an average rate of approximately 8 cents per $1,000 of assessed value. A median value home would see an average increase in property taxes of approximately $75 annually over the life of the proposed bond, based on the June 2020 Office of Economic and Financial Analysis forecast, which was released after the May 19th Committee of the Whole discussion of this proposal. (The previous forecast had estimated an average annual increase of approximately $68.)

In order to meet the Elections Department deadline to include the proposed bond on the November ballot the last regular Council meeting to adopt with the maximum processing time (25 days) is July 7th. The deadline for Elections to receive the effective ordinance is August 4th.

**BACKGROUND**

HMC was founded in 1877 as a six-bed King County Hospital in South Seattle. In 1931, the hospital moved to its present location overlooking Puget Sound where it currently consists of a 413 inpatient bed teaching hospital and is the designated disaster control hospital for the region. HMC serves as the only Level 1 trauma center in the four state region of Washington, Alaska, Idaho, and Montana. Harborview prioritizes serving the non-English-speaking poor, the uninsured and underinsured, people who experience domestic violence and or sexual assault, incarcerated people in King County's jails, people with behavioral health illnesses, particularly those treated involuntarily, people with sexually transmitted diseases, and individuals who require specialized emergency care, trauma care, and severe burn care.

HMC is owned by King County, governed by a 13-member County-appointed Board of Trustees, and operated by the University of Washington. On February 8, 2016, the County Council approved a new ten-year Hospital Services Agreement between the parties.[[2]](#footnote-2) This new agreement will run until the end of 2025, but has two ten year extension options making the potential length of the agreement up to thirty years.

According to the HLG Recommendation Report, HMC's capital facilities have evolved over the years to better meet the needs of the community and incorporate advancements in the fields of patient care, research, medicine, and technology. However, a majority of HMC's facilities are currently aging and out of date in terms of modern best practices, standards for infection control, and limited capacity.

While HMC has funded much of its smaller capital improvements through annual budget and capital facility planning, as the owner of the hospital, King County has provided for major capital facility improvements and expansions through voter-approved financing, generally occurring every 15-20 years. The voters of King County have supported the hospital through bond measures over the years, most recently in 2000 with a $193 million bond to fund seismic and health and public safety improvements for HMC facilities.[[3]](#footnote-3)

In July 2018, the HMC Board of Trustees sent a letter to Council identifying six areas of focus for a capital plan and acknowledged that there needed to be a wider planning effort. Those areas of focus were:

* Enhance and modernize clinical facilities to support the optimization of the delivery of healthcare services for the residents of King County, incorporating any required modifications to the existing 1999 Major Institutional Master Plan (MIMP);
* Advance Harborview’s role and surge capacity in disaster and emergency response;
* Identify facility requirements to support clinical and community programming for Harborview’s Behavioral Health Institute;
* Continue facility master planning work on seismic upgrades to enhance patient and employee safety; and
* Collaborate with King County in the development of recommendations for the adaptive reuse of Harborview Hall.

In response, Council passed Motion 15183 which created a planning process for a potential bond to support capital improvements at HMC that included a Harborview Leadership Group (HLG). The HLG consisted of representatives from the County Executive, County Council, HMC, UW Medicine, the First Hill community, and HMC's mission population. The HLG fulfilled their charge when they transmitted their final recommendation report[[4]](#footnote-4) after 13 months of analysis and deliberation on the issues outlined in Motion 15183 as follows:

1. An evaluation of the size and scope of a potential bond effort;
2. Exploration of the possibility of private philanthropy;
3. An evaluation of inclusion of the needs of the Department of Public Health;
4. An evaluation of housing needs of the mission population;
5. An evaluation of the needs of the Involuntary Treatment Act (ITA) Court;
6. An evaluation of how best to address behavioral health needs;
7. Whether bond proceeds should be invested in public health facilities beyond the campus; and
8. Whether bond funds for other public safety infrastructure needs should be included.

The final HLG Recommendation report was approved by the HLG, the Capital Planning Oversight Committee, the HMC Board of Trustees, and the Executive in accordance with Motion 15183. It was transmitted to Council on April 8, 2020 and provides background and detail on the HLG efforts and summarizes the size and scope of the bond recommended by the HLG.

