



Proposed Ordinance 2008-0410 would authorize the issuance of up to \$103 million of LTGO bonds to provide for refunding of existing county debt, incurred on behalf of the Department of Transportation's Transit Division. This action would create savings for Transit by reducing debt service payments.

**ANALYSIS:**

Two bond series are proposed for refunding:

- 1998 Series A Bonds – Original par value of \$85.7 million and current outstanding debt of \$53.4 million
- 2004 Bonds – Original par value of \$53.4 million and current outstanding debt of \$46.4 million

The 1998 Series A Bonds are proposed for current refunding, as the call date for the bonds is in September of this year. The 1998 bonds have a 5 percent interest rate as compared to prevailing interest rates for 10-year bonds of approximately 3.5 percent. Current refunding of these bonds, which have remaining lives of up to 11 years, would achieve the 5 percent present value savings target (about \$2.5 million). The Executive anticipates selling refunding bonds to refinance the 1998 Series A Bonds in November 2008, in coordination with other upcoming debt issues.

The balance of the requested bond authorization would be used for advance refunding of all or a portion of approximately \$46 million of outstanding transit bonds issued in 2004. However, refunding these bonds under current market conditions would not yield the 5 percent present value debt service savings. This is primarily because the yields are currently very low for the escrow account containing the proceeds from any new refunding bonds – these proceeds, along with interest generated in the escrow account, would be used to pay off the existing bonds. Given this low yield, current interest rates in the municipal bond market would need to drop by 125 basis points in order to achieve the 5 percent present value debt service savings target.

The fiscal note accompanying the legislation estimates potential savings of \$365,000 annually for the first three years:

- Approximately \$285,000 in annual debt service savings for 11 years would be achieved from current refunding the 1998 Series A bonds.
- Approximately \$80,000 in annual debt service savings for 20 years would be achieved from advance refunding of a portion of the outstanding 2004 bonds (\$20.75 million of the outstanding \$46 million).

These figures are based on the assumption of achieving 5 percent present value savings, as required by county policy. Refunding of all of the 1998 and 2004 bonds would result in a present value savings to the County of approximately \$4.8 million in reduced aggregate principal assuming at least 5 percent savings.

Proposed Motions 2008-0411 and 2008-0412 which accompanied the proposed ordinance are drafts of a typical motion that would accept the winning bid or approve a purchase contract for the sale of the bonds. In the case of an actual sale or sales, a revised motion would be prepared for each sale and presented at full Council on the day of the sale.

The proposed ordinance would provide the authority for two years from the effective date of the ordinance for the Finance Manager, in consultation with the County's financial advisors, to determine the timing and packaging of the refunding bonds to a limit of \$103,000,000. Note that a two-year authorization would be a departure from past practice. Typically, authorizations for refunding bonds have been for one year. The additional timeframe would allow the county to respond quickly to any downward move in interest rates over the next two years.

Proposed Ordinance 2008-0410 sets all the terms, definitions, and conditions necessary for the issuance and sale of bonds. The County's bond counsel prepared the ordinance and motions. The proposed ordinance delegates authority to the Finance Manager to take the necessary steps for the public or negotiated sale of bonds.

**REASONABLENESS:**

Proposed Ordinance 2008-0410 sets the guidelines that the Finance Manager must follow before an advanced refunding must occur. While the request from the executive is about \$31 million more than anticipated usage during 2008, the margin allows for additional refunding if market conditions change. Adoption of this ordinance as transmitted would provide a reasonable and prudent business decision.

Proposed Motions **2008-0411 and 2008-412** are draft sale motions that would be brought back to the full Council on the date of any bond sale or sales. As the current motions are blank with regards to details of the bond sale, the Committee should pass these motions without recommendation. Executive staff will present final details of the sale to the full Council on the day of the bond sale.

**INVITED:**

- Ken Guy, Director, Finance Division
- Nigel Lewis, Senior Debt Analyst, Finance Division
- Bob Cowan, Director, Office of Management and Budget

**ATTACHMENTS:**

1. Proposed Ordinance 2008-0410
2. Proposed Motion 2008-0411
3. Proposed Motion 2008-0412
4. Transmittal Letter
5. Fiscal Note
6. Motion 12660, Attachment A



**KING COUNTY**

1200 King County Courthouse  
516 Third Avenue  
Seattle, WA 98104

**Signature Report**

**August 26, 2008**

**Ordinance**

**Proposed No. 2008-0410.1**

**Sponsors Ferguson**

1 AN ORDINANCE relating to contracting indebtedness;  
2 providing for the issuance and sale of one or more series of  
3 limited tax general obligation refunding bonds of the  
4 county (secured also by public transportation sales taxes) in  
5 the aggregate principal amount of not to exceed  
6 \$103,000,000 to currently refund all or a portion of the  
7 county's outstanding Limited Tax General Obligation  
8 (Public Transportation Sales Tax) Refunding Bonds, 1998,  
9 Series A, and to advance refund all or a portion of the  
10 county's outstanding Limited Tax General Obligation  
11 (Public Transportation Sales Tax) Bonds, 2004; providing  
12 for the form, terms, covenants and other provisions of such  
13 refunding bonds; providing for the sale of the bonds and the  
14 disposition of the proceeds of sale; establishing funds for  
15 the receipt and expenditure of bond proceeds and for the  
16 payment of the bonds; and providing for the annual levy of  
17 taxes to pay the principal thereof and interest thereon; and

18 pledging public transportation sales tax revenues as  
19 additional security for the bonds.

20

21 PREAMBLE:

22 The Municipality of Metropolitan Seattle ("Metro") was created by public  
23 vote in 1958 to exercise certain powers conferred by Chapter 35.58 of the  
24 Revised Code of Washington ("RCW"). In 1972, pursuant to RCW  
25 35.58.245, the voters approved adding metropolitan public transportation  
26 functions to Metro's powers, and, in accordance with RCW 35.58.240,  
27 Metro adopted a comprehensive plan for public transportation for the  
28 Seattle metropolitan area, which plan has been amended from time to time  
29 (the "Comprehensive Plan"). To provide funds for the operation,  
30 maintenance and capital needs of Metro's public transportation system,  
31 Metro levied a sales tax pursuant to RCW 82.14.045 and as approved by  
32 the voters at elections held in 1972 and 1980.

33 Metro issued several series of its limited sales tax general obligation bonds  
34 secured by the pledge of the voter-approved sales tax, as authorized RCW  
35 35.58.2721, to finance the acquisition and construction of facilities  
36 required to carry out the Comprehensive Plan. RCW 35.58.2721 provides  
37 that so long as such sales tax is pledged to outstanding bonds, the  
38 legislature may not withdraw the authority to levy and collect the tax.

39 Pursuant to Resolution No. 4937, a master bond resolution adopted by the  
40 Metro Council on June 19, 1986, and subsequent series resolutions for

41 each series of bonds, Metro issued five series of limited sales tax general  
42 obligation bonds (the "Sales Tax Bonds"). No Sales Tax Bonds remain  
43 outstanding.

44 Pursuant to Chapter 36.56 RCW and a special county election held  
45 November 3, 1992, King County (the "county") on January 1, 1994,  
46 assumed the rights, powers, functions and obligations of Metro, including  
47 operation of Metro's public transportation system (the "Public  
48 Transportation System"). The county assumed and agreed to provide for  
49 the payment and retirement of outstanding bonds of Metro, including the  
50 Sales Tax Bonds, and assumed the authority to levy and collect the sales  
51 tax pledged to the payment of the Sales Tax Bonds.

52 Pursuant to Ordinance No. 13128, the county issued and sold its  
53 \$85,715,000 par value Limited Tax General Obligation (Public  
54 Transportation Sales Tax) Refunding Bonds, 1998 Series A (the "1998A  
55 Bonds"), to provide for the refunding of two then-outstanding series of  
56 Sales Tax Bonds. The 1998A Bonds were secured by a junior pledge of a  
57 portion of the sales tax securing payment of the Sales Tax Bonds.

58 Ordinance No. 13128 also provided that the county would not issue any  
59 additional bonds with a pledge on sales tax revenue equal to the Sales Tax  
60 Bonds, and provided that any further transportation sales tax bonds would  
61 be issued on a parity of lien with the 1998A Bonds.

62 Pursuant to Ordinance No. 14490, the county issued and sold its  
63 \$64,285,000 par value Limited Tax General Obligation (Public

64 Transportation Sales Tax) Refunding Bonds, 2002 (the "2002 Bonds"), to  
65 provide for the refunding of the last outstanding series of Sales Tax Bonds  
66 and to modify the lien position of the 1998A Bonds on sales tax revenue.

67 The 2002 Bonds were issued on a parity of lien with the 1998A Bonds  
68 which are now secured by a first lien pledge of the portion of the sales tax  
69 that secured payment of the Sales Tax Bonds.

70 Pursuant to Ordinance No. 14887, the county issued and sold its  
71 \$49,695,000 par value Limited Tax General Obligation (Public  
72 Transportation Sales Tax) Bonds, 2004 (the "2004 Bonds"), to finance  
73 portions of the Public Transportation Fund Capital Improvement Program  
74 of the County. The 2004 Bonds were issued on a parity of lien with the  
75 1998A Bonds and the 2002 Bonds, which are now secured by a "first lien"  
76 pledge of the portion of the sales tax that secured payment of the Sales  
77 Tax Bonds.

78 It is deemed necessary and advisable that the county now authorize the  
79 issuance and sale of one or more series of its limited tax general obligation  
80 refunding bonds in an outstanding aggregate principal amount not to  
81 exceed \$103,000,000 to undertake the refunding of all or a portion of the  
82 1998A Bonds and all or a portion of the 2004 Bonds, which bonds will be  
83 additionally secured by a pledge of the sales tax levied pursuant to RCW  
84 84.14.045, as provided herein.

85 To maximize the savings from such refundings, it is in the best interest of  
86 the county to delegate to the county's Finance Director (as hereinafter

87 defined) authority to provide for the sale of one or more series of the  
88 bonds authorized herein by competitive bid or negotiated sale; provided,  
89 however, that the aggregate principal amount of the Bonds shall not  
90 exceed \$103,000,000. The successful bid or negotiated purchase contract  
91 for each series of bonds shall be subject to approval by the county council  
92 as provided herein.

93 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

94 SECTION 1. Definitions. The following words and terms as used in this  
95 ordinance shall have the following meanings for all purposes of this ordinance, unless  
96 some other meaning is plainly intended.

97 "Assessment Income" means amounts collected on account of the principal of and  
98 interest and penalties on Assessments.

99 "Assessments" means assessments or installments thereof levied in any local  
100 improvement district of Metro or the county created for the purpose of financing the  
101 acquisition or construction of additions and improvements to and extensions of the  
102 System and shall include interest and any penalties thereon.

103 "Bond Fund" means the bond redemption fund previously authorized to be  
104 established for the Parity Bonds and described in Section 10 hereof.

105 "Bond Register" means the registration books maintained by the Bond Registrar  
106 for purposes of identifying ownership of the Bonds.

107 "Bond Registrar" means the fiscal agent of the State of Washington (as the same  
108 may be designated by the State of Washington from time to time) for the purposes of  
109 registering and authenticating the Bonds, maintaining the Bond Register, effecting the



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110 transfer of ownership of the Bonds and paying interest on and principal and premium, if  
111 any, of the Bonds.

112 "Bonds" means all or a portion of the King County, Washington, Limited Tax  
113 General Obligation (Public Transportation Sales Tax) Bonds, [appropriate year and series  
114 designation], issued in an aggregate principal amount of not to exceed \$103,000,000  
115 pursuant to this ordinance.

116 "1998A Bonds" means King County, Washington, Limited Tax General  
117 Obligation (Public Transportation Sales Tax) Refunding Bonds, 1998 Series A, issued in  
118 an aggregate principal amount of \$85,715,000 pursuant to Ordinance No. 13128.

119 "2002 Bonds" means King County, Washington, Limited Tax General Obligation  
120 (Public Transportation Sales Tax) Refunding Bonds, 2002, issued in an aggregate  
121 principal amount of \$64,285,000 pursuant to Ordinance 14490.

122 "2004 Bonds" means King County, Washington, Limited Tax General Obligation  
123 (Public Transportation Sales Tax) Bonds, 2004, issued in an aggregate principal amount  
124 of \$49,695,000 pursuant to Ordinance No. 14887.

125 "Code" means the Internal Revenue Code of 1986, as amended, together with  
126 corresponding and applicable final, temporary or proposed regulations and revenue  
127 rulings issued or amended with respect thereto by the United States Treasury Department  
128 or the Internal Revenue Service, to the extent applicable to the Bonds.

129 "Commission" means the Securities and Exchange Commission.

130 "Comprehensive Plan" means the Comprehensive Plan for Public Transportation  
131 set forth in Resolution No. 1717 of the Metro Council adopted October 5, 1972, as  
132 amended by Resolution No. 1901 of the Metro Council adopted July 5, 1973, Resolution

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133 No. 1989 adopted by the Metro Council on November 5, 1973, Resolution No. 3156  
134 adopted by the Metro Council on May 3, 1979, Resolution No. 3647 adopted by the  
135 Metro Council on March 19, 1981, Resolution No. 4679, adopted by the Metro Council  
136 on July 18, 1985, and Resolution No. 6641 adopted by the Metro Council on October 21,  
137 1993, as the same may be amended or supplemented hereafter by ordinance of the  
138 county.

139 "County" means King County, Washington.

140 "Council" means the Metropolitan King County Council.

141 "DTC" means The Depository Trust Company, New York, New York.

142 "Escrow Trustee" means the corporate trustee chosen to serve as such pursuant to  
143 Section 14 hereof.

144 "Finance Director" means the director of the county finance and business  
145 operations division of the department of executive services of the county or any other  
146 county officer who succeeds to the duties now delegated to that office, or the designee of  
147 such officer.

148 "Future Parity Bonds" means any bonds or other obligations that may be issued  
149 by the County in the future with a lien on the Two-tenths Sales Tax Revenue equal to the  
150 lien thereon of the Outstanding Parity Bonds and the Bonds.

151 "Government Obligations" means "government obligations" as defined in Chapter  
152 39.53 RCW, as now in existence or hereafter amended.

153 "Letter of Representations" means the Blanket Issuer Letter of Representations  
154 dated May 1, 1995, by and between the county and DTC.

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155 "Master Resolution" means Resolution No. 4937 of the Metro Council, adopted  
156 on June 19, 1986, pursuant to which all of the Sales Tax Bonds were issued.

157 "Metro Council" means the Metropolitan Council of the Municipality of  
158 Metropolitan Seattle established pursuant to Chapter 35.58 RCW and abolished effective  
159 January 1, 1994, pursuant to Chapter 36.56 RCW.

160 "Metro" means the Municipality of Metropolitan Seattle, formerly a municipal  
161 corporation of the State of Washington, organized pursuant to Chapter 35.58 RCW and  
162 consolidated with the county effective January 1, 1994, pursuant to Chapter 36.56 RCW.

163 "MSRB" means the Municipal Securities Rulemaking Board or any successor to  
164 its functions.

165 "NRMSIR" means a nationally recognized municipal securities information  
166 repository.

167 "Outstanding Parity Bonds" means the outstanding 1998A Bonds, 2002 Bonds  
168 and 2004 Bonds.

169 "Parity Bonds" means the Outstanding Parity Bonds, the Bonds and any Future  
170 Parity Bonds.

171 "Public Transportation Operating Account" means the account of that name  
172 within the Public Transportation Fund, redesignated and continued by the county  
173 pursuant to Ordinance No. 12076 of the county passed on December 18, 1995, and  
174 previously known as the Municipality of Metropolitan Seattle Public Transportation  
175 Revenue Fund established under Resolution No. 936 of the Metro Council adopted on  
176 June 1, 1967.

177 "Public Transportation Construction Accounts" means the accounts of that name  
178 within the Public Transportation Fund, redesignated and continued by the county  
179 pursuant to Ordinance No. 12076 of the county passed on December 18, 1995, and  
180 previously known as the Municipality of Metropolitan Seattle Public Transportation  
181 Construction Fund established under Resolution No. 2209 of the Metro Council adopted  
182 on October 17, 1974.

183 "Public Transportation Sales Tax" means the sales and use tax authorized to be  
184 levied by the county pursuant to RCW 82.14.045 and which has heretofore been duly  
185 levied by the county.

186 "Rebate Amount" means the amount, if any, determined to be payable with  
187 respect to the Bonds by the county to the United States of America in accordance with  
188 Section 148(f) of the Code.

189 "RCW" means the Revised Code of Washington.

190 "Receiving Fund" means the Two-tenths Sales Tax Revenue Receiving Fund  
191 within the Public Transportation Fund, redesignated and continued by the county  
192 pursuant to Ordinance No. 12076 of the county passed on December 18, 1995, and  
193 previously known as the Municipality of Metropolitan Seattle Two-tenths Sales Tax  
194 Revenue Receiving Fund established under the Master Resolution.

195 "Refunded Bonds" means, collectively, the Refunded 1998A Bonds and the  
196 Refunded 2004 Bonds.

197 "Refunded 1998A Bond Redemption Date" means, with respect to each series of  
198 Bonds, each redemption date for the outstanding 1998A Bonds to be refunded thereby, as  
199 identified or ratified in the Sale Motion therefor.

200 "Refunded 1998A Bonds" means, with respect to each series of Bonds, all  
201 outstanding 1998A Bonds to be refunded thereby, as identified or ratified in the Sale  
202 Motion therefor.

203 "Refunded 2004 Bond Redemption Date" means, with respect to the Bonds, each  
204 redemption date for the outstanding 2004 Bonds to be refunded thereby, as identified or  
205 ratified in the Sale Motion therefor.

206 "Refunded 2004 Bonds" means, with respect to each series of Bonds, all  
207 outstanding 2004 Bonds to be refunded thereby, as identified or ratified in the Sale  
208 Motion therefor.

209 "Registered Owner" means any person or entity who shall be the registered owner  
210 of any Bond.

211 "Rule" means the Commission's Rule 15c2-12 under the Securities and Exchange  
212 Act of 1934, as the same may be amended from time to time.

213 "Sale Motion" means, with respect to each series of the Bonds, the motion of the  
214 council identifying (if such series of Bonds is sold by competitive bid) or ratifying (if  
215 such series of Bonds is sold by negotiated sale) the Refunded Bonds to be refunded by  
216 such series of Bonds, their respective redemption dates and the Government Obligations  
217 to be purchased to undertake such refunding, ratifying and confirming the year and series  
218 designation, date, principal amounts and maturity dates, interest rates and interest  
219 payment dates, redemption provisions of the Bonds, and approving the bond purchase  
220 contract (if the Bonds are sold by negotiated sale) or accepting a bid (if the bonds are sold  
221 by competitive bid) for the purchase of the Bonds, all in accordance with Section 19  
222 hereof.

