## REVISED STAFF REPORT

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| **Agenda Item:** | 9 | **Name:** | Nick Bowman |
| **Proposed No**.: | 2020-0104 | **Date:** | August 26, 2020 |

**COMMITTEE ACTION**

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| ***Proposed Substitute Ordinance 2020-0104.2 passed out of committee on August 26, 2020 with a “Do Pass” recommendation. The Ordinance was amended in committee with Striking Amendment S1 and Title Amendment T1 to do the following:***   1. ***Reduce the total bond authorization from $395 million to $150 million;*** 2. ***Remove the Yesler Building Tenant Improvement Project from the list of projects authorized to receive bond proceeds; and*** 3. ***Add language which would allow the Executive to issue Tax-Exempt Bonds as tax-advantaged bonds eligible for federal tax credits, a federal interest subsidy, or other subsidies.*** |

**SUBJECT**

Proposed Ordinance 2020-0104 would authorize the Executive to issue up to $395 million in limited tax general obligation (LTGO) bonds to provide financing for approximately $380 million of County capital projects with an allowance of approximately $15 million to cover potential financing considerations for those projects.

**SUMMARY**

The proposed ordinance would authorize the Executive to issue up to $395 million in LTGO bonds to fund long-term capital projects. The majority of the projects covered under the proposed authorization were previously approved by the Council through various appropriations ordinances. A project included in this authorization which have not already been approved by the Council include the Forge Site acquisition. The Forge Site acquisition[[1]](#footnote-1) was transmitted to Council in December and heard in the Budget and Fiscal Management committee on February 26, 2020. According to the Executive, no bonds will be issued for this project until the Council approves the corresponding legislation.

Due to budget shortfalls and increased and likely long term reliance on telecommuting due to the COVID-19 pandemic, the Executive has provided a striking amendment to council staff modifying the project list. Striking Amendment S1 would make substantive changes to the proposed ordinance including:

1. Reducing the total bond authorization from $395 million to $150 million;
2. Removing the Yesler Building Tenant Improvements Project from the list of projects authorized to receive bond proceeds; and
3. Adding language which would allow the Executive to issue Tax-Exempt Bonds as tax-advantaged bonds eligible for federal tax credits, a federal interest subsidy, or other subsidies should they be made available and deemed advantageous to the County.

Title Amendment T1 would conform the title for Proposed Ordinance 2020-0104 to the changes made by Striking Amendment S1.

**BACKGROUND**

King County typically uses three types of long-term debt instruments:

1. **Unlimited Tax General Obligation Bonds** (UTGO). This debt is payable from voter-approved tax levies. 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 are backed by 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. Although ultimately pledging general fund revenues, LTGO debt is often also issued for the benefit of other funds that can document sufficient future revenues to pay the debt service. 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, and dedicated revenue streams. The Wastewater Treatment Division is the only county agency that regularly uses revenue bonds.

**ANALYSIS**

Proposed Ordinance 2020-0104 would authorize the Executive to sell LTGO bonds to provide permanent financing for various capital projects. In previous appropriation ordinances including the 2018 1st Omnibus[[2]](#footnote-2), the 2019-2020 biennial budget[[3]](#footnote-3) and the 2019 2nd Omnibus[[4]](#footnote-4), a number of capital projects were targeted for long-term financing. The proposed ordinance would authorize financing to support seven projects which have previously been approved by Council, and one which has not yet received Council approval.

Table 1 below identifies the projects to be funded and the amount of funding each project is to receive under the proposed ordinance, as well as, the approving appropriations ordinance number.

**Table 1. Projects Financed by PO 2020-0104**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Project Name** |  | **Total (millions)** |  | **Approved via Ordinance** |
| Transit Operational Capacity Growth Projects |  | $250.0 |  | 18835 |
| Forge Site Acquisition |  | $54.2 |  | PO 2020-0006 |
| Conservation Futures Land |  | $35.0 |  | 18987 & 19021 |
| Downtown Public Health Clinic |  | $18.3 |  | 19136 |
| Yesler Building Tenant Improvements |  | $11.1 |  | 18835 |
| Kent Office Building Acquisition |  | $6.2 |  | 19021 |
| Jail Management System Project |  | $4.0 |  | 18835 & 18766 |
| FMD Asset Management System Upgrade |  | $0.8 |  | 18835 |
| **Projects Total** |  | **$379.6** |  |  |
| Allowance for Financing Considerations |  | $15.5 |  |  |
| **Total Authorization Request** |  | **$395.1** |  |  |

The only project which has not yet received Council approval is the King County International Airport Forge Site acquisition. The Forge Site Acquisition[[5]](#footnote-5) was transmitted to Council in December 2020 and was heard in the Budget and Fiscal Management committee on February 26, 2020. Section 10 of this Proposed Ordinance restricts the delegated authority of the Finance Director so as to prohibit the sale of bonds for projects which have not been approved by Council. Since the bonds are sold in multiple series, if the Council has not approved the Forge Site Acquisition by the first bond sale under this authorization, the project will be excluded from the initial sale and covered under a subsequent sale once the Council has approved the project’s authorizing legislation.