**Table 1. HLG Recommendations for Potential Bond**

|  |  |  |
| --- | --- | --- |
| Component Name | Component Description | Est. Cost |
| New Bed Tower | Increase bed capacity; expand/modify Emergency Department; meet privacy and infection control standards; disaster prep; plant infrastructure | $952M |
| New Behavioral Health Building | Existing behavioral health services/programs and new Behavioral Health Institute under one roof | $79M |
| Existing Hospital Space Renovations | Expand ITA court in the most appropriate location; move/expand gamma knife; lab; Public Health Tuberculosis and STD clinics; Medical Examiner's Office; nutrition, etc. | $178M |
| Harborview Hall | Seismic upgrades; improve/modify space; create space for up to 150 respite beds; maintain enhanced homeless shelter in the most appropriate location | $108M |
| Center Tower | Seismic upgrades; improve and modify space for offices | $248M |
| Pioneer Square Clinic | Seismic and code improvements; improve and modify space for medical clinic/office space | $20M |
| East Clinic | Demolish East Clinic Building | $9M |
| Site Improvements/Misc | Site preparation (~$66M); 1% for Art (~$13M); Project Labor Agreement (~$5M); Project Management (~$17M); plant infrastructure upgrades - primarily energy systems (~$46M) | $146M |
| TOTAL |  | **$1.74B** |

**ANALYSIS**

If adopted, Proposed Ordinance 2020-0176 would place a $1.74 billion capital improvement bond on the November 3, 2020 General Election ballot. The Executive intends to issue several series of 20 year bonds to finance the project. Council staff analysis indicates that the average rate across the life of the bond would be approximately 8 cents per $1,000 of assessed value. A median value home would see an average increase in property taxes of approximately $75 annually over the life of the proposed bond based on the most recent Office of Economic and Financial Analysis (OEFA) forecast. (The previous forecast had estimated an average annual increase of approximately $68.)

The tax rate in each year of the repayment period will be based upon the annual debt service for the outstanding bonds each year. At the beginning of the project the rates will be comparatively low as the debt has not been fully issued yet. At the end of the repayment period, the rates will also be comparatively low as the initial debt has started to be fully repaid. During the years following the height of the construction the debt service load will be the highest and therefore the debt service costs will be the highest. While Council Staff has estimated that the average annual debt service cost over the entire period will be 8 cents per $1,000 of assessed value, the actual annual rates would vary between less than 1 cent to 13.7 cents based upon the capital needs of the project. Additionally, as the bonds will be issued in series over several years to meet project needs, the levy will remain in effect until the principal on the last series of bonds has been paid in full. Current estimates from the Executive envision the last series of bonds being issued in 2029. As the proposed ordinance limits any bonds issued for this project to a maximum duration of 20 years, the levy may continue in effect until 2049.

Table 2 below shows the estimated debt issuance schedule and its impact on the annual tax rate. Table 3 shows the estimated change in rates over the duration. Both tables were based on the August 2019 OEFA forecast – Table 4 later in this staff report provides updated information based on the current June 2020 OEFA forecast.