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223 "Sales Tax Bond Fund" means the Limited Sales Tax General Obligation Fund  
224 within the Public Transportation Fund, redesignated and continued by the county  
225 pursuant to Ordinance No. 12076 of the county passed on December 18, 1995, and  
226 previously known as the Municipality of Metropolitan Seattle Limited Sales Tax General  
227 Obligation Bond Fund established by the Master Resolution as amended by Ordinance  
228 No. 11661 of the county passed on January 23, 1995.

229 "Sales Tax Bonds" means the limited sales tax general obligation bonds issued by  
230 Metro pursuant to the Master Resolution which were secured by a pledge of Sales Tax  
231 Revenues (with a senior lien on the Two-tenths Sales Tax Revenues) and Assessment  
232 Income, all of which have been redeemed.

233 "Sales Tax Revenues" means the amounts available for distribution to the county  
234 by the state treasurer pursuant to RCW 82.14.060 on account of the Public Transportation  
235 Sales Tax.

236 "SID" means a state information depository for the State of Washington (if one is  
237 created).

238 "State" means the State of Washington.

239 "System" or "Public Transportation System" means the public transportation  
240 facilities now or hereafter acquired, constructed, used, or operated by the county for the  
241 purpose of carrying out the Comprehensive Plan.

242 "Term Bonds" means those outstanding bonds or obligations of any single issue  
243 or series maturing in any one year for the retirement of which regularly recurring annual  
244 deposits are required to be made into a bond fund prior to the scheduled maturity of such  
245 bonds sufficient to pay the same at or prior to their maturity.

246 "Two-tenths Sales Tax Revenues" means that portion of the Sales Tax Revenues  
247 generated by a sales and use tax rate of 2/10 of 1%, which was pledged to secure the  
248 payment of the Sales Tax Bonds and which has been pledged to secure the payment of  
249 the Parity Bonds, and the further use of which for capital and operating purposes is  
250 established by Ordinance No. 11661 of the county, passed on January 23, 1995.

251 **SECTION 2. Findings:**

252 A. The council finds that it is in the best interest of the county and its taxpayers  
253 to issue the Bonds, in accordance with the provisions of Section 19.C. of Ordinance No.  
254 13128, payable out of the Two-tenths Sales Tax Revenues during any fiscal period.

255 B. The council further finds that the Bonds will issued on a parity with the  
256 1998A, 2002 and 2004 Bonds, having a first lien position on the Two-tenths Sales Tax  
257 Revenues.

258 C. The council further finds and declares that the county is or will be in  
259 compliance with the conditions for the issuance of Future Parity Bonds under Section 19  
260 of Ordinance No. 13128, in Section 19 of Ordinance 14490 and Section 17 of Ordinance  
261 14887, and which conditions are included in Section 18 of this ordinance.

262 D. The council further finds the county may be able to realize significant debt  
263 service savings by refunding all or a portion of the 1998A Bonds and all or a portion of  
264 the 2004 Bonds.

265 **SECTION 3. Purpose, Authorization and Description of Bonds.**

266 A. Purpose and Authorization of Bonds. The county authorizes the issuance of  
267 the Bonds to refund all or a portion of the 1998A Bonds and all or a portion of the 2004  
268 Bonds and to pay the costs of issuing the Bonds.

269           B. Description. The Bonds may be issued in one or more series in an outstanding  
270 aggregate principal amount of not to exceed \$103,000,000, each series to be designated  
271 "King County, Washington, Limited Tax General Obligation (Public Transportation Sales  
272 Tax) Refunding Bonds, [appropriate year and series designation]."

273           Each series of the Bonds shall be fully registered as to both principal and interest,  
274 shall be in the denomination of \$5,000 or any integral multiple thereof within a single  
275 maturity; shall be numbered separately in such manner and with any additional  
276 designation as the Bond Registrar deems necessary for purposes of identification; and  
277 shall be dated as of such date and shall mature on the dates, in the years and the amounts  
278 established as provided in Section 19 hereof.

279           The Bonds shall bear interest (computed on the basis of a 360-day year of twelve  
280 30-day months) from their date or from the most recent interest payment date for which  
281 interest has been paid or duly provided for, whichever is later, payable on semiannual  
282 interest payment dates and at the rate or rates to be established as provided in Section 19  
283 hereof and ratified and confirmed by the Sale Motion.

284           **SECTION 4. Registration, Exchange and Payments.**

285           A. Bond Registrar/Bond Register. In accordance with KCC 4.84, the county  
286 hereby adopts for the Bonds the system of registration specified and approved by the  
287 Washington State Finance Committee, which utilizes the fiscal agent of the State of  
288 Washington as registrar, authenticating agent, paying agent and transfer agent (the "Bond  
289 Registrar"). The Bond Registrar shall keep, or cause to be kept, at its principal corporate  
290 trust office, sufficient books for the registration and transfer of the Bonds (the "Bond  
291 Register"), which shall be open to inspection by the county at all times. The Bond



292 Register shall contain the name and mailing address of the owner of each Bond and the  
293 principal amount and number of each of the Bonds held by each owner. The Bond  
294 Registrar is authorized, on behalf of the county, to authenticate and deliver Bonds  
295 transferred or exchanged in accordance with the provisions of the Bonds and this  
296 ordinance, to serve as the county's paying agent for the Bonds and to carry out all of the  
297 Bond Registrar's powers and duties under this ordinance.

298 The Bond Registrar shall be responsible for its representations contained in the  
299 Bond Registrar's Certificate of Authentication on the Bonds. The Bond Registrar may  
300 become the Registered Owner of Bonds with the same rights it would have if it were not  
301 the Bond Registrar and, to the extent permitted by law, may act as depository for and  
302 permit any of its officers or directors to act as members of, or in any other capacity with  
303 respect to, any committee formed to protect the rights of Registered Owners.

304 B. Registered Ownership. The Bonds shall be issued only in registered form as  
305 to both principal and interest and shall be recorded on the Bond Register. The county and  
306 the Bond Registrar, each in its discretion, may deem and treat the Registered Owner of  
307 each Bond as the absolute owner thereof for all purposes, and neither the county nor the  
308 Bond Registrar shall be affected by any notice to the contrary. Payment of any such  
309 Bond shall be made only as described in Section 4.E hereof, but such registration may be  
310 transferred as herein provided. All such payments made as described in Section 4.E shall  
311 be valid and shall satisfy and discharge the liability of the county upon such Bond to the  
312 extent of the amount or amounts so paid.

313 C. Use of Depository. The Bonds of each series initially shall be registered in the  
314 name of Cede & Co., as the nominee of DTC. The Bonds so registered shall be held in

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315 fully immobilized form by DTC as depository in accordance with the provisions of the  
316 Letter of Representations. Neither the county nor the Bond Registrar shall have any  
317 responsibility or obligation to DTC participants or the persons for whom they act as  
318 nominees with respect to the Bonds regarding accuracy of any records maintained by  
319 DTC or DTC participants, the payment by DTC or any DTC participants of any amount  
320 in respect of principal or redemption price of or interest on the Bonds, any notice which  
321 is permitted or required to be given to registered owners hereunder (except such notice as  
322 is required to be given by the Bond Registrar to DTC), the selection by DTC or any DTC  
323 participant of any person to receive payment in the event of a partial redemption of such  
324 Bonds or any consent given or other action taken by DTC as owner of such Bonds .

325           For as long as any series of Bonds are held in fully immobilized form, DTC, its  
326 nominee or its successor depository shall be deemed to be the Registered Owner for all  
327 purposes hereunder and all references to registered owners, bondowners, bondholders or  
328 the like shall mean DTC or its nominee and shall not mean the owners of any beneficial  
329 interests in such Bonds. Registered ownership of such Bonds, or any portions thereof,  
330 may not thereafter be transferred except: (i) to any successor of DTC or its nominee, if  
331 that successor shall be qualified under any applicable laws to provide the services  
332 proposed to be provided by it; (ii) to any substitute depository appointed by the Finance  
333 Director or such substitute depository's successor; or (iii) to any person if the Bonds are  
334 no longer held in immobilized form.

335           Upon the resignation of DTC or its successor (or any substitute depository or its  
336 successor) from its functions as depository, or a determination by the Finance Director  
337 that the county no longer wishes to continue the system of book entry transfers through

338 DTC or its successor (or any substitute depository or its successor), the Finance Director  
339 may appoint a substitute depository. Any such substitute depository shall be qualified  
340 under any applicable laws to provide the services proposed to be provided by it.

341 If (i) DTC or its successor (or substitute depository or its successor) resigns from  
342 its functions as depository, and no substitute depository can be obtained, or (ii) the county  
343 determines that the Bonds of any series are to be in certificated form, the ownership of  
344 those Bonds may be transferred to any person as provided herein and those Bonds no  
345 longer shall be held in fully immobilized form.

346 D. Registration Covenant. The county covenants that, until all Bonds have been  
347 surrendered and canceled, it will maintain a system for recording the ownership of each  
348 Bond that complies with the provisions of Section 149 of the Code.

349 E. Place and Medium of Payment. Both principal of and interest on the Bonds  
350 shall be payable in lawful money of the United States of America. For so long as the  
351 Bonds of any series are in fully immobilized form, payments of principal and interest  
352 thereon shall be made as provided in accordance with the operational arrangements of  
353 DTC referred to in the Letter of Representations. If the Bonds of any series are no longer  
354 in fully immobilized form, interest on those Bonds shall be paid by checks or drafts of the  
355 Bond Registrar mailed on the interest payment date to the Registered Owners at the  
356 addresses appearing on the Bond Register on the 15th day of the month preceding the  
357 interest payment date or, if requested in writing by a Registered Owner of \$1,000,000 or  
358 more in principal amount of such Bonds prior to the applicable record date, by wire  
359 transfer on the interest payment date. Principal of the Bonds shall be payable upon  
360 presentation and surrender of the Bonds by the Registered Owners to the Bond Registrar.

361           F. Transfer or Exchange of Registered Ownership; Change in Denominations.  
362           The registered ownership of any Bond may be transferred or exchanged, but no transfer  
363           of any Bond shall be valid unless it is surrendered to the Bond Registrar with the  
364           assignment form appearing on such Bond duly executed by the Registered Owner or such  
365           Registered Owner's duly authorized agent in a manner satisfactory to the Bond Registrar.  
366           Upon such surrender, the Bond Registrar shall cancel the surrendered Bond and shall  
367           authenticate and deliver, without charge to the Registered Owner or transferee therefor, a  
368           new Bond (or Bonds at the option of the new Registered Owner) of the same series, date,  
369           maturity and interest rate and for the same aggregate principal amount in any authorized  
370           denomination, naming as Registered Owner the person or persons listed as the assignee  
371           on the assignment form appearing on the surrendered Bond, in exchange for such  
372           surrendered and cancelled Bond. Any Bond may be surrendered to the Bond Registrar  
373           and exchanged, without charge, for an equal aggregate principal amount of Bonds of the  
374           same series, date, maturity and interest rate, in any authorized denomination. The Bond  
375           Registrar shall not be obligated to exchange or transfer any Bond during the 15 days  
376           preceding any principal payment or redemption date, or, in the case of any proposed  
377           redemption of the Bonds, after the mailing of notice of the call of such Bonds for  
378           redemption.

379           SECTION 5. Redemption Provisions; Open Market Purchase of Bonds. The  
380           county may reserve the right to redeem outstanding Bonds of any series prior to their  
381           maturity on the dates and at the prices established by the bond purchase contract or the  
382           official notice of sale therefor, as applicable, and ratified and confirmed by a Sale Motion  
383           in accordance with Section 19 hereof. Portions of the principal amount of any Bond, in

384 increments of \$5,000 or any integral multiple thereof within a single maturity, may be  
385 redeemed.

386           If less than all of the Bonds of a series subject to optional redemption are called  
387 for redemption, the county shall choose the maturities to be redeemed. If less than a  
388 whole of a maturity is called for redemption, the Bonds to be redeemed shall be chosen  
389 randomly by the Bond Registrar or, so long as the Bonds are registered in the name of  
390 DTC or its nominee, selection of Bonds for redemption shall be in accordance with the  
391 Letter of Representations.

392           If less than all of the principal amount of any Bond is redeemed, upon surrender  
393 of that Bond to the Bond Registrar, there shall be issued to the Registered Owner, without  
394 charge therefor, a new Bond (or Bonds, at the option of the Registered Owner) of the  
395 same series, maturity and interest rate in any of the denominations authorized by this  
396 ordinance in the aggregate principal amount remaining unredeemed.

397           The county further reserves the right and option to purchase any or all of the  
398 Bonds in the open market at any time at any price.

399           All Bonds purchased or redeemed under this section shall be canceled.

400           **SECTION 6. Notice and Effect of Redemption.** Written notice of any  
401 redemption of Bonds shall be given by the Bond Registrar on behalf of the county by  
402 first-class mail, postage prepaid, not less than 30 nor more than 60 days prior to the date  
403 fixed for redemption to the Registered Owner of any Bond to be redeemed at the address  
404 appearing on the Bond Register at the time the Bond Registrar prepares the notice. The  
405 Bond Registrar shall provide additional notice of redemption (at least 30 days) to each  
406 NRMSIR and SID, if any, in accordance with the ongoing disclosure provisions to be

407 adopted by the Sale Motion. In addition, the redemption notice shall be mailed within the  
408 same period, postage prepaid, to Moody's Investors Service, Inc., Standard & Poor's and  
409 Fitch Ratings at their offices in New York, New York, or their successors, and to such  
410 other persons and with such additional information as the Finance Director shall  
411 determine, but these additional mailings shall not be a condition precedent to the  
412 redemption of Bonds. Notwithstanding the foregoing, for as long as the Bonds are  
413 registered in the name of DTC or its nominee, notice of redemption shall be given in  
414 accordance with the Letter of Representations.

415           The requirements of this section shall be deemed to have been fulfilled when  
416 notice has been mailed as so provided, whether or not it is actually received by the owner  
417 of any Bond.

418           Each notice of redemption shall contain the following information: (1) the  
419 redemption date, (2) the redemption price, (3) if less than all outstanding Bonds of the  
420 same series are to be redeemed, the identification (and, in the case of partial redemption,  
421 the principal amounts) of the Bonds to be redeemed, (4) that on the redemption date the  
422 redemption price will become due and payable upon each Bond or portion called for  
423 redemption, and that interest shall cease to accrue from the redemption date, (5) that the  
424 Bonds are to be surrendered for payment at the principal office of the Bond Registrar, (6)  
425 the CUSIP numbers of all Bonds being redeemed, (7) the dated date of the Bonds, (8) the  
426 rate of interest for each Bond being redeemed, (9) the date of the notice, and (10) any  
427 other information needed to identify the Bonds being redeemed.

428 Interest on Bonds called for redemption shall cease to accrue on the date fixed for  
429 redemption unless the Bond or Bonds called are not redeemed when presented pursuant  
430 to the call.

431 **SECTION 7. Failure To Redeem Bonds.** If any Bond is not redeemed when  
432 properly presented at its maturity or call date, the county shall be obligated to pay interest  
433 on that Bond at the same rate provided in the Bond from and after its maturity or call date  
434 until that Bond, both principal and interest, is paid in full or until sufficient money for its  
435 payment in full is on deposit in the Bond Fund and the Bond has been called for payment  
436 by giving notice of that call to the Registered Owner of each of those unpaid Bonds.

437 **SECTION 8. Form and Execution of Bonds.** The Bonds shall be printed or  
438 lithographed on good bond paper in a form consistent with the provisions of this  
439 ordinance and state law and shall be signed by the county executive and the clerk of the  
440 council, either or both of whose signatures may be manual or in facsimile, and the seal of  
441 the county or a facsimile reproduction thereof shall be impressed or printed thereon.

442 Only Bonds bearing a Certificate of Authentication in the following form,  
443 manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or  
444 entitled to the benefits of this ordinance:

445 CERTIFICATE OF AUTHENTICATION

446 This Bond is one of the fully registered King County, Washington,  
447 Limited Tax General Obligation (Public Transportation Sales Tax)  
448 Refunding Bonds, [appropriate year and series designation], described in  
449 the Bond Ordinance.

450 WASHINGTON STATE FISCAL AGENT

451 Bond Registrar

452

453 By \_\_\_\_\_

454 Authorized Signer

455 The authorized signing of a Certificate of Authentication shall be conclusive evidence  
456 that the Bond so authenticated has been duly executed, authenticated and delivered and is  
457 entitled to the benefits of this ordinance.

458 If any officer whose facsimile signature appears on the Bonds ceases to be an  
459 officer of the county authorized to sign bonds before the Bonds bearing his or her  
460 facsimile signature are authenticated or delivered by the Bond Registrar or issued by the  
461 county, those Bonds nevertheless may be authenticated, issued and delivered and, when  
462 authenticated, issued and delivered, shall be as binding on the county as though that  
463 person had continued to be an officer of the county authorized to sign bonds. Any Bond  
464 also may be signed on behalf of the county by any person who, on the actual date of  
465 signing of the Bond, is an officer of the county authorized to sign bonds, although he or  
466 she did not hold the required office on the date of issuance of the Bonds.

467 **SECTION 9. Mutilated, Lost or Destroyed Bonds.** If any Bond shall become  
468 mutilated, the Bond Registrar shall authenticate and deliver a new Bond of like amount,  
469 date, series, interest rate and tenor in exchange and substitution for the Bond so  
470 mutilated, upon the owner's paying the expenses and charges of the county and the Bond  
471 Registrar in connection therewith and upon surrender to the Bond Registrar of the Bond  
472 so mutilated. Every mutilated Bond so surrendered shall be canceled and destroyed by  
473 the Bond Registrar.



474 In case the Bonds or any of them shall be lost, stolen or destroyed, the Bond  
475 Registrar may authenticate and deliver a new Bond or Bonds of like amount, date, series,  
476 interest rate and tenor to the Registered Owner thereof upon the owner's paying the  
477 expenses and charges of the county and the Bond Registrar in connection therewith and  
478 upon his/her filing with the Bond Registrar evidence satisfactory to the Bond Registrar  
479 that such Bond or Bonds were actually lost, stolen or destroyed and of his/her ownership  
480 thereof, and upon furnishing the county and the Bond Registrar with indemnity  
481 satisfactory to the Finance Director and the Bond Registrar.