The financial considerations for this proposed ordinance includes an additional $4.1 million above the typical 1 percent for the cost of issuance and 2 percent contingency for the possibility of bonds being issued at a discount.[[6]](#footnote-6) According to the Executive, the additional $4.1 million is intended to cover interest payments on the portion of the bonds dedicated to the Forge Site acquisition project through 2021 so as to avoid making interim payments out of the General Fund before the Airport Fund can assume the liability.

The exact terms of the bonds, which will be sold in multiple series, will be established by the King County Finance Director in consultation with the County’s Financial Advisor. According to the Executive, the first bond sale issuance pursuant to this proposed ordinance is currently expected to occur in October 2020. The bond sale would need to be approved by the Council on the day of the sale via Motion as per the provisions include in the Proposed Ordinance. Council staff will review the bond sale results to assure the sale complies with the Debt Management Policy.[[7]](#footnote-7)

**AMENDMENTS**

Striking Amendment S1 would make a number of substantive changes to the proposed ordinance including:

1. Reducing the total bond authorization from $395 million to $150 million;
2. Removing the Yesler Building Tenant Improvement Project from the list of projects authorized to receive bond proceeds; and
3. Adding language which would allow the Executive to issue Tax-Exempt Bonds as tax-advantaged bonds eligible for federal tax credits, a federal interest subsidy, or other subsidies.

According to the Executive, due to budget shortfalls and the increased and likely long term reliance on telecommuting option there is less need for existing office space and less need for additional Yesler Building office space. Therefore, the Executive has made the decision to postpone tenant improvement work on the Yesler Building.

Table 2 below compares the projects included in the underlying proposed ordinance versus Striking Amendment S1.

**Table 2. Projects Financed in Proposed Ordinance 2020-0104 versus**

**Striking Amendment S1 (in millions)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Project Name** |  | **PO 2020-0104** |  | **Striking Amendment S1** |
| Transit Operational Capacity Growth Projects |  | $250.0 |  | $30.0 |
| Forge Site Acquisition |  | $54.2 |  | $54.2 |
| Conservation Futures Land |  | $35.0 |  | $35.0 |
| Downtown Public Health Clinic |  | $18.3 |  | $16.0 |
| Yesler Building Tenant Improvements |  | $11.1 |  | $0.0 |
| Kent Office Building Acquisition |  | $6.2 |  | $6.2 |
| Jail Management System Project |  | $4.0 |  | $4.0 |
| FMD Asset Management System Upgrade |  | $0.8 |  | $0.8 |
| Allowance for Financing Considerations |  | $15.5 |  | $3.8 |
| **Total Authorization Request** |  | **$395.1** |  | **$150.0** |

According to the Executive, the debt issuance for the Transit Operational Capacity Growth Projects is split between two projects: South Annex Base ($3.1M) and Interim Base ($26.3M).

According to the Executive, the language regarding “tax advantaged bonds” was added to accommodate the use of a federally subsidized direct pay or other bond (such as the Build America Bonds (BABs) that were used extensively about 10 years ago, but subsequently were eliminated in the 2017 Tax Act) in the event any forthcoming federal stimulus legislation includes such a tool and it was deemed beneficial for the County.

Lastly, Title Amendment T1 would conform the title for Proposed Ordinance 2020-0104 to the changes made by Striking Amendment S1.

1. Proposed Ordinance 2020-0006 [↑](#footnote-ref-1)
2. Ordinance 18766 [↑](#footnote-ref-2)
3. Ordinance 18835 [↑](#footnote-ref-3)
4. Ordinance 19021 [↑](#footnote-ref-4)
5. Proposed Ordinance 2020-0006 [↑](#footnote-ref-5)
6. Bonds are sold at a discount when the market interest rate exceeds the coupon rate of the bond. Given the relatively low interest rates over the past decade, the County’s bonds have typically sold at a large premium, which generally means the contingency for paying a discount has not been needed. [↑](#footnote-ref-6)
7. Motion 12660 [↑](#footnote-ref-7)