**Table 2. Debt Issuance Schedule and Estimated Annual Levy Rate**

**(Based on August 2019 OEFA Forecast)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **20 Year Debt** | | | | | | | |
| **Year** | **Assessed Value** | **Bond Issuance** | **Principal** | **Interest (Est. Rate 3.25%)** | **Total Debt Service** | **Est. Levy Rate\*** |
| 2021 | $655 B | $50,000,000 | $0 | $812,500 | $812,500 | 0.12 ₵ |
| 2022 | $676 B | $150,000,000 | $1,813,944 | $4,062,500 | $5,876,444 | 0.87 ₵ |
| 2023 | $713 B | $300,000,000 | $7,314,730 | $11,316,047 | $18,630,777 | 2.61 ₵ |
| 2024 | $750 B | $400,000,000 | $18,436,124 | $20,828,318 | $39,264,442 | 5.24 ₵ |
| 2025 | $784 B | $400,000,000 | $33,546,851 | $31,604,144 | $65,150,995 | 8.31 ₵ |
| 2026 | $817 B | $200,000,000 | $49,148,678 | $40,381,778 | $89,530,455 | 10.96 ₵ |
| 2027 | $854 B | $100,000,000 | $58,001,786 | $43,781,184 | $101,782,970 | 11.92 ₵ |
| 2028 | $893 B | $100,000,000 | $63,514,733 | $45,271,821 | $108,786,554 | 12.19 ₵ |
| 2029 | $920 B | $40,000,000 | $69,206,850 | $45,612,372 | $114,819,222 | 12.49 ₵ |
| 2030 | $947 B | $0 | $72,907,228 | $44,147,147 | $117,054,375 | 12.36 ₵ |
| 2031 | $976 B | $0 | $75,276,713 | $41,916,015 | $117,192,728 | 12.01 ₵ |
| 2032 | $1,005 B | $0 | $77,723,206 | $39,612,371 | $117,335,577 | 11.68 ₵ |
| 2033 | $1,035 B | $0 | $80,249,210 | $37,233,858 | $117,483,069 | 11.35 ₵ |
| 2034 | $1,066 B | $0 | $82,857,310 | $34,778,044 | $117,635,354 | 11.04 ₵ |
| 2035 | $1,098 B | $0 | $85,550,172 | $32,242,416 | $117,792,588 | 10.73 ₵ |
| 2036 | $1,131 B | $0 | $88,330,553 | $29,624,380 | $117,954,933 | 10.43 ₵ |
| 2037 | $1,165 B | $0 | $91,201,296 | $26,921,258 | $118,122,554 | 10.14 ₵ |
| 2038 | $1,200 B | $0 | $94,165,338 | $24,130,284 | $118,295,622 | 9.86 ₵ |
| 2039 | $1,236 B | $0 | $97,225,711 | $21,248,604 | $118,474,316 | 9.59 ₵ |
| 2040 | $1,273 B | $0 | $100,385,547 | $18,273,269 | $118,658,816 | 9.32 ₵ |
| 2041 | $1,311 B | $0 | $103,648,077 | $15,201,236 | $118,849,313 | 9.07 ₵ |
| 2042 | $1,350 B | $0 | $103,577,696 | $12,029,362 | $115,607,057 | 8.56 ₵ |
| 2043 | $1,391 B | $0 | $96,627,138 | $8,866,167 | $105,493,305 | 7.58 ₵ |
| 2044 | $1,433 B | $0 | $79,133,855 | $5,935,466 | $85,069,321 | 5.94 ₵ |
| 2045 | $1,476 B | $0 | $54,194,152 | $3,580,111 | $57,774,262 | 3.92 ₵ |
| 2046 | $1,520 B | $0 | $28,443,908 | $1,818,801 | $30,262,709 | 1.99 ₵ |
| 2047 | $1,565 B | $0 | $15,612,558 | $894,374 | $16,506,932 | 1.05 ₵ |
| 2048 | $1,612 B | $0 | $9,242,078 | $386,966 | $9,629,044 | 0.6 ₵ |
| 2049 | $1,661 B | $0 | $2,664,557 | $86,598 | $2,751,155 | 0.2 ₵ |
| **Total** |  | **$1.74B** | **$1.74B** | **$642.60M** | **$2.381B** |  |

\*Rate per $1,000 of Assessed Value

**Table 3. Change in Estimated Annual Levy Rate**

**(Based on August 2019 OEFA Forecast)**

The above estimates are based off of the August 2019 Office of Economic and Financial Analysis (OEFA) forecast. This forecast was created using economic data prior to the impacts of the COVID-19 coronavirus pandemic. As a result, the financial analysis for the proposed bond is subject to change as the economic impacts of the COVID-19 pandemic become clearer.

**Revised Fiscal Analysis Based on the June OEFA Forecast**

At the May 19th Committee of the Whole discussion of Proposed Ordinance 2020-0176, staff noted that the Office of Economic and Financial Analysis (OEFA) would release its June Economic Forecast in early June. The updated forecast, released on June 4th, anticipates King County’s assessed property values will be significantly lower than prior forecasts. As a result, if adopted by the Council and approved by the voters in November, the Harborview Medical Center Bond would have a higher average cost per home than previously estimated. Under the updated forecast, the estimated average annual cost per median valued home would now be approximately $75, a $7 increase from the August 2019 OEFA forecast.

The table below provides the estimated debt issuance schedule and its impact on the annual tax rate under the updated June 2020 OEFA Forecast.