482 **SECTION 10. Bond Fund.**

483 A. Bond Fund and Accounts Therein. The Bond Fund has heretofore been  
484 created as a special fund of the county known as the "Limited Tax General Obligation  
485 (Public Transportation Sales Tax) Bond Redemption Fund," consisting of three accounts:  
486 the Interest Account, the Serial Bond Principal Account and the Term Bond Principal  
487 Account. The Bond Fund shall at all times be completely segregated and set apart from  
488 all other funds and accounts of the County and shall be a trust fund for the security and  
489 payment of the principal of and interest and any premium on the Parity Bonds that are  
490 also limited tax general obligations of the county (as used in this section, "General and  
491 Parity Bonds). Except as provided in subsection D of this Section 10, all money credited  
492 to the Bond Fund is pledged and ordered to be used for the sole purpose of paying the  
493 principal of and interest and any premium on the Bonds and other Parity Bonds.

494 B. Two-Tenths Sales Tax Revenues. On the same business day that any Two-  
495 tenths Sale Tax Revenues are received by the county and deposited into the Receiving

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496 Fund, in accordance with Section 11.B hereof, the Finance Director shall cause the  
497 following amounts to be deposited into accounts within the Bond Fund, as follows:

498 (i) Interest Account. To the extent available in the Receiving Fund, there shall  
499 be deposited into the Interest Account an amount that, together with assessment income  
500 and other money available in the Interest Account, equals the total amount of interest due  
501 and payable on the Parity Bonds in the next succeeding six calendar months.

502 (ii) Serial Bond Principal Account. To the extent available in the Receiving  
503 Fund, there shall be deposited into the Serial Bond Principal Account an amount that,  
504 together with Assessment Income and other money available in the Serial Bond Principal  
505 Account, equals the total amount of principal due and payable on the Parity Bonds in the  
506 next succeeding twelve calendar months.

507 (iii) Term Bond Principal Account. To the extent available in the Receiving  
508 Fund, there shall be deposited into the Term Bond Principal Account an amount that,  
509 together with Assessment Income and other money available in the Term Bond Principal  
510 Account, equals the total amount necessary to make any payments required in the next  
511 succeeding twelve calendar months to retire by purchase or by redemption any Parity  
512 Bonds that are Term Bonds.

513 C. Payments to the Bond Registrar; Investments. Money on deposit in the Bond  
514 Fund shall be transmitted to the Bond Registrar at such times and in such amounts as  
515 shall be necessary to pay when due the principal of and interest and premium, if any, on  
516 any Parity Bonds. Money in the Bond Fund shall be invested in any legal investments of  
517 the county maturing in such amounts and at such times as the Finance Director may

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518 determine so that payments required to be made from the Bond Fund may be made when  
519 due.

520 D. Using Bond Fund Money to Pay Rebate. Notwithstanding any provisions of  
521 this ordinance regarding the use of money deposited in the Bond Fund, such money may  
522 be withdrawn from the Bond Fund as necessary to pay the Rebate Amount.

523 **SECTION 11. Pledge of Sales Tax Revenues.**

524 A. Pledge of Two-Tenths Sales Tax Revenues. All of the Sales Tax Revenues  
525 are hereby irrevocably pledged to the punctual payment of the principal of, premium, if  
526 any, and interest on the Bonds. Such pledge shall constitute a lien on the Two-tenths  
527 Sales Tax Revenues equal to the lien on the Two-tenths Sales Tax Revenues to pay and  
528 secure the payment of the Outstanding Parity Bonds and any Future Parity Bonds, and  
529 superior to all other liens and charges on such revenues whatsoever. The county hereby  
530 covenants that for as long as any of the Bonds are outstanding it will include in its budget  
531 and levy the Public Transportation Sales Tax in an amount that will be sufficient,  
532 together with all other funds legally available for such purpose, to pay the principal of,  
533 premium, if any, and interest on the Bonds as the same shall become due. All of such  
534 taxes so collected shall be paid into the Bond Fund no later than the date such funds are  
535 required for the payment of principal of and interest on the Bonds. The full faith, credit  
536 and resources of the county are hereby irrevocably pledged for the levy and collection of  
537 the Public Transportation Sales Tax and for the prompt payment of the principal of,  
538 premium, if any, and interest on the Bonds as the same shall become due.

539 B. Receiving Fund. The Receiving Fund has heretofore been created as a special  
540 fund of the county. Upon receipt of the Sales Tax Revenues, the Finance Director shall

541 cause the Two-tenths Sales Tax Revenues to be deposited into the Receiving Fund to be  
542 applied as provided in Section 10.B of this ordinance. In accordance with Ordinance No.  
543 11661 of the county, passed on January 23, 1995, any Two-tenths Sales Tax Revenues  
544 remaining in the Receiving Fund after making the payments required by Section 10.B of  
545 this ordinance shall be transferred on the same business day, as follows: (x) an amount  
546 equal to the 25% of the Two-tenths Sales Tax Revenues to the Public Transportation  
547 Operating Account to be used for operations and the payment of the Parity Bonds; and  
548 (y) the remainder thereof to the Public Transportation Construction Accounts to be used  
549 only for capital purposes, including the payment of Parity Bonds.

550       **SECTION 12. Pledge of General Taxation and Credit.** The county hereby  
551 further irrevocably covenants and agrees for as long as any of the Bonds are outstanding  
552 and unpaid, that each year it will include in its budget and levy an ad valorem tax upon  
553 all the property within the county subject to taxation in an amount that will be sufficient,  
554 together with all other revenues and money of the county legally available for such  
555 purposes (including the Sales Tax Revenues), to pay the principal of and interest on the  
556 Bonds and any other Parity Bonds as the same shall become due. All of such taxes so  
557 collected and any other money to be used for such purposes shall be paid into the Bond  
558 Fund no later than the date such funds are required for the payment of principal of,  
559 premium, if any, and interest on the Parity Bonds.

560       The county hereby irrevocably pledges that the annual tax provided for herein to  
561 be levied for the payment of such principal and interest shall be within and as a part of  
562 the tax levy permitted to counties without a vote of the people, and that a sufficient  
563 portion of each annual levy to be levied and collected by the county prior to the full

564 payment of the principal of, premium, if any, and interest on the Bonds and any other  
565 Parity Bonds will be and is hereby irrevocably set aside, pledged and appropriated for the  
566 payment of the principal of, premium, if any, and interest on the Bonds and any other  
567 Parity Bonds.

568           The full faith, credit and resources of the county are hereby irrevocably pledged  
569 for the annual levy and collection of such taxes and for the prompt payment of the  
570 principal of, premium, if any, and interest on the Bonds and any other Parity Bonds as the  
571 same shall become due.

572           SECTION 13. Pledge of Assessment Income. The county hereby obligates and  
573 binds itself to set aside and pay any Assessment Income into the Bond Fund for payment  
574 of the principal of, premium, if any, and interest on the Parity Bonds without allocation to  
575 any particular series of bonds payable from the Bond Fund. Assessment Income, if any,  
576 shall be deposited into the various accounts within the Bond Fund, as received, according  
577 to the order of priority set forth in Section 10.B of this ordinance.

578           SECTION 14. Covenants and Warranties. The county makes the following  
579 covenants and warranties:

580           A. The county has full legal right power and authority to adopt this ordinance, to  
581 sell, issue and deliver the Bonds as provided herein, and to carry out and consummate all  
582 other transactions contemplated by this ordinance.

583           B. By all necessary official action prior to or concurrently herewith, the county  
584 has duly authorized and approved the execution and delivery of, and the performance by  
585 the county of its obligations contained in, the Bonds and in this ordinance and the  
586 consummation by it of all other transactions necessary to effectuate this ordinance in

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587 connection with the issuance of the Bonds, and such authorizations and approvals are in  
588 full force and effect and have not been amended, modified or supplemented in material  
589 respect.

590 C. This ordinance constitutes a legal, valid and binding obligation of the county.

591 D. The Bonds, when issued, sold, authenticated and delivered will constitute the  
592 legal, valid and binding general obligations of the county.

593 E. The adoption of this ordinance, and compliance on the county's part with the  
594 provisions contained herein, will not conflict with or constitute a breach of or default  
595 under any constitutional provisions, law, administrative regulation, judgment, decree,  
596 loan agreement, indenture, bond, note, resolution, ordinance, motion, agreement or other  
597 instrument to which the county is a party or to which the county or any of its property or  
598 assets are otherwise subject, nor will any such adoption, execution, delivery, sale,  
599 issuance or compliance result in the creation or imposition of any lien, charge or other  
600 security interest or encumbrance of any nature whatsoever upon any of the property or  
601 assets of the county or under the terms of any such law, regulation or instrument, except  
602 as may be provided by the Bonds and this ordinance.

603 F. The county finds and covenants that the Bonds are issued within all statutory  
604 and constitutional debt limitations applicable to the county.

605 G. None of the proceeds of the Bonds will be used for any purpose other than as  
606 provided in this ordinance, and the county shall not suffer any amendment or supplement  
607 to this ordinance, or any departure from the due performance of the obligations of the  
608 county hereunder, which might materially adversely affect the rights of the owners from  
609 time to time of the Bonds.

610           **SECTION 15. Preservation of Tax Exemption for Interest on Bonds.** The  
611 county covenants that it will take all actions necessary to prevent interest on the Bonds  
612 from being included in gross income for federal income tax purposes, and it will neither  
613 take any action nor make or permit any use of proceeds of the Bonds or other funds of the  
614 county treated as proceeds of the Bonds at any time during the term of the Bonds which  
615 will cause interest on the Bonds to be included in gross income for federal income tax  
616 purposes. The county also covenants that it will, to the extent the arbitrage rebate  
617 requirement of Section 148 of the Code is applicable to the Bonds, take all actions  
618 necessary to comply (or to be treated as having complied) with that requirement in  
619 connection with the Bonds, including the calculation and payment of any penalties that  
620 the county has elected to pay as an alternative to calculating rebatable arbitrage, and the  
621 payment of any other penalties if required under Section 148 of the Code to prevent  
622 interest on the Bonds from being included in gross income for federal income tax  
623 purposes.

624           **SECTION 16. Application of Proceeds of Bonds.** There is hereby authorized to  
625 be created a special account of the county for each series of the Bonds to be maintained  
626 with a corporate trustee chosen by the Finance Director (hereinafter called the "Escrow  
627 Trustee"), each of which will be known as a "King County Limited Tax General  
628 Obligation Refunding Bond Refunding Account," with the same year and series  
629 designation as that corresponding to the related series of the Bonds (each hereinafter  
630 called a "Refunding Account").

631           The net principal proceeds from the sale of each series of the Bonds shall be  
632 credited to the related Refunding Account.

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633 Money in each Refunding Account shall be used immediately upon receipt  
634 thereof to provide for the payment of the principal of and redemption premium, if any,  
635 and interest on the Refunded Bonds to be refunded by the related series of the Bonds as  
636 hereinafter set forth in this section, to pay costs related to the refunding of such Refunded  
637 Bonds, and to pay costs of issuing the related series of the Bonds. The county shall  
638 discharge such obligations by the use of money in the each Refunding Account for each  
639 series of the Bonds to purchase certain noncallable Government Obligations, as identified  
640 or ratified in the Sale Motion therefor, bearing such interest and maturing as to principal  
641 and interest in such amounts and at such times which, together with any necessary initial  
642 cash balance, will provide for the payment of the principal, if any, of and the interest on  
643 the specified Refunded 1998A Bonds that will become due and payable on or before their  
644 respective Refunded 1998A Bond Redemption Date(s) and the redemption price of such  
645 Refunded 1998A Bonds payable on their respective Refunded 1998A Bond Redemption  
646 Date(s) and the payment of the principal, if any, of and the interest on the specified  
647 Refunded 2004 Bonds that will become due and payable on or before their respective  
648 Refunded 2004 Bond Redemption Date(s) and the redemption price of such Refunded  
649 2004 Bonds payable on their respective Refunded 2004 Bond Redemption Date(s)  
650 (collectively, the "Refunded Bond Payments"). Such Government Obligations shall be  
651 purchased at a yield not greater than the yield permitted by the Code and applicable  
652 regulations thereunder relating to acquired obligations in connection with refunding bond  
653 issues.

654 Such Government Obligations and any necessary initial cash balance shall be  
655 irrevocably deposited with the Escrow Trustee. Any Refunded Bond Payments that are



656 not provided for in full by such initial cash balance and the purchase and deposit of  
657 Government Obligations described in this section shall be provided for by the irrevocable  
658 deposit of the necessary amount out of the proceeds of sale of the related series of the  
659 Bonds or any other monies of the county legally available therefor with the Escrow  
660 Trustee. Any proceeds of a series of the Bonds remaining in the related Refunding  
661 Account after acquisition of the Government Obligations and provision for the necessary  
662 initial cash balance may be utilized to pay expenses of the acquisition and safekeeping of  
663 the Government Obligations and expenses of the issuance of such series of the Bonds.

664 The county reserves the right to substitute other noncallable securities for the  
665 Government Obligations in the event it may do so pursuant to Section 148 of the Code,  
666 and applicable regulations thereunder, upon compliance with the following conditions:

667 (i) such substitution is accomplished pursuant to a motion of the county council, which  
668 may be adopted either prior to or subsequent to the delivery of any series of Bonds; (ii)  
669 the securities to be substituted are noncallable Government Obligations; and (iii) such  
670 securities bear such interest and mature at such times and in such amounts as to fully  
671 replace the Government Obligations for which they are substituted, and to provide,  
672 together with Government Obligations and cash remaining, for the payment of the  
673 Refunded Bond Payments.

674 The county shall irrevocably set aside sufficient funds out of the proceeds of the  
675 Government Obligations purchased from proceeds of each series of the Bonds, together  
676 with any necessary initial cash balance, to pay the related Refunded Bond Payments.

677 The county hereby conditionally calls the Refunded 1998A Bonds for redemption  
678 on the Refunded 1998A Bond Redemption Date(s) and the Refunded 2004 Bonds for

679 redemption on the Refunded 2004 Bond Redemption Date(s) in accordance with Sections  
680 5 and 6 of Ordinance No. 13128 and Sections 5 and 6 of Ordinance No. 14887  
681 authorizing redemption and retirement of the 1998A Bonds and the 2004 Bonds prior to  
682 their fixed maturities. Such conditional call for redemption of any such Refunded Bonds  
683 to be refunded by each series of the Bonds shall become irrevocable only after the final  
684 establishment of the escrow account therefor and delivery of the Government Obligations  
685 to the Escrow Trustee, except as provided herein for the substitution of securities.

686           The Escrow Trustee is hereby authorized and directed to provide for the giving of  
687 notice of the redemption of the Refunded Bonds in accordance with Ordinance No. 13128  
688 and Ordinance No. 14887. The Finance Director is authorized and requested to provide  
689 whatever assistance is necessary to accomplish such redemption and the giving of notice  
690 therefor. The costs of publication of such notice shall be an expense of the county.

691           The Escrow Trustee is hereby authorized and directed to pay to the county, or, at  
692 the direction of the Finance Director, to the fiscal agent of the State of Washington, sums  
693 sufficient to pay, when due, the Refunded Bond Payments. All such sums shall be paid  
694 from the Government Obligations deposited with the Escrow Trustee pursuant to this  
695 section of this ordinance, and the income therefrom and proceeds thereof. All such sums  
696 so paid shall be credited to the applicable Refunding Account. All monies and  
697 Government Obligations deposited with the Escrow Trustee and any income therefrom  
698 shall be held, invested and applied in accordance with the provisions of this ordinance  
699 and with the laws of the State of Washington for the benefit of the county and holders of  
700 the related Refunded Bonds.

701           The county will take such actions as are found necessary to see that all necessary  
702           and proper fees, compensation and expenses of the Escrow Trustee for refunding the  
703           Refunded Bonds shall be paid when due.

704           The proper officers and agents of the county are directed to obtain from the  
705           Escrow Trustee an agreement setting forth the duties, obligations and responsibilities of  
706           the Escrow Trustee in connection with the redemption and retirement of the Refunded  
707           Bonds as provided herein and stating that such provisions for the payment of the fees,  
708           compensation and expenses of such Escrow Trustee are satisfactory to it. In order to  
709           carry out the purposes of this section, the Finance Director is authorized and directed to  
710           execute and deliver to the Escrow Trustee, a copy of such agreement when the provisions  
711           thereof have been fixed and determined.

712           SECTION 17. Application of Bond Proceeds--General. The exact amounts of  
713           net proceeds derived from the sale of each series of the Bonds to be deposited in  
714           accordance with Section 16 hereof shall be determined by the Finance Director upon the  
715           sale thereof.

716           Funds deposited in the funds and accounts established in Section 16 hereof shall  
717           be invested as permitted by law for the sole benefit of the respective funds. Irrespective  
718           of the general provisions of Ordinance No. 7112 and K.C. 4.10, the county current  
719           expense fund shall not receive any earnings attributable to such funds. Money other than  
720           proceeds of the Bonds may be deposited in the funds and accounts established under  
721           Section 16, provided, however, that proceeds of the Tax-Exempt Bonds and earnings  
722           thereon shall be accounted for separately for purposes of the rebate computations

723 required to be made pursuant to Section 15 hereof. For purposes of such computations,  
724 Tax-Exempt Bond proceeds shall be deemed to have been expended first.

725 **SECTION 18. Future Parity Bonds.**

726 A. No Additional Sales Tax Bonds. The county previously covenanted and  
727 agreed that it will issue no additional Sales Tax Bonds under the Master Resolution and  
728 will issue no others bonds or obligations with a lien upon the Two-tenths Sales Tax  
729 Revenues superior to the lien thereon of the Parity Bonds.

730 B. Future Parity Bonds (other than Refunding Bonds). The county expressly  
731 reserves the right to issue Future Parity Bonds for any lawful purpose of the county  
732 related to the System if at the time of issuing such Future Parity Bonds:

733 (i) There shall be no deficiency in the Bond Fund.

734 (ii) There shall be on file with the clerk of the council a certificate of the  
735 Finance Director stating that the amount of Two-tenths Sales Tax Revenues received for  
736 any period of twelve consecutive months during the eighteen months preceding the  
737 Closing date for such Future Parity Bonds was at least equal to 1.5 times the maximum  
738 amount required in each calendar year that such Future Parity Bonds would be  
739 outstanding to pay:

740 (a) The principal of the Future Parity Bonds being issued and all other  
741 outstanding Parity Bonds (other than amortization of principal of Term Bonds).