**Table 4. Debt Issuance Schedule and Estimated Annual Levy Rate**

**(Based on June 2020 OEFA Forecast)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **20 Year Debt** | | | | | | | |
| **Year** | **Assessed Value** | **Bond Issuance** | **Principal** | **Interest (Est. Rate 3.25%)** | **Total Debt Service** | **Est. Levy Rate\*** |
| 2021 | $657 B | $50,000,000 | $0 | $812,500 | $812,500 | 0.12 ₵ |
| 2022 | $624 B | $150,000,000 | $1,813,944 | $4,062,500 | $5,876,444 | 0.94 ₵ |
| 2023 | $647 B | $300,000,000 | $7,314,730 | $11,316,047 | $18,630,777 | 2.88 ₵ |
| 2024 | $672 B | $400,000,000 | $18,436,124 | $20,828,318 | $39,264,442 | 5.85 ₵ |
| 2025 | $703 B | $400,000,000 | $33,546,851 | $31,604,144 | $65,150,995 | 9.27 ₵ |
| 2026 | $733 B | $200,000,000 | $49,148,678 | $40,381,778 | $89,530,455 | 12.21 ₵ |
| 2027 | $767 B | $100,000,000 | $58,001,786 | $43,781,184 | $101,782,970 | 13.26 ₵ |
| 2028 | $802 B | $100,000,000 | $63,514,733 | $45,271,821 | $108,786,554 | 13.56 ₵ |
| 2029 | $837 B | $40,000,000 | $69,206,850 | $45,612,372 | $114,819,222 | 13.71 ₵ |
| 2030 | $862 B | $0 | $72,907,228 | $44,147,147 | $117,054,375 | 13.57 ₵ |
| 2031 | $888 B | $0 | $75,276,713 | $41,916,015 | $117,192,728 | 13.19 ₵ |
| 2032 | $915 B | $0 | $77,723,206 | $39,612,371 | $117,335,577 | 12.82 ₵ |
| 2033 | $942 B | $0 | $80,249,210 | $37,233,858 | $117,483,069 | 12.47 ₵ |
| 2034 | $971 B | $0 | $82,857,310 | $34,778,044 | $117,635,354 | 12.12 ₵ |
| 2035 | $1,000 B | $0 | $85,550,172 | $32,242,416 | $117,792,588 | 11.78 ₵ |
| 2036 | $1,030 B | $0 | $88,330,553 | $29,624,380 | $117,954,933 | 11.45 ₵ |
| 2037 | $1,061 B | $0 | $91,201,296 | $26,921,258 | $118,122,554 | 11.14 ₵ |
| 2038 | $1,093 B | $0 | $94,165,338 | $24,130,284 | $118,295,622 | 10.83 ₵ |
| 2039 | $1,125 B | $0 | $97,225,711 | $21,248,604 | $118,474,316 | 10.53 ₵ |
| 2040 | $1,159 B | $0 | $100,385,547 | $18,273,269 | $118,658,816 | 10.24 ₵ |
| 2041 | $1,194 B | $0 | $103,648,077 | $15,201,236 | $118,849,313 | 9.96 ₵ |
| 2042 | $1,230 B | $0 | $103,577,696 | $12,029,362 | $115,607,057 | 9.40 ₵ |
| 2043 | $1,267 B | $0 | $96,627,138 | $8,866,167 | $105,493,305 | 8.33 ₵ |
| 2044 | $1,305 B | $0 | $79,133,855 | $5,935,466 | $85,069,321 | 6.52 ₵ |
| 2045 | $1,344 B | $0 | $54,194,152 | $3,580,111 | $57,774,262 | 4.30 ₵ |
| 2046 | $1,384 B | $0 | $28,443,908 | $1,818,801 | $30,262,709 | 2.19 ₵ |
| 2047 | $1,425 B | $0 | $15,612,558 | $894,374 | $16,506,932 | 1.16 ₵ |
| 2048 | $1,468 B | $0 | $9,242,078 | $386,966 | $9,629,044 | 0.66 ₵ |
| 2049 | $1,512 B | $0 | $2,664,557 | $86,598 | $2,751,155 | 0.18 ₵ |
| **Total** |  | **$1.74B** | **$1.74B** | **$642.60M** | **$2.382B** |  |

\*Rate per $1,000 of Assessed Value

**OUTLINE OF PLANNED IMPROVEMENTS**

Attachment A to the Proposed Ordinance provides a high-level outline of the improvements which may be performed with bond levy proceeds. These improvements include:

* New construction and renovation of existing buildings to provide for: increasing critical health care capacity; updating and expanding infection control capability; and expanding capacity for behavioral health services;
* Renovation, retrofitting, and improvements to existing buildings to increase seismic stability;
* Upgrade of mechanical, electrical, way finding, and other building and physical plant systems;
* Street improvements, landscaping, and mitigation required in connection with the above improvements; and
* Demolition of buildings.