742 (b) The interest on the Future Parity Bonds being issued and on all other  
743 outstanding Parity Bonds, exclusive of any interest that will be payable from the proceeds  
744 of the Future Parity Bonds to be issued.

745 (c) The amounts required to be paid into any fund or account to amortize the  
746 principal of any of the Future Parity Bonds that are Term Bonds and all other outstanding  
747 Parity Bonds that are Term Bonds.

748 C. Future Parity Bonds that are Refunding Bonds.

749 (i) For the purpose of refunding at or prior to their maturity any outstanding  
750 Parity Bonds or any bonds or other obligations of the county payable from the Two-  
751 tenths Sales Tax Revenues, the county may at any time issue Future Parity Bonds without  
752 complying with the provisions of Section 18.B hereof; provided, however, that the county  
753 shall not issue Future Parity Bonds for such purpose under this Section 18.C unless there  
754 shall have been filed with the clerk of the council a certificate of the Finance Director  
755 stating that immediately after the issuance of such Future Parity Bonds the annual debt  
756 service for each year that any Parity Bonds (other than the refunding bonds proposed to  
757 be issued) are then outstanding shall not be increased by more than \$5,000 by reason of  
758 the issuance of such Future Parity Bonds.

759 (ii) The principal amount of such Future Parity Bonds may include amounts  
760 necessary to pay the principal of the bonds or other obligations to be refunded, interest  
761 thereon to the date of payment or redemption thereof, any premium payable thereon upon  
762 such payment or redemption and the costs of issuance of such Future Parity Bonds. The  
763 proceeds of such Future Parity Bonds shall be held and applied in such manner,  
764 consistent with the provisions of Section 25 hereof, as is provided in the ordinance  
765 providing for the issuance of such Future Parity Bonds, so that upon the delivery of such  
766 Future Parity Bonds, the bonds or other obligations to be refunded thereby shall be  
767 deemed to be no longer outstanding.

768 (iii) At the election of the county, the provisions of this Section 18.C shall not  
769 be applicable to the refunding at one time of all the Parity Bonds then outstanding.

770 (iv) Future Parity Bonds for the purpose of refunding outstanding Parity Bonds  
771 or bonds or other obligations of the county payable from Two-tenths Sales Tax Revenues  
772 may also be issued upon compliance with the provisions of Section 18.B hereof.

773 (v) Nothing contained in this ordinance shall prohibit or prevent, or be deemed  
774 or construed to prohibit or prevent, the county from issuing Future Parity Bonds to refund  
775 maturing Parity Bonds for the payment of which money is not otherwise available.

776 D. Subordinate Obligations. Nothing in this ordinance shall prohibit, or be  
777 deemed or construed to prohibit, the county from authorizing and issuing bonds, notes or  
778 other evidences of indebtedness for any purpose of the county related to the System  
779 payable in whole or in part from Sales Tax Revenues and secured by a lien on Two-tenths  
780 Sales Tax Revenues that is junior, subordinate and inferior to the lien thereon of the  
781 Outstanding Parity Bonds and the Bonds.

782 **SECTION 19. Sale of Bonds.**

783 A. Determination by Finance Director. The Finance Director shall determine, in  
784 consultation with the county's financial advisors, whether the Bonds shall be sold by  
785 negotiated sale or by competitive bid. The authority to issue any of the Bonds authorized  
786 hereunder shall terminate two years from the effective date of this ordinance.

787 B. Procedure for Negotiated Sale. If the Finance Director determines that the any  
788 series of the Bonds shall be sold by negotiated sale, the Finance Director shall, in  
789 accordance with applicable county procurement procedures, solicit one or more  
790 underwriting firms with which to negotiate the sale of those Bonds. The purchase

**Ordinance**

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791 contract for each series of the Bonds shall establish the year and series designation, date,  
792 principal amount, interest payment dates, interest rates, maturity schedule and redemption  
793 provisions of such series of Bonds, so long as the aggregate principal amount of the  
794 Bonds to be outstanding following the issuance of such series of Bonds does not exceed  
795 \$103,000,000. The county council, by Sale Motion, shall ratify and approve the bond  
796 purchase contract, ratify the identification of the Refunded Bonds to be refunded by such  
797 series of Bonds, their respective redemption dates and the Government obligations to be  
798 purchased to undertake such refunding, and ratify the terms of the series of Bonds  
799 established thereby.

800 C. Procedure for Sale by Competitive Bid. If the Finance Director determines  
801 that any series of the Bonds shall be sold by competitive bid, bids for the purchase of  
802 each series of the Bonds shall be received at such time or place and by such means as the  
803 Finance Director shall direct. The Finance Director is authorized to prepare an official  
804 notice of bond sale for each series of the Bonds to be sold pursuant to competitive bid,  
805 establishing in such notice the year and series designation, date, principal amount,  
806 interest payment dates, maturity schedule and redemption provisions of such Bonds, so  
807 long as the aggregate principal amount of the Bonds to be outstanding following the  
808 issuance of such series of Bonds does not exceed \$103,000,000. The official notice of  
809 bond sale or an abridged form thereof shall be published in such newspapers or financial  
810 journals as may be deemed desirable or appropriate by the financial advisors to the  
811 county.

812 Upon the date and time established for the receipt of bids for series of the Bonds,  
813 the Finance Director or his designee shall open the bids, shall cause the bids to be

814 mathematically verified and shall report to the county council regarding the bids  
815 received. Such bids shall then be considered and acted upon by the county council in an  
816 open public meeting. The county council reserves the right to reject any and all bids for  
817 any series of the Bonds. The county council, by the Sale Motion, shall identify the  
818 Refunded Bonds to be refunded by such series of Bonds, their respective redemption  
819 dates and the Government obligations to be purchased to undertake such refunding, and  
820 ratify the year and series designation, date principal amounts and maturity dates, interest  
821 rates and interest payment dates, redemption provisions and delivery date for such series  
822 of the Bonds, and accept the bid for the purchase of such series of Bonds.

823        **SECTION 20. Delivery of Bonds.** Following the sale of each series of the  
824 Bonds, the county shall cause definitive Bonds of such series to be prepared, executed  
825 and delivered to the purchaser thereof in accordance with the provisions of this  
826 ordinance, with the approving legal opinion of municipal bond counsel regarding the  
827 Bonds.

828        If definitive Bonds of any series are not ready for delivery by the date established  
829 for their delivery to the initial purchaser, then the Finance Director, upon the approval of  
830 the purchaser, may cause to be issued and delivered to the purchaser one or more  
831 temporary Bonds of the same series with appropriate omissions, changes and additions.  
832 Any temporary Bond or Bonds shall be entitled and subject to the same benefits and  
833 provisions of this ordinance with respect to the payment, security and obligation thereof a  
834 definitive Bonds authorized thereby. Such temporary Bond or Bonds shall be  
835 exchangeable without cost to the owners thereof for definitive Bonds of the same series  
836 when the latter are ready for delivery.



837            **SECTION 21. Preliminary Official Statement Declaration.** The county  
838 authorizes and directs the Finance Director: (i) to review and approve the information  
839 contained in the preliminary official statement (the "Preliminary Official Statement")  
840 prepared in connection with the sale of each series of the Bonds; and (ii) for the sole  
841 purpose of the Bond purchasers' compliance with Section (b)(1) of the Rule, to "deem  
842 final" that Preliminary Official Statement as of its date, except for the omission of  
843 information on offering prices, interest rates, selling compensation, delivery dates, any  
844 other terms or provisions subject to final pricing, ratings, and other terms of the Bonds  
845 dependent on such matters and the identity of the Bond purchasers. After each  
846 Preliminary Official Statement has been reviewed and approved in accordance with the  
847 provisions of this section, the county hereby authorizes distribution of such Preliminary  
848 Official Statement to prospective purchasers of such series of Bonds.

849            **SECTION 22. Approval of Official Statement.** Following the sale of each  
850 series of the Bonds in accordance with Section 19 of this ordinance, the Finance Director  
851 is hereby authorized to review and approve on behalf of the county a final official  
852 statement with respect to such series of Bonds. The county agrees to cooperate with the  
853 purchaser of each series of Bonds to deliver or cause to be delivered, within seven  
854 business days from the date of the Sale Motion (or within such other period as may be  
855 required by applicable law) and in sufficient time to accompany any confirmation that  
856 requests payment from any customer of the purchaser, copies of the final official  
857 statement pertaining to such Bonds in sufficient quantity to comply with paragraph (b)(4)  
858 of the Rule and the rules of the MSRB.

859            **SECTION 23. Undertaking to Provide Ongoing Disclosure.** In the Sale  
860 Motion, the county council will set forth an undertaking for ongoing disclosure with  
861 respect to the Bonds, as required by Section (b)(5) of the Rule.

862            **SECTION 24. General Authorization.** The appropriate county officials, agents  
863 and representatives are hereby authorized and directed to do everything necessary for the  
864 prompt sale, issuance, execution and delivery of the Bonds, and for the proper use and  
865 application of the proceeds of the sale thereof.

866            **SECTION 25. Refunding or Defeasance of the Bonds.** The county may issue  
867 refunding bonds pursuant to the laws of the State of Washington or use money available  
868 from any other lawful source to pay when due the principal of and interest on the Bonds,  
869 or any portion thereof included in a refunding or defeasance plan, and to redeem and  
870 retire, refund or defease all such then-outstanding Bonds (hereinafter collectively called  
871 the "defeased Bonds") and to pay the costs of the refunding or defeasance. If money  
872 and/or Government Obligations maturing at a time or times and bearing interest in  
873 amounts (together with money, if necessary) sufficient to redeem and retire, refund or  
874 defease the defeased Bonds in accordance with their terms are set aside in a special trust  
875 fund or escrow account irrevocably pledged to that redemption, retirement or defeasance  
876 of defeased Bonds (hereinafter called the "trust account"), then all right and interest of the  
877 owners of the defeased Bonds in the covenants of this ordinance and in the funds and  
878 accounts obligated to the payment of the defeased Bonds shall cease and become void.  
879 The owners of defeased Bonds shall have the right to receive payment of the principal of  
880 and interest on the defeased Bonds from the trust account. The county shall include in  
881 the refunding or defeasance plan such provisions as the county deems necessary for the

**Ordinance**

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882 random selection of any defeased Bonds that constitute less than all of a particular  
883 maturity of the Bonds, for notice of the defeasance to be given to the owners of the  
884 defeased Bonds and to such other persons as the county shall determine, and for any  
885 required replacement of Bond certificates for defeased Bonds. The defeased Bonds shall  
886 be deemed no longer outstanding, and the county may apply any money in any other fund  
887 or account established for the payment or redemption of the defeased Bonds to any lawful  
888 purposes as it shall determine.

889 If the Bonds are registered in the name of DTC or its nominee, notice of any  
890 defeasance of Bonds shall be given to DTC in the manner prescribed in the Letter of  
891 Representations for notices of redemption of Bonds.

892 **SECTION 26. Supplemental Ordinances.** The county council from time to  
893 time and at any time may adopt an ordinance or ordinances supplemental to this  
894 ordinance which supplemental ordinance or ordinances thereafter shall become a part of  
895 this ordinance, for any one or more of the following purposes:

896 A. To add to the covenants and agreements of the county in this ordinance such  
897 other covenants and agreements thereafter to be observed, which shall not adversely  
898 affect the interests of the holders and owners of any Parity Bonds, or to surrender any  
899 right or power herein reserved to or conferred upon the county.

900 B. To make such provisions for the purpose of curing any ambiguities or of  
901 curing, correcting or supplementing any defective provision contained in this ordinance  
902 or any ordinance authorizing Future Parity Bonds in regard to matters or questions arising  
903 under such ordinances as the county council may deem necessary or desirable and not

904 inconsistent with such ordinances and which shall not materially adversely affect the  
905 interest of the holders and owners of Parity Bonds.

906        **SECTION 27. Contract; Severability.** The covenants contained in this  
907 ordinance shall constitute a contract between the county and the owners of each and  
908 every Bond. If any one or more of the covenants or agreements provided in this  
909 ordinance to be performed on the part of the county are deemed by any court of  
910 competent jurisdiction to be contrary to law, then such covenant or covenants, agreement  
911 or agreements, shall be null and void and shall be deemed separable from the remaining  
912 covenants and agreements of this ordinance and shall in no way affect the validity of the  
913 other provisions of this ordinance or of the Bonds.

914        **SECTION 28. Complete Alternative.** This ordinance shall be deemed to  
915 provide a complete, additional and alternative method for the performance of those  
916 subjects authorized hereby and shall be regarded as supplemental and additional to  
917 powers conferred by other county ordinances. Whenever Bonds are issued and sold in  
918 conformance with this ordinance, such issuance and sale need not comply with contrary  
919

**Ordinance**

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920 requirements of any other county ordinance applicable to the issuance and sale of bonds  
921 or other obligations.  
922

KING COUNTY COUNCIL  
KING COUNTY, WASHINGTON

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ATTEST:

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APPROVED this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

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**Attachments**      None



KING COUNTY  
Signature Report

1200 King County Courthouse  
516 Third Avenue  
Seattle, WA 98104

August 26, 2008

Motion

Proposed No. 2008-0411.1

Sponsors Ferguson

1 A MOTION accepting a bid for the purchase of the  
 2 county's Limited Tax General Obligation (Public  
 3 Transportation Sales Tax) Refunding Bonds, 2008, in the  
 4 aggregate principal amount of \$\_\_\_\_\_, and  
 5 establishing certain terms of such bonds, all in accordance  
 6 with Ordinance \_\_\_\_\_.

7  
 8 WHEREAS, the county council by Ordinance \_\_\_\_\_ passed \_\_\_\_\_, 2008  
 9 (the "Bond Ordinance"), authorized the issuance and sale of limited tax general obligation  
 10 (public transportation sales tax) refunding bonds (the "Bonds") of the county in the  
 11 aggregate principal amount of not to exceed \$103,000,000 to currently refund all or a  
 12 portion of the county's outstanding Limited Tax General Obligation (Public  
 13 Transportation Sales Tax) Refunding Bonds, 1998, Series A, and to advance refund all or  
 14 a portion of the county's outstanding Limited Tax General Obligation (Public  
 15 Transportation Sales Tax) Bonds, 2004, all consistent with the ordinances authorizing  
 16 those bonds, Ordinance 13128 and Ordinance 14490 (collectively, the "Refunded Bonds  
 17 Ordinances"), and

**Motion**

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18 WHEREAS, the Bond Ordinance provided that the Bonds be sold as determined  
19 by the county's director of finance and business operations (the "Finance Director") in  
20 consultation with the county's financial advisors, and

21 WHEREAS, the Finance Director has determined that the Bonds be sold [by  
22 competitive bid] [by negotiated sale], and

23 WHEREAS, pursuant to the Bond Ordinance, [the Finance Director has  
24 negotiated the sale of the Bonds to \_\_\_\_\_ (the "Underwriter"), and] a preliminary  
25 official statement dated \_\_\_\_\_, 2008 (the "Preliminary Official Statement"), has  
26 been prepared for the [public] sale of the Bonds[, the official notice of such sale (the  
27 "Notice of Sale") has been duly published, and bids have been received in accordance  
28 with the Notice of Sale], and

29 [WHEREAS, after the Finance Director's review and analysis of the bids  
30 received, the council, deems it necessary and desirable to authorize the sale of the Bonds  
31 in the principal amount of \$ \_\_\_\_\_ to \_\_\_\_\_, of \_\_\_\_\_ (the  
32 "Underwriter"), as the bidder offering the lowest true interest cost therefor;], and

33 WHEREAS it is in the best interest of the county that the Bonds be sold to the  
34 Underwriter on the terms set forth in [the bond purchase agreement, ] the Bond  
35 Ordinance and this motion;

36 NOW, THEREFORE, BE IT MOVED by the Council of King County:

37 A. Definitions. Except as expressly authorized herein, capitalized terms used in  
38 this motion have the meanings set forth in the Bond Ordinance.

39 B. Approval of [Winning Bid] [Bond Purchase Agreement] and Authorization of  
40 Bonds. The issuance of the Bonds, designated as the county's Limited Tax General

**Motion**

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41 Obligation (Public Transportation Sales Tax) Refunding Bonds, 2008, in the aggregate  
42 principal amount of \$\_\_\_\_\_ and the terms and conditions [set forth in the Official  
43 Notice of Bond Sale (the "Notice"), attached hereto as Exhibit \_\_\_\_,] [thereof as set forth  
44 in the Bond Purchase Agreement attached hereto as Exhibit \_\_\_\_ (the "Purchase  
45 Agreement")] are hereby ratified and confirmed, [and the bid to purchase the Bonds set  
46 forth in the Underwriter's bid, attached hereto as Exhibit \_\_\_\_, is hereby accepted. All  
47 other bids that have been received are attached hereto as Exhibit \_\_\_\_.] [and the Purchase  
48 Agreement is hereby approved]. The Bonds shall mature on the dates, and shall bear  
49 interest at the rates, payable on the dates, set forth in [Exhibit \_\_\_\_] [the Purchase  
50 Agreement] and shall conform in all other respects to the terms and conditions specified  
51 in the [Notice] [Purchase Agreement] and the Bond Ordinance. The Bonds shall be  
52 subject to optional redemption as set forth in the [Notice] [Purchase Agreement].

53 [Following receipt of the Underwriter's bid, the county has exercised its right  
54 under the Notice to adjust the maturity amounts of the Bonds. Accordingly, the Bonds  
55 shall mature or be subject to mandatory redemption on \_\_\_\_\_ 1 in the years and  
56 amounts and bear interest at the rates per annum as follows:

<u>Years</u>	<u>Amounts</u>	<u>Interest Rates]</u>
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57 C. Refunding of Refunded Bonds.



**Motion**

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58           1. Plan of Refunding. The proper county officials are authorized to carry out  
59 the refunding of the Refunded Bonds in accordance with Section 16 of the Bond  
60 Ordinance. The amounts, maturities and redemption dates of the Refunded Bonds and  
61 the amounts, maturities and interest rates of the Government Obligations to be acquired  
62 to accomplish the refunding thereof are identified in Exhibit \_\_\_\_\_. The Finance Director  
63 is authorized to transfer money in the Receiving Fund allocable to the \_\_\_\_\_ 1, 2008,  
64 debt service payment on the Refunded Bonds (or such lesser amount as the Finance  
65 Director shall determine) to the Escrow Agent to carry out the refunding of the Refunded  
66 Bonds.

67           2. Escrow Agent. The selection of \_\_\_\_\_ of \_\_\_\_\_,  
68 Washington, as Escrow Agent is hereby ratified and confirmed.

69           3. Findings of Savings and Defeasance. The council finds and determines that a  
70 substantial savings will be effected by the difference between the principal and interest  
71 cost over the life of the Bonds and the principal and interest cost over the life of the  
72 Refunded Bonds but for such refunding, and that the Acquired Obligations to be  
73 deposited with the Escrow Agent and the income therefrom, together with any necessary  
74 beginning cash balance, are sufficient to defease and redeem the above-referenced  
75 Refunded Bonds and will discharge and satisfy the obligations of the county with respect  
76 to such Refunded Bonds under the Refunded Bonds Ordinances and the pledges of the  
77 county therein. Immediately upon the delivery of such Acquired Obligations to the  
78 Escrow Agent and the deposit of any necessary beginning cash balance, the Refunded  
79 Bonds shall be deemed not to be outstanding under the Refunded Bonds Ordinances and  
80 shall cease to be entitled to any lien, benefit or security thereunder except the right to

81 receive payment from the Acquired Obligations and beginning cash balance so set aside  
82 and pledged.

83 D. Undertaking to Provide Ongoing Disclosure.

84 1. Contract/Undertaking. This Section D constitutes the county's written  
85 undertaking for the benefit of the owners and Beneficial Owners of the Bonds as required  
86 by Section (b)(5) of the Rule.

87 2. Undertaking to Provide Annual Financial Information and Notice of Material  
88 Events. The County undertakes to provide or cause to be provided, either directly or  
89 through a designated agent:

90 (a) To each nationally recognized municipal securities information repository  
91 designated by the SEC in accordance with the Rule ("NRMSIR") and to a state  
92 information depository, if any, established in the State of Washington (the "SID") annual  
93 financial information and operating data of the type included in the final official  
94 statement for the Bonds and described in subsection (b) of this section ("annual financial  
95 information");

96 (b) To each NRMSIR or the Municipal Securities Rulemaking Board  
97 ("MSRB"), and to the SID, timely notice of the occurrence of any of the following events  
98 with respect to the Bonds, if material: (1) principal and interest payment delinquencies;  
99 (2) non-payment related defaults; (3) unscheduled draws on debt service reserves  
100 reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting  
101 financial difficulties; (5) substitution of credit or liquidity providers, or their failure to  
102 perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds;  
103 (7) modifications to rights of holders of the Bonds; (8) Bond calls (other than scheduled

104 mandatory redemptions of Term Bonds); (9) defeasances; (10) release, substitution, or  
105 sale of property securing repayment of the Bonds; and (11) rating changes; and

106 (c) To each NRMSIR or to the MSRB, and to the SID, timely notice of a  
107 failure by the County to provide required annual financial information on or before the  
108 date specified in subsection (b) of this section.

109 3. Type of Annual Financial Information Undertaken to be Provided. The  
110 annual financial information that the County undertakes to provide in subsection (a) of  
111 this section:

112 (a) Shall consist of (1) annual financial statements prepared in accordance with  
113 the Budget Accounting and Reporting System ("BARS") prescribed by the Washington  
114 State Auditor pursuant to RCW 43.09.200 (or any successor statute) and generally of the  
115 type included in the official statement for the Bonds under the heading "Appendix \_\_\_:  
116 Audited 200\_\_ Financial Statements"; (2) a summary of budgeted general fund revenues  
117 and appropriations; (3) a summary of the assessed valuation of taxable property in the  
118 county; (4) a summary of the *ad valorem* property tax levy and delinquency rate; (5) a  
119 schedule of the aggregate annual debt service on tax-supported indebtedness of the  
120 county; (6) a summary of outstanding tax-supported indebtedness of the county; and (7)  
121 Public Transportation Sales Taxes collected by the county pursuant to RCW 82.14.045.

122 Items (2) through (7) shall be required only to the extent that such information is  
123 not included in the annual financial statements;

124 (b) Shall be provided to each NRMSIR and the SID, not later than the last day  
125 of the ninth month after the end of each fiscal year of the County (currently, a fiscal year

126 ending December 31), as such fiscal year may be changed as required or permitted by  
127 State law, commencing with the County's fiscal year ending December 31, 2008; and

128 (c) May be provided in a single or multiple documents, and may be  
129 incorporated by reference to other documents that have been filed with each NRMSIR  
130 and the SID, or, if the document incorporated by reference is a "final official statement"  
131 with respect to other obligations of the County, that has been filed with the MSRB.

132 4. Amendment of Undertaking. The Undertaking is subject to amendment after  
133 the primary offering of the Bonds without the consent of any holder of any Bond, or of  
134 any broker, dealer, municipal securities dealer, participating underwriter, rating agency,  
135 NRMSIR, the SID or the MSRB, under the circumstances and in the manner permitted by  
136 the Rule.

137 The County will give notice to each NRMSIR or the MSRB, and the SID, of the  
138 substance (or provide a copy) of any amendment to the Undertaking and a brief statement  
139 of the reasons for the amendment. If the amendment changes the type of annual financial  
140 information to be provided, the annual financial information containing the amended  
141 financial information will include a narrative explanation of the effect of that change on  
142 the type of information to be provided.

143 5. Beneficiaries. The Undertaking evidenced by this section shall inure to the  
144 benefit of the County and any holder of Bonds, and shall not inure to the benefit of or  
145 create any rights in any other person.

146 6. Termination of Undertaking. The County's obligations under this  
147 Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition,  
148 the County's obligations under this Undertaking shall terminate if those provisions of the

149 Rule which require the County to comply with this Undertaking become legally  
150 inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of  
151 nationally recognized bond counsel or other counsel familiar with federal securities laws  
152 delivered to the County, and the County provides timely notice of such termination to  
153 each NRMSIR or the MSRB and the SID.

154 7. Remedy for Failure to Comply with Undertaking. As soon as practicable  
155 after the County learns of any failure to comply with the Undertaking, the County will  
156 proceed with due diligence to cause such noncompliance to be corrected. No failure by  
157 the County or other obligated person to comply with the Undertaking shall constitute a  
158 default in respect of the Bonds. The sole remedy of any holder of a Bond shall be to take  
159 such actions as that holder deems necessary, including seeking an order of specific  
160 performance from an appropriate court, to compel the County or other obligated person to  
161 comply with the Undertaking.

162 8. Designation of Official Responsible to Administer Undertaking. The Finance  
163 Director of the County (or such other officer of the County who may in the future  
164 perform the duties of that office) or his or her designee is authorized and directed in his  
165 or her discretion to take such further actions as may be necessary, appropriate or  
166 convenient to carry out the Undertaking of the County in respect of the Bonds set forth in  
167 this section and in accordance with the Rule, including, without limitation, the following  
168 actions:

169 (a) Preparing and filing the annual financial information undertaken to be  
170 provided;

171 (b) Determining whether any event specified in subsection (a) has occurred,  
172 assessing its materiality with respect to the Bonds, and, if material, preparing and  
173 disseminating notice of its occurrence;

174 (c) Determining whether any person other than the County is an "obligated  
175 person" within the meaning of the Rule with respect to the Bonds, and obtaining from  
176 such person an undertaking to provide any annual financial information and notice of  
177 material events for that person in accordance with the Rule;

178 (d) Selecting, engaging and compensating designated agents and consultants,  
179 including but not limited to financial advisors and legal counsel, to assist and advise the  
180 County in carrying out the Undertaking; and

181 (e) Effecting any necessary amendment of the Undertaking.

182 9. Centralized Dissemination Agent. To the extent authorized by the SEC, the  
183 County may satisfy the Undertaking by transmitting the required filings using  
184 <http://www.disclosureusa.org> (or such other centralized dissemination agent as may be  
185 approved by the SEC).

186 E. Further Authority. The county officials, their agents, and representatives are  
187 hereby authorized and directed to do everything necessary for the prompt issuance and  
188 delivery of the Bonds and for the proper use and application of the proceeds of such sale.

189 F. Severability. The covenants contained in this motion shall constitute a  
190 contract between the county and the owners of each and every Bond. If any provision in  
191 this motion to be performed on the part of the county shall be declared by any court of  
192 competent jurisdiction to be contrary to law, then such provision shall be null and void

**Motion**

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193 and shall be deemed separable from the remaining provisions of this motion and shall in  
194 no way affect the validity of the other provisions of this motion or of the Bonds.  
195

KING COUNTY COUNCIL  
KING COUNTY, WASHINGTON

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ATTEST:

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**Attachments**      None



**KING COUNTY**

1200 King County Courthouse  
516 Third Avenue  
Seattle, WA 98104

**Signature Report**

**August 26, 2008**

**Motion**

**Proposed No.** 2008-0412.1

**Sponsors** Ferguson

1                   A MOTION accepting a bid for the purchase of the  
2                   county's Limited Tax General Obligation (Public  
3                   Transportation Sales Tax) Refunding Bonds, 2008, in the  
4                   aggregate principal amount of \$ \_\_\_\_\_, and  
5                   establishing certain terms of such bonds, all in accordance  
6                   with Ordinance \_\_\_\_\_.

7  
8                   WHEREAS, the county council by Ordinance \_\_\_\_\_ passed \_\_\_\_\_, 2008  
9                   (the "Bond Ordinance"), authorized the issuance and sale of limited tax general obligation  
10                  (public transportation sales tax) refunding bonds (the "Bonds") of the county in the  
11                  aggregate principal amount of not to exceed \$103,000,000 to currently refund all or a  
12                  portion of the county's outstanding Limited Tax General Obligation (Public  
13                  Transportation Sales Tax) Refunding Bonds, 1998, Series A, and to advance refund all or  
14                  a portion of the county's outstanding Limited Tax General Obligation (Public  
15                  Transportation Sales Tax) Bonds, 2004, all consistent with the ordinances authorizing  
16                  those bonds, Ordinance 13128 and Ordinance 14490 (collectively, the "Refunded Bonds  
17                  Ordinances"), and



18 WHEREAS, the Bond Ordinance provided that the Bonds be sold as determined  
19 by the county's director of finance and business operations (the "Finance Director") in  
20 consultation with the county's financial advisors, and

21 WHEREAS, the Finance Director has determined that the Bonds be sold [by  
22 competitive bid] [by negotiated sale], and

23 WHEREAS, pursuant to the Bond Ordinance, [the Finance Director has  
24 negotiated the sale of the Bonds to \_\_\_\_\_ (the "Underwriter"), and] a preliminary  
25 official statement dated \_\_\_\_\_, 2008 (the "Preliminary Official Statement"), has  
26 been prepared for the [public] sale of the Bonds[, the official notice of such sale (the  
27 "Notice of Sale") has been duly published, and bids have been received in accordance  
28 with the Notice of Sale], and

29 [WHEREAS, after the Finance Director's review and analysis of the bids  
30 received, the council, deems it necessary and desirable to authorize the sale of the Bonds  
31 in the principal amount of \$ \_\_\_\_\_ to \_\_\_\_\_, of \_\_\_\_\_ (the  
32 "Underwriter"), as the bidder offering the lowest true interest cost therefor;], and

33 WHEREAS it is in the best interest of the county that the Bonds be sold to the  
34 Underwriter on the terms set forth in [the bond purchase agreement, ] the Bond  
35 Ordinance and this motion;

36 NOW, THEREFORE, BE IT MOVED by the Council of King County:

37 A. Definitions. Except as expressly authorized herein, capitalized terms used in  
38 this motion have the meanings set forth in the Bond Ordinance.

39 B. Approval of [Winning Bid] [Bond Purchase Agreement] and Authorization of  
40 Bonds. The issuance of the Bonds, designated as the county's Limited Tax General

**Motion**

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41 Obligation (Public Transportation Sales Tax) Refunding Bonds, 2008, in the aggregate  
42 principal amount of \$\_\_\_\_\_ and the terms and conditions [set forth in the Official  
43 Notice of Bond Sale (the "Notice"), attached hereto as Exhibit \_\_\_,] [thereof as set forth  
44 in the Bond Purchase Agreement attached hereto as Exhibit \_\_\_ (the "Purchase  
45 Agreement")] are hereby ratified and confirmed, [and the bid to purchase the Bonds set  
46 forth in the Underwriter's bid, attached hereto as Exhibit \_\_\_, is hereby accepted. All  
47 other bids that have been received are attached hereto as Exhibit \_\_\_. ] [and the Purchase  
48 Agreement is hereby approved]. The Bonds shall mature on the dates, and shall bear  
49 interest at the rates, payable on the dates, set forth in [Exhibit \_\_\_] [the Purchase  
50 Agreement] and shall conform in all other respects to the terms and conditions specified  
51 in the [Notice] [Purchase Agreement] and the Bond Ordinance. The Bonds shall be  
52 subject to optional redemption as set forth in the [Notice] [Purchase Agreement].

53 [Following receipt of the Underwriter's bid, the county has exercised its right  
54 under the Notice to adjust the maturity amounts of the Bonds. Accordingly, the Bonds  
55 shall mature or be subject to mandatory redemption on \_\_\_\_\_ 1 in the years and  
56 amounts and bear interest at the rates per annum as follows:

		Interest
<u>Years</u>	<u>Amounts</u>	<u>Rates]</u>

57 C. Refunding of Refunded Bonds.

**Motion**

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58           1. Plan of Refunding. The proper county officials are authorized to carry out  
59 the refunding of the Refunded Bonds in accordance with Section 16 of the Bond  
60 Ordinance. The amounts, maturities and redemption dates of the Refunded Bonds and  
61 the amounts, maturities and interest rates of the Government Obligations to be acquired  
62 to accomplish the refunding thereof are identified in Exhibit \_\_\_\_\_. The Finance Director  
63 is authorized to transfer money in the Receiving Fund allocable to the \_\_\_\_\_ 1, 2008,  
64 debt service payment on the Refunded Bonds (or such lesser amount as the Finance  
65 Director shall determine) to the Escrow Agent to carry out the refunding of the Refunded  
66 Bonds.

67           2. Escrow Agent. The selection of \_\_\_\_\_ of \_\_\_\_\_,  
68 Washington, as Escrow Agent is hereby ratified and confirmed.

69           3. Findings of Savings and Defeasance. The council finds and determines that a  
70 substantial savings will be effected by the difference between the principal and interest  
71 cost over the life of the Bonds and the principal and interest cost over the life of the  
72 Refunded Bonds but for such refunding, and that the Acquired Obligations to be  
73 deposited with the Escrow Agent and the income therefrom, together with any necessary  
74 beginning cash balance, are sufficient to defease and redeem the above-referenced  
75 Refunded Bonds and will discharge and satisfy the obligations of the county with respect  
76 to such Refunded Bonds under the Refunded Bonds Ordinances and the pledges of the  
77 county therein. Immediately upon the delivery of such Acquired Obligations to the  
78 Escrow Agent and the deposit of any necessary beginning cash balance, the Refunded  
79 Bonds shall be deemed not to be outstanding under the Refunded Bonds Ordinances and  
80 shall cease to be entitled to any lien, benefit or security thereunder except the right to

81 receive payment from the Acquired Obligations and beginning cash balance so set aside  
82 and pledged.

83 D. Undertaking to Provide Ongoing Disclosure.

84 1. Contract/Undertaking. This Section D constitutes the county's written  
85 undertaking for the benefit of the owners and Beneficial Owners of the Bonds as required  
86 by Section (b)(5) of the Rule.

87 2. Undertaking to Provide Annual Financial Information and Notice of Material  
88 Events. The County undertakes to provide or cause to be provided, either directly or  
89 through a designated agent:

90 (a) To each nationally recognized municipal securities information repository  
91 designated by the SEC in accordance with the Rule ("NRMSIR") and to a state  
92 information depository, if any, established in the State of Washington (the "SID") annual  
93 financial information and operating data of the type included in the final official  
94 statement for the Bonds and described in subsection (b) of this section ("annual financial  
95 information");

96 (b) To each NRMSIR or the Municipal Securities Rulemaking Board  
97 ("MSRB"), and to the SID, timely notice of the occurrence of any of the following events  
98 with respect to the Bonds, if material: (1) principal and interest payment delinquencies;  
99 (2) non-payment related defaults; (3) unscheduled draws on debt service reserves  
100 reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting  
101 financial difficulties; (5) substitution of credit or liquidity providers, or their failure to  
102 perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds;  
103 (7) modifications to rights of holders of the Bonds; (8) Bond calls (other than scheduled

104 mandatory redemptions of Term Bonds); (9) defeasances; (10) release, substitution, or  
105 sale of property securing repayment of the Bonds; and (11) rating changes; and

106 (c) To each NRMSIR or to the MSRB, and to the SID, timely notice of a  
107 failure by the County to provide required annual financial information on or before the  
108 date specified in subsection (b) of this section.

109 3. Type of Annual Financial Information Undertaken to be Provided. The  
110 annual financial information that the County undertakes to provide in subsection (a) of  
111 this section:

112 (a) Shall consist of (1) annual financial statements prepared in accordance with  
113 the Budget Accounting and Reporting System ("BARS") prescribed by the Washington  
114 State Auditor pursuant to RCW 43.09.200 (or any successor statute) and generally of the  
115 type included in the official statement for the Bonds under the heading "Appendix \_\_\_:  
116 Audited 200\_\_ Financial Statements"; (2) a summary of budgeted general fund revenues  
117 and appropriations; (3) a summary of the assessed valuation of taxable property in the  
118 county; (4) a summary of *the ad valorem* property tax levy and delinquency rate; (5) a  
119 schedule of the aggregate annual debt service on tax-supported indebtedness of the  
120 county; (6) a summary of outstanding tax-supported indebtedness of the county; and (7)  
121 Public Transportation Sales Taxes collected by the county pursuant to RCW 82.14.045.

122 Items (2) through (7) shall be required only to the extent that such information is  
123 not included in the annual financial statements.;

124 (b) Shall be provided to each NRMSIR and the SID, not later than the last day  
125 of the ninth month after the end of each fiscal year of the County (currently, a fiscal year

126 ending December 31), as such fiscal year may be changed as required or permitted by  
127 State law, commencing with the County's fiscal year ending December 31, 2008; and

128 (c) May be provided in a single or multiple documents, and may be  
129 incorporated by reference to other documents that have been filed with each NRMSIR  
130 and the SID, or, if the document incorporated by reference is a "final official statement"  
131 with respect to other obligations of the County, that has been filed with the MSRB.