According to Executive staff the construction project would create an estimated 7,700 jobs and 2,300 apprenticeship opportunities. This construction is subject to King County's Master Community Workforce Agreement approved by Ordinance 18672.

**Bond Timing and Turnout Requirements**

The processing deadlines for the Department of Elections to include an item on the November 2020 General Election ballot appear in Table 5 below.

**Table 5. November 2020 General Election Processing Deadlines**

|  |  |  |
| --- | --- | --- |
| Processing Timeline |  | Deadline |
| Last regular Council meeting to adopt w/25 days processing | Maximum | July 7 |
| Last regular Council meeting to adopt w/10 days processing | Minimum | July 21 |
| Last special Council meeting to adopt as emergency | Emergency | July 28 |
| Last special Council meeting to adopt and deadline for Elections to receive effective ordinance (*during recess*) | Final Deadline | August 4 |

According to state law, forty percent turnout of preceding election is required for a general obligation bond ballot measure.[[5]](#footnote-5) Additionally, state law requires that the proposed bond requires a sixty percent "yes" vote.[[6]](#footnote-6) According to the King County Elections Validation Summary for KC 2020 Bond Measures a turnout of approximately 180,000 voters would be needed to meet the 40% participation threshold.

In the last 20 years, King County has only fallen below 40% voter turnout for a general election once; in the 2003 general election. However, there have been other more recent instances where voter participation in King County has been at or near 40%. This includes 43% turnout in the 2017 general election and 40% in the 2015 general election. King County, like most areas around the country, sees voter turnout drop off precipitously in the election immediately following a mid-term or presidential election year. The table below shows voter turnout in King County since the last Harborview bond measure was approved in 2000. The highlighted years mark elections where voter turnout was below, at or near the 40% threshold.

**Table 6. King County General Elections: Historical Turnout (Lowest Highlighted)[[7]](#footnote-7)**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **2019** | **2018** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** |
| 49% | 76% | 43% | 82% | 40% | 55% | 48% | 85% | 54% | 74% |
| **2009** | **2008** | **2007** | **2006** | **2005** | **2004** | **2003** | **2002** | **2001** | **2000** |
| 53% | 84% | 47% | 65% | 54% | 83% | 36% | 53% | NA | 75% |

**Construction Timeline and Permitting**

If the bond is approved by voters the next step is selecting the project management and design teams. The Executive has indicated that the County would issue a request for proposals to select an external project management/capital planning firm to lead the capital project and King County's Facility Management Department and Performance Strategy and Budget would jointly oversee the project.

Executive staff provided the projected estimate of phases and timelines below. These are subject to change.

**Table 7. Projected Estimate of Construction Timeline and Permitting**

|  |  |  |
| --- | --- | --- |
| Phase | Action | Timeline |
| Phase I | Select Project Management and Design Teams | 2020-2021 |
| Phase II | Design, Space Planning, Sequencing | 2021-2023 |
| Phase III | Permitting | 2021-2023 |
| Phase IV | Construction Begins | 2023 |

Council legal counsel has reviewed the ordinance.

**INVITED**

* Kelli Carroll, Director of Special Projects, King County Executive's Office
* Dwight Dively, Budget Director, Performance Strategy and Budget

**ATTACHMENTS**

1. Proposed Ordinance 2020-0176 (and its attachments)
2. Harborview Leadership Group Recommendation Report (2020-RPT0054)
3. Transmittal Letter
4. Fiscal Note
5. Revised Fiscal Note provided to Council Staff May 12, 2020

1. Report 2020-RPT0054 [↑](#footnote-ref-1)
2. Ordinance 18233 [↑](#footnote-ref-2)
3. Ordinance 13947 [↑](#footnote-ref-3)
4. Report 2020-RPT0054 [↑](#footnote-ref-4)
5. RCW 39.40.010 [↑](#footnote-ref-5)
6. RCW 84.52.056 [↑](#footnote-ref-6)
7. King County Department of Elections Historical Turnout Data <https://www.kingcounty.gov/~/media/depts/elections/about-us/data-and-statistics/historical-turnout-data.ashx?la=en> [↑](#footnote-ref-7)