132 4. Amendment of Undertaking. The Undertaking is subject to amendment after  
133 the primary offering of the Bonds without the consent of any holder of any Bond, or of  
134 any broker, dealer, municipal securities dealer, participating underwriter, rating agency,  
135 NRMSIR, the SID or the MSRB, under the circumstances and in the manner permitted by  
136 the Rule.

137 The County will give notice to each NRMSIR or the MSRB, and the SID, of the  
138 substance (or provide a copy) of any amendment to the Undertaking and a brief statement  
139 of the reasons for the amendment. If the amendment changes the type of annual financial  
140 information to be provided, the annual financial information containing the amended  
141 financial information will include a narrative explanation of the effect of that change on  
142 the type of information to be provided.

143 5. Beneficiaries. The Undertaking evidenced by this section shall inure to the  
144 benefit of the County and any holder of Bonds, and shall not inure to the benefit of or  
145 create any rights in any other person.

146 6. Termination of Undertaking. The County's obligations under this  
147 Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition,  
148 the County's obligations under this Undertaking shall terminate if those provisions of the

149 Rule which require the County to comply with this Undertaking become legally  
150 inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of  
151 nationally recognized bond counsel or other counsel familiar with federal securities laws  
152 delivered to the County, and the County provides timely notice of such termination to  
153 each NRMSIR or the MSRB and the SID.

154 7. Remedy for Failure to Comply with Undertaking. As soon as practicable  
155 after the County learns of any failure to comply with the Undertaking, the County will  
156 proceed with due diligence to cause such noncompliance to be corrected. No failure by  
157 the County or other obligated person to comply with the Undertaking shall constitute a  
158 default in respect of the Bonds. The sole remedy of any holder of a Bond shall be to take  
159 such actions as that holder deems necessary, including seeking an order of specific  
160 performance from an appropriate court, to compel the County or other obligated person to  
161 comply with the Undertaking.

162 8. Designation of Official Responsible to Administer Undertaking. The Finance  
163 Director of the County (or such other officer of the County who may in the future  
164 perform the duties of that office) or his or her designee is authorized and directed in his  
165 or her discretion to take such further actions as may be necessary, appropriate or  
166 convenient to carry out the Undertaking of the County in respect of the Bonds set forth in  
167 this section and in accordance with the Rule, including, without limitation, the following  
168 actions:

169 (a) Preparing and filing the annual financial information undertaken to be  
170 provided;

**Motion**

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171 (b) Determining whether any event specified in subsection (a) has occurred,  
172 assessing its materiality with respect to the Bonds, and, if material, preparing and  
173 disseminating notice of its occurrence;

174 (c) Determining whether any person other than the County is an "obligated  
175 person" within the meaning of the Rule with respect to the Bonds, and obtaining from  
176 such person an undertaking to provide any annual financial information and notice of  
177 material events for that person in accordance with the Rule;

178 (d) Selecting, engaging and compensating designated agents and consultants,  
179 including but not limited to financial advisors and legal counsel, to assist and advise the  
180 County in carrying out the Undertaking; and

181 (e) Effecting any necessary amendment of the Undertaking.

182 9. Centralized Dissemination Agent. To the extent authorized by the SEC, the  
183 County may satisfy the Undertaking by transmitting the required filings using  
184 <http://www.disclosureusa.org> (or such other centralized dissemination agent as may be  
185 approved by the SEC).

186 E. Further Authority. The county officials, their agents, and representatives are  
187 hereby authorized and directed to do everything necessary for the prompt issuance and  
188 delivery of the Bonds and for the proper use and application of the proceeds of such sale.

189 F. Severability. The covenants contained in this motion shall constitute a  
190 contract between the county and the owners of each and every Bond. If any provision in  
191 this motion to be performed on the part of the county shall be declared by any court of  
192 competent jurisdiction to be contrary to law, then such provision shall be null and void



**Motion**

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193 and shall be deemed separable from the remaining provisions of this motion and shall in  
194 no way affect the validity of the other provisions of this motion or of the Bonds.  
195

KING COUNTY COUNCIL  
KING COUNTY, WASHINGTON

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ATTEST:

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**Attachments**      None

July 21, 2008

The Honorable Julia Paterson  
Chair, King County Council  
Room 1200  
C O U R T H O U S E

Dear Councilmember Paterson:

The proposed package of legislation comprised of one ordinance and two motions, would authorize the issuance of limited tax general obligation (LTGO) bonds in a total amount not to exceed \$103 million (the "Refunding Bonds"). These bonds would be issued for the purpose of refunding two series of outstanding LTGO bond issues that were issued on behalf of, and are payable from the sales tax revenues of, the county's transit division.

This is one of several initiatives we are undertaking to find savings and reduce costs for Metro Transit as diesel prices are skyrocketing. My clear direction to Metro is that no service reductions will occur, so passing this legislation is one way we can help preserve bus service on the streets of King County.

The county works closely with its financial advisor, Seattle Northwest Securities, to identify opportunities to reduce debt service on its outstanding debt through the issuance of refunding bonds. In identifying such opportunities, the county looks to achieve a threshold level of debt service savings for two types of refundings. For "advance refundings" (those undertaken more than 3-months prior to the first call date of the debt to be refunded), the county looks to achieve a present value savings of at least 5% of the amount of the bonds to be refunded. The county also uses the same 5% present value savings target for "current refundings" (those undertaken either within 3-months of or after the first call date of the refunded debt) that have 10 years or longer to maturity.

In September of this year, approximately \$50 million of outstanding transit bonds that were issued in 1998 become eligible to be refunded on a current basis for the first time. The 1998 bonds have a 5 percent interest rate as compared to prevailing interest rates for 10-year bonds of approximately 3.5 percent. Given these prevailing interest rates, the current refunding of these bonds, which have remaining lives of up to 11 years, would achieve the 5 percent present value savings target (about \$2.5 million) dictated by the county's adopted debt management policy. Approximately half of the Refunding Bonds requested in this bond ordinance would be used for this purpose.

The Honorable Julia Patterson  
July 21, 2008  
Page 2

The balance of the requested authorization would be used to effect the advance refunding of all or a portion of the approximately \$46 million of outstanding transit bonds that were issued in 2004 and have remaining lives of up to 26 years. We fully acknowledge that current interest rates in the municipal bond market would need to drop significantly in order for the advance refunding of all of these bonds to generate the required level of present value debt service savings. However, since the bonds may be sold anytime within two years of the effective date of the ordinance, it is considered prudent to include the full amount of Refunding Bonds needed for this purpose in the requested authorization so that the county can move quickly to take advantage of any downward move in interest rates.

The ordinance would delegate authority to the Director of the Finance and Business Operations Division to determine, in consultation with the county's financial advisors, the timing and method of any sales of the Refunding Bonds pursuant to this authorization and which of the outstanding transit bonds should be refunded.

The winning bids or purchase contracts for, and the terms of, each series of Refunding Bonds will be confirmed by the council's adoption of sale motions on the day(s) of the sale(s). Two draft versions of the sale motions are also included in this legislative package for prior committee consideration. On the days of any sales, substitute versions of these motions that incorporate the details of the sale will be brought before the council.

If you have questions regarding this legislation, please call Ken Guy, Director of the Finance and Business Operations Division, at 206-263-9254, or Nigel Lewis, Senior Debt Analyst in the Treasury Operations Section, at 206-296-1168.

Sincerely,

Ron Sims  
King County Executive

Enclosures

cc: King County Councilmembers

ATTN: Ross Baker, Chief of Staff

Saroja Reddy, Policy Staff Director

Anne Noris, Clerk of the Council

Frank Abe, Communications Director

Bob Cowan, Director, Office of Management and Budget

Harold Taniguchi, Director, Department of Transportation (DOT)

Kevin Desmond, General Manager, Transit Division, DOT

James J. Buck, County Administrative Officer, Department of Executive Services (DES)

Ken Guy, Director, Finance and Business Operations Division (FBOD), DES

Nigel Lewis, Senior Debt Analyst, Treasury Operations Section, FBOD, DES

**FISCAL NOTE**

2008-XXXX

Ordinance/Motion No. _____ Title: An ordinance that would authorize the issuance c Affected Agency and/or Agencies: Note Prepared By: Nigel Lewis, Treasury Note Reviewed By:
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Impact of the above legislation on the fiscal affairs of King County is estimated to be:

**Revenue to:**

Fund/Agency	Fund Code	Revenue Source	Current Year	1st Year	2nd Year	3rd Year
						0
						0
<b>TOTAL</b>			<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Expenditures from:**

Fund/Agency	Fund Code	Department	Current Year	1st Year	2nd Year	3rd Year
LTGO Bond Redemption Fund	8400	Exec Svcs	0	-365,000	-365,000	-365,000
<b>TOTAL</b>			<b>0</b>	<b>-365,000</b>	<b>-365,000</b>	<b>-365,000</b>

**Expenditures by Categories**

	Current Year	1st Year	2nd Year	3rd Year
Transit debt service expense (Funds 8432 & 8433)	0	-365,000	-365,000	-365,000
<b>TOTAL</b>	<b>0</b>	<b>-365,000</b>	<b>-365,000</b>	<b>-365,000</b>

**Assumptions:**

Achieve 5% present value savings on both elements of the refunding.



**KING COUNTY**

1200 King County Courthouse  
516 Third Avenue  
Seattle, WA 98104

**Signature Report**

**December 17, 2007**

**Motion 12660**

**Proposed No. 2007-0582.2**

**Sponsors Ferguson**

1                   A MOTION adopting a Debt Management Policy for King  
2                   County.

3

4                   WHEREAS, King County is one of the largest municipal issuers of debt in the  
5                   nation and has a long history of achieving exemplary bond ratings because of sound and  
6                   prudent financial management and debt issuance practices, and

7                   WHEREAS, the county recognizes the need to have a formal adopted debt  
8                   management policy that primarily adopts past decisions and practices while also  
9                   providing new opportunities to lower the cost of borrowing and reduce exposure to  
10                  changes in interest rates, and

11                  WHEREAS, RCW 36.48.070 requires the adoption of a debt policy by counties  
12                  within the state of Washington, and

13                  WHEREAS, at least one of the credit rating agencies has identified that an  
14                  adopted debt policy would be an additional positive factor in its credit rating of the  
15                  county, and

16                  WHEREAS, the Debt Management Policy has been reviewed and endorsed by  
17                  the members of the King County financial policies advisory task force, which was created

Motion 12660

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18 by Motion 12394 and charged with the duties of reviewing the county's financial and debt  
19 policies, examining best practices and making recommendations to the council;

20 NOW THEREFORE, BE IT MOVED by the Council of King County:

21 A. The King County Debt Management Policy, Attachment A to this motion, is  
22 hereby adopted.

23 B. The executive finance committee will be responsible for periodically  
24 considering amendments to the Debt Management Policy and for submitting changes to  
25 the executive and council for approval.

26

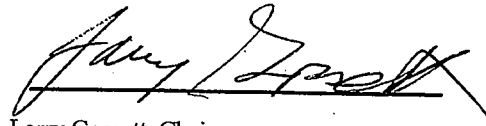
Motion 12660 was introduced on 11/5/2007 and passed by the Metropolitan King County Council on 12/17/2007, by the following vote:

Yes: 8 - Mr. Gossett, Ms. Patterson, Ms. Lambert, Mr. von Reichbauer, Mr. Dunn, Mr. Ferguson, Mr. Phillips and Mr. Constantine

No: 0

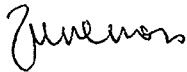
Excused: 1 - Ms. Hague

KING COUNTY COUNCIL  
KING COUNTY, WASHINGTON



Larry Gossett, Chair

ATTEST:



Anne Noris, Clerk of the Council

Attachments A. King County Management Policy dated 12-12-07

## King County Debt Management Policy

### 1.0 Introduction

This document sets forth the policies that will govern the issuance and management of debt by King County (hereinafter the "county"). This Debt Management Policy is being developed for two reasons. First, it would satisfy the requirements of RCW 36.48.070. Second, the credit rating agencies have identified the adoption of a formal debt policy as a source of rating strength.

This policy does not replace an existing county comprehensive debt policy and, with the exception of authorizing the county to use payment agreements, does not represent any significant departures from existing debt management practices. Illustrative examples of past policy decisions and practices are noted throughout the policy.

It is intended that this policy, and periodic future amendments, will be adopted by the King County Council (hereinafter the "council"). Periodic amendments will be reviewed by the county's Executive Finance Committee (hereinafter the "EFC") and recommended changes will be submitted to the Executive and County Council for approval.

This policy does not address the amount of debt that can be prudently issued on behalf of the different funds of the county. The subject of prudent debt levels and borrowing strategies, which will depend on factors such as the stability of their revenue streams, should be addressed by the financial policies and plans for each of these Funds.

### 2.0 Policy Goals

The county's debt will be managed with an overall philosophy of taking a long-term approach to borrowing funds at the lowest possible cost, consistent with an acceptable level of risk.

The county's debt management practices are intended to achieve the following specific objectives:

- To minimize debt service costs, subject to preserving the county's flexibility to provide services and set rates and charges.
- To limit the exposure of the different funds of the county to interest rate risk and other risks to levels commensurate with their ability to absorb such risk.
- To preserve adequate capacity for the county to finance future capital needs with low-cost debt.
- To contribute to the maintenance or enhancement of the county's current very strong bond ratings.

### **3.0 Roles & Responsibilities in the Debt Issuance Process**

#### **3.1 King County Council**

The council is responsible for the adoption of legislation necessary for the issuance of all county debt.

#### **3.2 Finance and Business Operations Division**

The Finance and Business Operations Division (hereinafter the "Division") within the Department of Executive Services is responsible for identifying potential borrowing strategies, coordinating all of the work necessary for the issuance of such debt, and for subsequent administration.

#### **3.3 King County Agencies**

Individual agencies, working through the Office of Management and Budget (hereinafter the "OMB"), are responsible for providing adequate advance notification of the need for borrowing and for providing information as requested by the Division needed for the issuance and administration of such debt.

#### **3.4 Executive Finance Committee**

The EFC is responsible for periodically reviewing the debt management policy and recommending any policy changes to the Executive and County Council for approval. The EFC also has the authority to clarify the intent of the approved policy and practices, as needed.

### **4.0 Type of Debt Instruments**

#### **4.1 Bonds**

The great majority of the debt issued by the county will take the form of fixed rate municipal bonds with terms ranging between 3 and 40 years to finance capital assets.

#### **4.2 Notes**

Shorter-term Notes, defined as having a maturity of not more than 2 years, may also be issued to provide interim financing in anticipation of subsequent definite sources of revenues. Examples include Tax Anticipation Notes (hereinafter "TANs"), which are issued in anticipation of specific tax revenues, and Bond Anticipation Notes (hereinafter "BANs"), which will be repaid from the proceeds of a future bond issue.

*(For example, 3 series of 1-year Tax Anticipation Notes were issued in the late 1990's in order to provide continued funding for the EMS program when their property tax levy lapsed for one year. Similarly, several series of BANs have been issued over the past 5 years to provide interim financing for both several large facilities construction projects and for certain open space acquisitions, in anticipation of the eventual issuance of bonds that provide the permanent financing. 2007 Comment).*



### **4.3 Variable Rate Debt**

The county may issue variable rate debt in order to lower the cost of borrowing and, in accordance with the principles of asset-liability management, to reduce the county's exposure to changes in interest rates.

There are several different forms of variable rate debt, the most common of which are variable rate demand bonds (VRDBs), auction rate notes (ARNs) and commercial paper (CP). The county will assess the comparative costs (both issuance and ongoing), trading differential, required administrative effort and the ability to achieve other financing goals when determining the appropriate vehicle to be used for its variable rate debt issues.

*(The variable rate debt currently issued on behalf of the Wastewater Enterprise Fund has taken the form of both VRDBs and CP. 2007 Comment)*

### **4.4 Payment Agreements**

When appropriate, the County will utilize payment agreements to produce synthetic fixed rate or variable rate debt instruments in order to either take advantage of market opportunities to lower overall debt service costs or to manage exposure to changes in interest rates and other risks.

As defined under state law (RCW 39.96), a payment agreement is a written agreement which provides for an exchange of payments based on interest rates, or for ceilings or floors on these payments, or an option on these payments, or any combination thereof. A payment agreement can also be entered into on either a current or forward basis. A typical form of payment agreement is an "interest rate swap" in which one party exchanges a variable rate for a fixed rate with another party.

The use of payment agreements expose the county to one or more of a number of risks that are not present, or are present to a more limited degree, in relation to the issuance of standard county debt instruments. The risks include, but are not limited to, basis risk, tax risk, termination risk and counter-party risk. Due to these risks, the use of payment agreements will require the county to devote greater resources to their subsequent monitoring and administration.

In recognition of the added risk exposure, the use of a payment agreement will only be contemplated when it can be satisfactorily documented that the benefits compensate for the additional risks and administration costs by an appropriate margin.

The rationale for and the guidelines governing the execution and management of such payment agreements are presented in detail, together with definitions of certain terms and risks, in Appendix A--King County Payment Agreement Policy.

*(In recent years, it may have been advantageous for the County to borrow on a variable rate basis and then swap into a fixed rate. Such use of interest rate swaps would have resulted in lower borrowing costs for the County and thereby increased debt service savings when compared to the more traditional refunding*

*transaction in which a fixed rate is replaced with a lower fixed rate. For example, a swap to a fixed rate of 4 percent could achieve greater debt service savings than a traditional refunding transaction that results in a fixed rate of say 4.25 percent. Note that other large issuers in Washington that have either adopted swap policies or are very close to doing so include the University of Washington, Sound Transit, Chelan County PUD, the City of Tacoma, and the Ports of both Tacoma and Seattle. 2007 Comment).*

#### **4.5 Conduit Financing Vehicles**

Although they will typically entail somewhat higher financing costs compared to the issuance of standard county debt, for certain projects the county will rely on alternative conduit financing vehicles such as 63-20 Bonds or Certificates of Participation (COPs) that are issued by third parties but are still secured by county revenues such as property lease payments.

The rationale for the use of such conduit financing vehicles is that they may provide other benefits to the county that more than offset the higher financing costs. Such benefits stem from the fact that the use of such conduit financing vehicles allows projects designed for the county's use to be constructed and owned by private parties. The private parties agree to accept the risks associated with construction costs and can usually maintain the facility at a lower annual operating cost.

*(63-20 bonds have been issued on the County's behalf to finance the construction of the King Street Center, the Pat Steel Building at Harborview, the Goat Hill New County Office Building and Parking Facility, and the NJB Project at Harborview, while COPs were issued for the Issaquah District Court House. 2007 Comment.)*

### **5.0 Security for Debt Instruments**

#### **5.1 General Obligation (GO) Debt**

The lowest cost of funds will normally be obtained through the issuance of general obligation debt secured by the full faith and credit of the county. General obligation debt can be either unlimited or limited:

- *Unlimited Tax General Obligation (UTGO) Debt* is payable from excess tax levies that are approved by the voters. Any proposition for UTGO debt must be approved by 60% of the voters casting a vote and the total number of ballots cast must be at least equal to 40% of the total number of voters voting in the last general election.
- *Limited Tax General Obligation (LTGO) Debt* is payable from regular current expense fund tax levies and revenues, and includes all types of obligations whether bonds, notes, lease-purchase financing contracts, loans or other payment obligations.

Although ultimately pledging current expense fund revenues, LTGO debt is also issued for the benefit of other county funds that can document sufficient future revenues to pay the debt service incurred. In cases in which the county pledges its full faith and credit in support of debt issued on behalf of other funds, the current expense fund may levy a charge on such funds as compensation for the provision of such credit enhancement. The criteria for such charges are determined by OMB in consultation with the Division.

*(For example, the Wastewater Treatment, Transit, Solid Waste, Surface Water Management and the Airport Enterprise Funds all presently pay an annual credit enhancement fee to the Current Expense Fund equal to 12.5 basis points of the outstanding LTGO bonds that have been issued on their behalf. 2007 Comment).*

Total GO debt -- limited and unlimited tax -- is subject to a statutory limitation of 5.0% of the County's assessed valuation. Of this amount 2.5% may be used for county purposes and 2.5% may be used for metropolitan functions (currently Wastewater Treatment and Transit). Within these limits, total LTGO debt is subject to a statutory limitation of 1.5% of the county's assessed valuation. Of this amount, LTGO debt issued on behalf of the county's metropolitan functions is further limited to 0.75% of the county's assessed valuation.

The county will attempt to maintain a substantial amount of unused debt capacity within these limitations in order to preserve future financing flexibility.

*(Currently, the county utilizes no more than 45% of any of the above limitations. The County's relatively limited reliance on debt has consistently been one factor that has contributed to its high credit ratings. 2007 Comment.*

## **5.2 Revenue-backed Obligations**

When it is both feasible and cost-effective, the county will finance the capital assets by issuing debt secured solely by a pledge of certain revenues (including special dedicated taxes). These revenue-backed obligations may not impact the county's GO debt limits and therefore preserve the county's unused debt capacity.

In order to provide greater protection for the holders of revenue-backed obligations, the issuance of revenue-backed obligations will normally require the county to meet certain specific covenants. These covenants may include the establishment of a debt service reserve fund, additional reporting requirements, and the achievement of required debt service coverage ratios. Complying with such covenants may entail additional costs for the county.

While there may be no statutory limits to the amount of such revenue obligations that can be issued, there are limitations related to the county's ability to repay the debt. Prior to issuing new revenue-backed obligations, the county must satisfy an Additional Bonds Test. An Additional Bonds Test demonstrates that the current revenues pledged as security would be sufficient to meet required debt service coverage requirements on both

the new obligations and any existing obligations issued on parity with the new obligations in each year that the new obligations are outstanding.

*(The County has issued such revenue-backed obligations on behalf of both its Transit Enterprise Fund, pledging its sales tax revenues, and its Wastewater Enterprise Fund, pledging all sewer revenues. 2007 Comment)*

### **5.3 Double-barreled Obligations**

One objective of the county's debt management practices is to preserve adequate capacity to finance future needs with GO debt by remaining well within the statutory limits. Preserving a large cushion of unused debt capacity allows the county to decide when it is economically advantageous to issue "double-barreled" bonds. These double-barreled bonds are so named because they are secured by both specific revenues and the full faith and credit of the county.

By issuing double-barreled bonds, the county's current expense fund is effectively providing credit enhancement to other county funds. Bonds secured by the full faith and credit of the county will typically be rated more highly by the credit rating agencies than revenue-backed obligations. As a result of the higher credit rating, the interest rates obtained on double-barreled LTGO bonds will normally be lower than interest rates for the comparable revenue-backed obligations.

Before issuing double-barreled LTGO bonds, the Division will take into account several factors including the estimated debt savings, the risk to the County's current expense fund, the county's remaining debt capacity and the anticipated impact on the county's overall credit rating. Specifically, the county will review whether the anticipated savings in debt service costs are sufficient to justify using the full faith and credit of the county to provide additional credit enhancement to revenue-backed obligations. To maximize the benefits obtained from utilizing the county's finite capacity to issue double-barreled LTGO bonds over time, the Division will not only consider the absolute benefits available in terms of lower interest rates but also whether prevailing credit spreads (i.e. the differentials in interest rates for differences in credit ratings) are narrow or wide by historical standards.

*(Double-barreled LTGO bonds have been periodically issued on behalf of both Transit and Wastewater since 1994. 2007 Comment.)*

### **5.4 Credit Enhancement**

Credit enhancement instruments such as bond insurance or bank credit facilities will be used to provide additional security for county debt when it can be demonstrated that the cost of these instruments is expected to be more than offset by the resulting reduction in debt service.

## 6.0 Guiding Principles of Debt Management

### 6.1 Purpose

Although certain of the county's funds may have financial policies that dictate funding a portion of their capital assets out of their cash on hand, debt funding is the preferred option for financing the acquisition or construction of the County's capital assets. The county has set a minimum threshold that a capital asset must have an expected useful life of at least three years to be considered for debt financing.

Debt financing offers three benefits over cash financing of capital assets. First, the use of debt means that the county is not forced to postpone capital expenditures until it has accumulated sufficient funds. Second, the repayment of debt over an extended period allows the cost of such assets to be spread over future users of those assets, thereby providing greater inter-generational equity. Third, debt financing allows the county to maximize its benefit from the subsidy for municipal entities provided by the federal government through the ability to issue debt on a tax-exempt basis.

Shorter-term notes, defined as having a maturity of not more than 2 years, may also be issued to provide interim financing in anticipation of subsequent definite sources of revenues such as taxes or the issuance of long-term bonds. Although use of such notes may be justified for a number of different practical reasons, notes shall NOT be used to postpone the issuance of bonds purely in expectation of future declines in the county's long-term borrowing costs.

*(The county currently has two ongoing financing programs that are utilizing BANs, one to fund a variety of facilities projects and one to fund certain open space purchases. The justifications for using BANs to provide interim financing for each of these programs are different. The rationale for using BANs to fund facilities projects is to defer the payment of debt service by the Current Expense Fund until the time that the projects are completed and the county is enjoying beneficial use. In contrast, the rationale for using BANs for the open space purchases has been to comply with certain financial policies that limit the amount of conservation futures revenue (the source of repayment in this case) that can be used for debt service by postponing incurring new debt service payments until existing debt service payments drop off. 2007 Comment).*

Debt financing will not be used to finance current operations. However, for certain large non-recurring operating expenses (e.g., a lawsuit settlement) the county may determine that it is prudent to fund these expenditures through the issuance of debt in order to amortize the payment of such an expense over a period of several years. In addition, conditions may exist where the county would find it economically advantageous to pre-fund certain ongoing operating expenditures (e.g., pension of post-employment benefits payments) through the issuance of debt.

*(For example, the county issued bonds to finance the payouts required under the Logan-Knox Litigation Settlement in 1999. 2007 Comment..)*

## 6.2 Term of Financing

The term of any financing will not exceed the estimated useful life of the asset(s) being financed.

*(For example, the bonds issued for the acquisition of open space or the construction of facilities will typically have maturities ranging somewhere between 15 and 40 years, whereas those for technology projects will typically have lives of between 3 and 10 years. 2007 Comment.)*

The term of financing will also not exceed the term of any revenue streams that are specifically dedicated to the payment of the debt service on the financing.

*(For example, although used to construct a facility with a potential useful life of 30+ years, the Safeco Field bonds issued had a final maturity of only 19 years because the taxes pledged to the repayment of the bonds expire at the end of 2016. 2007 Comment).*

## 6.3 Debt Service Profiles

The county will generally structure its fixed rate bonds to produce approximately level annual debt service payments (comprised of both principal and interest) over the life of the debt.

An issue of GO bonds is often used to provide financing for a number of separate projects, each of which may have different useful lives. Such so-called "various-purpose" bond issues are essentially a composite of individual bonds for each of the separate projects. As such, although debt service will be usually be leveled on a project-by-project basis, the debt service profile for the bond issue in aggregate will normally exhibit a series of discrete declines after the principal for each of the projects is fully amortized.

*(For example, a various-purpose bond might be issued to provide financing for both technology projects, which have a relatively short useful life of perhaps 5 years, and facilities projects or open space purchases that would be amortized over a useful life of perhaps 20 years. In such an example, the debt service profile on the entire bond issue would exhibit a decline after the fifth year when the portion used for the technology projects would be fully amortized. 2007 Comment).*

Back-loading of principal, however, will be considered in certain circumstances. Such circumstances include when the benefits from the debt issuance can clearly be demonstrated to be greater further in the future; when such structuring is beneficial to the overall amortization schedule of a fund's capital structure; or when the structure will more closely match debt service to the anticipated repayment source.

*(For example, the sewer revenue bonds have frequently been sold with no principal amortization beginning until 2015 in order to help smooth the overall*

*amortization scheduled of the wastewater enterprise. Similarly, the Safeco Field bonds were structured in such a way as to produce a 2% annual increase in the debt service in order to reflect the projected increase in the revenues generated by the taxes pledged for the repayment of these bonds. 2007 Comment).*

#### **6.4 Use of Inter-Fund Loans**

Before issuing anticipation notes to provide short-term financing for a project, the issuance and interest costs shall be compared with the cost of meeting the cash-flow need through temporary borrowing via an inter-fund loan from the county's investment pool.

All inter-fund loan requests shall be submitted to the Division for review to ensure that suitable reimbursement language is included. Following Division review, the request will be submitted to the EFC for final review and approval.

*(Although the costs of issuance associated with anticipation notes are relatively low, inter-fund loans will typically be more advantageous when the amount to be borrowed is relatively small and/or the anticipated term of the financing is short. 2007 Comment).*

#### **6.5 Refunding Transactions**

The county will refinance outstanding debt as appropriate for the purpose of achieving debt service savings.

Municipal bonds are routinely issued with provisions that allow the bonds to be called (i.e. retired) after ten years. The right of municipal issuers to call their debt after ten years is an option that has economic value.

Under current U.S. Treasury regulations, the county is limited to refunding an issue only once prior to its call date. Given this limitation, refunding transactions should only be undertaken if they achieve certain threshold debt service savings targets. This will establish the minimum economic value that the county will accept for exercising a call option.

In most refunding transactions, the county simply issues new fixed rate bonds (the refunding bonds) with a life equal to the remaining life of the bonds to be refunded (the refunded bonds), the proceeds of which will be used to pay off the refunded bonds.

In such cases, unless otherwise justified, "advance refunding" transactions -- those undertaken more than 90 days prior to the first call date of the debt to be refunded -- will be completed only when the net present value of the debt service savings achieved as a result of the refunding is equal to at least 5% of the principal amount of the refunded bonds. (In most cases, such savings will be calculated on an aggregate rather than an incremental basis.)

Because the value of the call option declines as bonds approach their stated maturities, the target savings for “current refunding” transactions -- those undertaken either within 3-months of or after the first call date of the refunded debt -- shall take into account the remaining life of the refunded bonds. Unless otherwise justified, a current refunding will require graduated minimum net present value savings as follows:

<u>Remaining years</u>	<u>Present Value Savings</u>
<2	1%
>2 & <4	2%
>4 & <7	3%
>7 & <10	4%
>10	5%

*(The refunding savings targets identified above are quite widely adhered to within the municipal finance industry. For example, these targets are the same as those identified by the Washington State Finance Committee in its Debt Policy. 2007 Comment)*

Instead of issuing fixed rate refunding bonds, on occasion the county may issue variable rate bonds and then enter into an interest rate swap agreement to produce a fixed rate refunding bond issue. In recognition of the additional risks associated with such swap-based transactions, however, the county must achieve minimum present value debt service savings threshold targets that are 2% higher than those identified above and are also at least 2% higher than those that would be produced from a comparable traditional refunding.

Unless otherwise justified, the maturity of any refunding bonds will not extend beyond the remaining life of the original bonds and the transactions will typically be structured in such a way as to produce approximately equal debt service savings in each of the remaining years of the life of the original bonds.

*(Almost all of the county’s recent refundings have indeed been structured to produce level debt service savings. However, the two refundings of the baseball bonds have been used as opportunities to adjust the debt service to match revised revenue projections and to shorten the remaining lives of the bonds. 2007 Comment).*

A refunding that does not meet the present value savings targets identified above may still be undertaken if there are other resulting considerations such as the desire to eliminate burdensome covenant restrictions or to respond to other possible changes that affect the county’s debt.

The county will not refund debt for the sole purpose of deferring debt service unless justified by unique circumstances.



## **6.6 Tax-exempt vs. Taxable Debt**

The county will endeavor to issue tax-exempt debt whenever possible under the IRS tax code.

For certain projects that include usage by private or non-profit entities beyond allowable limits, however, it will on occasion be necessary for the county to issue taxable debt. The county will minimize taxable debt by using cash to the greatest extent possible for project components that are ineligible for tax-exempt financing.

In certain other circumstances, it may also be prudent for the county to issue taxable debt in order to avoid the sometimes burdensome restrictions involved in complying with IRS regulations. The county shall weigh the costs of complying with such regulations against the benefits of lower-cost financing from issuing the debt on a tax-exempt basis.

*(For example, the bonds that were issued for the parking facilities at Safeco Field were required to be sold on a taxable basis. 2007 Comment).*

## **6.7 Fixed vs. Variable Debt**

The majority of county debt takes the form of fixed rate long-term debt. Such debt provides the benefit of providing stable and certain annual debt service payments. While fixed rate bonds offer long-term predictability for debt service costs, it is prudent for county funds of sufficient size to finance a portion of their capital program using variable rate debt for the following reasons.

- *Reduced exposure to changes in interest rates.* An important advantage of using variable rate debt is that it would act as a natural “hedge” to the exposure of the different county funds to the impact of changes in short-term interest rates on their investment income. Most county funds have significant cash balances that are held in the county’s investment pool. Since the Investment Pool is typically invested in relatively short-term instruments, changes in interest rates will result in volatility in the total revenues of county funds. Because changes in the interest rates on variable rate debt are likely to be positively correlated with changes in the yield on the county investment pool, changes in the interest expense of variable rate debt will provide a natural offset to changes in the investment income as interest rates increase or decrease. Using variable rate debt to fund a portion of their capital structure would therefore reduce the exposure of county funds to changes in interest rates.

Furthermore, the amount or percentage of variable rate debt to be incurred in order to hedge against volatility in a fund’s interest earnings on its investment balances does not require an exact matching of cash assets with variable debt liabilities. The reason for this is that changes in taxable interest rates, which are earned by the Investment Pool, are expected to result in smaller absolute changes in tax-exempt interest rates, which the county pays on its variable rate debt.

(Note: Variable rate debt issued solely to act as a hedge against invested assets

will henceforward be termed “hedged variable rate debt”, while any additional amounts will be termed “unhedged variable rate debt”).

- *Increased financing flexibility.* A second advantage of issuing variable rate debt instruments is that it provides greater financing flexibility. While fixed rate debt is almost always sold with a ten-year call feature, variable rate debt can usually be redeemed at any time. This flexibility can be useful in restructuring the county’s debt service pattern or if there is uncertainty regarding the timing of the revenues to be used to retire principal. Certain types of variable rate debt also incorporate an option for the county to convert the debt to fixed rate bonds. As opposed to relying on the potentially time-intensive process of issuing new bonds, the ability to exercise this option provides the county with greater flexibility to respond quickly to changes in financial market conditions if it is considered prudent to lock in long-term fixed rates.
- *Lower debt service costs.* The third important advantage of issuing variable rate debt is that such debt is likely to produce lower debt service costs over time. This expectation is based on the historical experience that the normal shape of the yield curve is upward-sloping, meaning that short-term interest rates at any point in time are likely to be lower than long-term interest rates, together with the evidence that forecasts of interest rates implied by the yield curve systematically tend to overstate future rates because investors value the liquidity of short-term debt instruments. In combination, these considerations mean that variable rate debt, the rates on which reflect short-term yields, should result in a lower cost of borrowing over time than using fixed rate long-term bonds.

*(The county has so far only issued variable rate debt on behalf of the Wastewater Enterprise Fund. To date, such borrowing has resulted in significantly lower debt service costs. For example, while this has admittedly been a period that has for the most part been characterized by unusually low short-term interest rates, the Wastewater Fund has saved in excess of \$16 million in debt service costs over the past five years by issuing \$100 million in variable rate debt in mid-2001 as opposed to issuing additional fixed rate debt. 2007 Comment).*

*(It should be noted that the yield curve in the municipal bond market has never actually inverted as has been seen on many occasions in the Treasury bond market. 2007 Comment).*

The potential risk associated with issuing unhedged variable rate debt to take advantage of such lower expected lifetime borrowing costs is that increases in interest rates may cause significantly higher debt service costs that may be difficult for different county funds to absorb out of their available revenues. The prudent level of outstanding unhedged variable rate debt for each of the different county funds will therefore depend on several considerations such as the stability and/or controllability of their revenues. The county will solicit input from its financial advisor and/or from the credit rating agencies regarding the appropriate amount of both hedged and unhedged variable rate debt for each different fund.

*(The Wastewater Enterprise Fund's financial policies currently limit total hedged and unhedged variable debt to 15% of their fixed-rate bonds. It would probably be advantageous for most other county funds to have some portion of their capital program comprised of both hedged and unhedged variable rate debt. 2007 Comment).*

## **7.0 Debt Issuance Methods**

### **7.1 Reliance on Professional Advisors**

In selling debt, the county will place heavy reliance on its financial advisor(s) and bond counsel(s), and, in the case of negotiated sales, the underwriter(s). Following are definitions of these roles and responsibilities:

- *Financial Advisor:* The primary role of the county's financial advisor is to identify the market opportunities for bond sales and ensure the county's financial interests are protected on any debt issuance. The financial advisor helps determine the structure and timing of the bond issue, evaluates bond sales, and assists in the closing of transactions.
- *Bond Counsel:* The primary role of bond counsel is to certify that the county has legal authority to issue the bonds. The bond counsel also works with the county to ensure compliance with all statutory and procedural requirements.
- *Underwriter:* The primary function of the underwriter is to purchase debt issues from the County and resell them to investors. In a negotiated sale, the underwriter provides expertise regarding the structure of the debt issue that will enhance its marketability.

Consistent with county procurement practices, the Division will periodically issue Requests for Qualifications (RFQs) in order to enter multi-year contracts (or other arrangements) with such professionals. The preferred candidates will be selected on the basis of their experience, the proposed pricing of their services, and other considerations deemed appropriate.

### **7.2 Competitive Sales**

The county prefers to sell debt by means of competitive sales.

In a competitive sale, the county solicits bids from underwriting firms to purchase its debt, and sells the debt to the firm offering the lowest interest cost bid. The county prefers this method because: (1) it ensures that the debt is sold at the lowest interest cost given market conditions; (2) the underwriting cost tends to be lower compared to negotiated sales; and (3) it promotes the appearance of an open and fair process.

### **7.3 Negotiated Sales**

Negotiated sales will be used, however, for certain debt issues for which a specific result is required and for more complicated debt issues for which closer underwriter input can provide added value in the structuring and marketing of the debt.

*(For example, most of the refunding bonds issued over the past 5 years have been sold on a negotiated basis. The reason is that this method of sale provides considerable flexibility to respond to changes in market conditions on the day of the sale, which in turn may impact the size of the refunding transaction that can be undertaken in order to achieve the county's present value savings target (see "Refunding Transactions" above). Negotiated sales have also been used for more complex transactions such as the Safeco Field bonds and the recent conduit financings. 2007 Comment).*

#### **7.4 Private Placements**

In certain unique circumstances, the county may also utilize private placements.

*(The only example of a private placement over the past decade was the sale of the 1997A bonds to Bank of America, the proceeds of which were used to provide for the cost of issuance for the Safeco Field bonds. A public sale of this portion of the bonds was not considered feasible because of the significant legal risks surrounding the project which, had they not been resolved in the county's favor, could have forced the county to immediately retire the bonds. 2007 Comment)*

#### **7.5 Credit Enhancements**

As mentioned earlier, credit enhancement instruments such as bond insurance or bank credit facilities will be used to provide additional security for county debt when it can be demonstrated that the cost thereof is expected to be more than offset by the reduction in debt service. (Note: When sold competitively, the decision to insure bonds is made by the winning underwriter rather than by the county.)

### **8.0 Debt Administration Duties**

#### **8.1 Investment of Proceeds**

Each bond ordinance will provide for the establishment of funds and accounts, which will be designated in advance by the county. Each ordinance will identify the investing officer for the funds held by the county, and any investments will generally be made in accordance with the county's Investment Policy and procedures established by the county. The county will consider investment agreements on a case-by-case basis, and enter into agreements when appropriate through a process of competitive bidding that adheres to U.S. Treasury regulations and guidelines.

#### **8.2 Arbitrage**

Prior to any debt issuance, the Division shall be provided with information regarding the expected timing and amount of expenditures to be made from the project fund. The Division will provide this information to Bond Counsel for use in developing the Arbitrage Certificate.

The Financial Management Section within the Division will keep records of expenditure of bond proceeds and bond funds sufficient for the Treasury Operations Section within

the Division to develop calculations required for compliance with arbitrage and other tax law requirements.

The Treasury Operations Section is not responsible for arbitrage and other tax law requirements for junior taxing districts for which the county serves *as ex officio* treasurer. No such district is authorized to obligate the county in any way relating to these documents.

### **8.3 Financial Disclosure**

The county is committed to providing full financial disclosure.

The Division will serve as the focal point for information requests relating to official statements to be used in the initial offering of the county's bonds or notes. The Division will request from relevant departments and offices, information required for disclosure to investors and rating agencies. Each department or office bears responsibility for the information provided for use in the county's official statements.

The Division will ensure that the county complies with applicable securities law in providing full disclosure upon the issuance of all debt and meets its continuing disclosure undertakings in a timely manner.

## Appendix A – Payment Agreement Policy

### 1.0 Introduction

The Payment Agreement Policy is a subset of King County's Debt Management Policy. The purpose of the Policy is to establish guidelines for the execution and management of the county's payment agreements, including interest rate swaps. The Policy confirms the commitment of the Executive, the County Council, staff, and advisors to adhere to sound financial and risk management practices, with the goal of achieving the lowest possible cost of capital within prudent risk parameters.

A payment agreement is a written agreement which provides for an exchange of payments based on interest rates, or for ceilings or floors on these payments, or an option on these payments, or any combination thereof. A payment agreement may also be entered into on either a current or forward basis.

A typical form of payment agreement is an "interest rate swap". An interest rate swap is a contract entered into by an issuer with a swap provider to exchange periodic interest payments. Normally, one party agrees to make payments to the other based upon a fixed rate of interest in exchange for payments based on a variable rate.

*(For example, the county may issue variable rate debt and simultaneously enter into an interest rate swap contract. The swap contract may provide that the county pay to the swap counter-party a fixed rate of interest in exchange for the counter-party making variable payments that are expected to be equal to the amount payable on the variable rate debt. 2007 Comment).*

The size of the interest rate swap market (estimated in the tens of trillions of dollars) far exceeds that of the municipal bond market. Participants in the municipal bond market are primarily limited on one side to governmental and other tax-exempt issuers and, on the other, to investors who have a U.S. federal income tax liability. Participants in the interest rate swap market include both of these groups as well as corporations and investors of all types, both domestic and international. The sheer size of this market can produce efficiencies not seen in the municipal market. Furthermore, this diverse group of participants also means that there is likely a party whose goals for their borrowing or investment program are different than those of the county's (i.e., the county would like to reduce its risk exposure while the other party is more tolerant of risk). The interest rate swap market provides these parties with increased options for aligning their investing and borrowing outcomes more closely with their respective goals.

*(The county may be willing to enter into such an agreement if it results in the county paying a lower fixed rate of interest than it would have to pay if it simply issued fixed rate bonds. The benefits from using swaps depend on financial market conditions. For example, during the first half of this decade the county could have consistently lowered its borrowing costs by at least 50 basis points had it been able to enter into such interest rate swaps instead of issuing fixed*

*rate bonds. However, recent developments in financial markets have significantly reduced the potential benefits from using swaps. 2007 Comment).*

*(Alternatively, in certain circumstances it may prove cost-effective for the county to enter into an interest rate swap agreement to synthetically create variable interest rate exposure instead of issuing variable rate directly, thereby avoiding the need to both retain the services of a remarketing agent and obtain credit enhancement. 2007 Comment).*

## **2.0 Philosophy Regarding Use of Payment Agreements**

Payment agreements may be executed when they achieve a specific objective consistent with the county's overall financial policies. The county will use payment agreements to produce a result not otherwise available in the cash market or to provide a higher level of savings, lower level of risk, greater flexibility, or other direct benefits related to the debt obligation with which the payment agreement is associated.

The county will not use payment agreements that: (i) create extraordinary leverage or financial risk; or (ii) provide insufficient price transparency to allow reasonable valuation.

Payment agreements will not be used for speculation. For policy purposes, speculation means taking additional risks, unrelated to the county's business, in an effort to increase returns.

Reasons to use payment agreements include, but are not limited to:

- Reducing interest expense;
- Hedging and actively managing interest rate, tax, basis, and other risks;
- Achieving an appropriate asset/liability match within a particular fund; and
- Achieving variable rate funding without utilizing the services of a remarketing agent and obtaining credit enhancement.

All payment agreements will conform to the requirements set forth in RCW 39.96, as amended, related to payment agreements.

The council will be responsible for adopting legislation necessary for the county to enter into such transactions. Specific delegation from the Executive and County Council will be obtained by the Division prior to entering into any payment agreements pursuant to such legislation.

## **3.0 Permitted Instruments**

The county may use the following financial products after identifying the specific financial objective(s) and assessing the attendant risks:

- Interest Rate Swaps – Immediate or forward starting variable-to-fixed rate swaps may be used to capture current market fixed interest rates or eliminate variable rate exposure. Fixed-to-variable rate swaps may be used to create additional variable interest rate exposure.
- Interest Rate Caps, Floors, and Collars – Financial contracts may be used to limit or bound exposure to interest rate volatility.

*(An interest rate cap is an agreement entered into by the issuer of variable rate debt in which the counter-party agrees to pay any portion of the interest to be paid on the debt that exceeds a specified interest rate based on an index. Absent any deterioration in the credit of the issuer, such a cap creates an upper limit on the interest cost to the issuer of variable rate debt. 2007 Comment).*

*(An interest rate floor is an agreement whereby the issuer of variable rate debt agrees to pay a stated rate of interest based on an index even if the actual rate on the variable rate debt (after adjusting for any changes in the credit quality of the issuer) is lower. The issuer receives an upfront fee from a counter-party in exchange for the right to collect the difference between the interest rate floor and the actual lower rate on the debt. 2007 Comment).*

*(A collar is a combination of a cap and a floor. 2007 Comment).*

- Options on Swaps – Sales or purchases of options may be used to commence or cancel interest rate swaps.

*(This is an option held by one party that provides that party the right to require that a counter-party enter into a swap contract on certain specified terms. 2007 Comment)*

- Basis Swaps – Variable-to-variable rate swaps may be used to manage basis or tax risk and change the basis on which variable cash flows are determined.
- Rate Locks – Rate locks may be used to hedge an upcoming fixed rate bond issue.
- Other financial products – These may be used with the approval of the council.

#### **4.0 Risk Analysis**

The county will evaluate all permitted instruments with respect to the risks with which they are associated. A specific determination must be made that the expected benefits exceed the identified risks by an adequate margin over those available in the traditional cash market, if any.

The county will analyze and evaluate the potential risk involved by examining the factors listed below:

- Market or interest rate risk – Does the transaction hedge or create interest rate volatility?



- Risk of Uncommitted Funding – Does the transaction entail the risk of future refinancing needs?
- Legal Risk – Is the county authorized by its governing law to enter into the transaction, and does the proposed transaction conform to RCW 39.96?
- Reporting Considerations – Has the county consulted its accounting staff and auditors to determine the impacts such a transaction will have on the county's financial statements (including mark-to-market considerations)?
- Rating Risk – Does the proposed transaction pose any risk to the county's debt ratings? Has the proposed transaction been reviewed by the rating agencies?
- Termination Risk – Under what circumstances might the transaction be terminated? What is the probable range of termination values? How would a possible termination payment be funded?
- Counter-party Risk – What is the creditworthiness of the counterparty? (Ratings and rating outlooks)
- Basis Risk – Do the anticipated payments the county will receive match the payments it makes? If not, is the basis risk justified by the expected benefits?
- Tax Risk – Is the financial outcome of the transaction subject to change if there is a change in federal income tax policy?

Once a payment agreement has been executed (implying that the first five threshold items above have been satisfactorily addressed), the county would continue to face termination risk, counter-party risk and, depending on the index used, may also face basis risk and tax risk. The following discussion addresses each of these risks.

*Termination risk* refers to the potential consequences for the county if the payment agreement has to be terminated earlier than scheduled. All payment agreement documents will identify events that trigger automatic termination. These can include credit-related events such as ratings downgrades, bankruptcy/insolvency of either party, and nonpayment of debt by either party. If a payment agreement is terminated, the county would face the reversion of its underlying debt to its original form and/or may be liable for potentially large payments if the termination occurs at a time of adverse market conditions.

*Counter-party risk* represents one source, albeit perhaps the most significant one, of termination risk since the default by a counter-party in a payment agreement and the consequent termination exposes the county to precisely the same potential consequences as those identified in the above paragraph. There are several strategies that the county will use to mitigate counter-party risk, including dealing only with providers that have very high credit ratings, diversifying its exposure across multiple providers, and/or requiring providers to post collateral when counter-party ratings dip below specified levels.

*Basis risk* arises when the variable rate payments an issuer receives under a payment agreement are not sufficient to cover the variable interest rates that it must pay on its bonds. This is often the result of basing the payment agreement on a different index. For example, while variable tax-exempt bond rates track the

Securities Industry and Financial Markets Association (SIFMA) index, payments made to tax-exempt issuers on variable-to-fixed rate swaps are frequently based on a percentage of the London InterBank Offered Rate (LIBOR). If the relationship between these indexes changes during the life of the swap, the county may have to pay an additional amount to cover the payments on its variable rate debt over and above the fixed rate it would be paying under the payment agreement. Over and above the use of an index that does not exactly track the SIFMA index, an issuer would also incur additional variable rate payments on the underlying variable rate bonds if it or its credit support provider experiences any deterioration in credit during the term of the payment agreement.

*Tax risk* represents one source, albeit a very significant one, of basis risk. This is because a change in federal tax rates is one major factor that would have a significant impact on the relationship between the SIFMA index, which reflects the rates on tax-exempt debt, and LIBOR which is a taxable short-term interest rate.

The rating agencies will need to be convinced that the county is fully cognizant of the above risks and that it has the financial flexibility to absorb the potentially higher payments that could result from various adverse developments.

## **5.0 Risk Limits**

### **5.1 Value at Risk**

The county shall measure, monitor, and limit its market risk on payment agreements. The county will calculate the net effect of a 100 basis point (1%) unfavorable change in interest rates on its payment agreement program at least quarterly. The value at risk will not be allowed to exceed the reasonable ability of the county to provide liquidity for a termination payment in the event of a termination event.

### **5.2 Other limits**

Payment agreement terms may not exceed the term of the debt obligation associated with the agreement. The total notional amount of the payment agreement may not exceed the total par amount of the debt obligation(s) associated with the agreement (i.e. as the par amount of the debt obligation declines with amortization, the notional amount of the payment agreement must be reduced correspondingly).

## **6.0 Payment Agreement Procurement and Execution**

The county will solicit and procure payment agreements by competitive bid when feasible. Only parties conforming to the minimum credit standards outlined in this Policy and that have agreed to terms and conditions acceptable to the county will be allowed to participate in a competitive transaction.

The county may procure payment agreements by negotiated methods if it determines that due to the size, complexity or timing considerations of a particular agreement,

competitive bidding is undesirable, impractical or impossible and a negotiated transaction would result in the most favorable terms.

The county will attempt to price the agreement based upon an agreed-to methodology, relying on available pricing data. The county will use a financial advisor to assist in price negotiations and the determination of the method of procurement.

Regardless of the method of procurement, the county will obtain a finding from the financial advisor that the payment agreement and the terms and conditions of the agreement are "commercially reasonable" pursuant to RCW 39.96.

The Director of the Finance and Business Operations Division or his or her designee may execute council-approved payment agreements and other documents related to such transactions and may execute the documents related to similar transactions, if such documents result in a transaction consistent with this Policy. This authorization will extend to future termination or modifications of the initial documents, provided such terminations or modifications result in a structure and other parameters that are otherwise consistent with this Policy.

## **7.0 Counterparties Policy**

The county shall execute payment agreements only with counter-parties with strong credit ratings. The county will attempt to do business with counter-parties with at least two ratings in the "AA" category or above as of the transaction date.

For lower-rated (below "AA" category) counterparties, the county will seek credit enhancement in the form of:

- Collateral;
- Guarantees; and
- Termination events (e.g., if the counterparty rating falls below investment grade).

If (i) the rating of the counter-party is below the "AA" category or the counter-party's rating is downgraded below the "AA" category while the agreement is in effect; or if (ii) the counter-party's payment obligations are not guaranteed by another entity or if the entity that guarantees the counter-party's payment obligations, if so secured is rated below the "AA" category, then:

- The obligations of the counter-party will be 102% collateralized by cash, direct obligations of the United States, or Agencies; and
- The cash or obligations will be deposited with the County or with an agent of the county; and
- The collateral obligations will be valued at least weekly.

The county will attempt to structure payment agreements to limit losses due to non-performance of its counter-parties using appropriate strategies, e.g. by using more than

one counter-party for an agreement and having the explicit option to terminate an agreement.

The county will establish and review counter-party exposure limits, i.e., not-to-exceed amounts for a given counterparty.

## **8.0 Documentation**

The county will use standard documentation from the International Swaps and Derivatives Association (ISDA), including the Master Agreement, Schedule to the Master Agreement, Credit Support Annex, and Confirmation.

## **9.0 Active Management**

The county will seek to maximize the benefits it accrues and minimize the risks it bears by actively managing its payment agreements. This will entail continuous monitoring of market conditions (such as current interest rates, credit ratings of the parties to a transaction, and other relevant factors), in conjunction with the counter-party and the county's advisors, for emergent opportunities and risks. Active management may entail modifications of existing transactions including:

- Early termination of an agreement;
- Shortening or lengthening the term of an agreement;
- Sale or purchase of options; and
- Application of basis swaps.

Each proposed modification must be consistent with this Policy. With the approval and conditions set forth by the Executive Finance Committee, the Director of Finance and Business Operations will have delegated authority sufficient to provide flexibility to actively manage existing payment agreements without additional council approvals. Such delegated authority includes, but is not necessarily limited to, the authority to execute modifications to documents or to exercise actions permitted under the documents related to a transaction. The Finance Director will report all such modifications to the Executive Finance Committee.

## **10.0 Reporting and Disclosure**

The Division will provide an annual report on the status of the county's payment agreements to the Executive Finance Committee. These reports will include market values, cash flows, value at risk and other performance measures, as well as evaluations of each transaction's performance relative to benchmarks or goals set forth for the transaction. The reports will also note all material changes to payment agreements or new agreements entered into by the county since the last report.

The Division will monitor and require compliance with this Policy as well as then-current accounting practices and federal and state regulations and requirements.

## **11.0 Rating Agencies**

The county will advise the rating agencies of any proposed payment agreements as part of its overall rating agency strategy, and will provide updates to them on any changes.

## **12.0 Payment Agreement Management Plan**

The county will prepare and maintain a payment agreement management plan. This management plan will contain a discussion of the details of the agreement, its risks, regards, and exit strategies. The following will be addressed in the plan:

- A discussion of why the agreement makes sense to the county, given its projected benefits and risks.
- Counterparty ratings and implications for the county.
- Impact on annual financial statements
- Discussion of senior management's awareness of basis risk, termination (or rollover) risk, and counterparty risk.
- The methods for handling basis risk (including tax risk), interest rate risk, termination risk, and counter-party risk.
- Events that may trigger an early termination under the agreement.
- Assessment of the possibility of involuntary termination due to an event of default or event of termination.
- Determination of how much an involuntary or voluntary termination would cost and how it would be paid.
- In the event of early termination, discuss how any variable rate exposure would be re-hedged.
- Identity of key personnel and/or positions involved in monitoring the terms of the agreement and counterparty creditworthiness.