



King County

**Ron Sims**

King County Executive

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The Honorable Larry Phillips

King County Council

Room 1200

COURTHOUSE

2004-093

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CLERK  
KING COUNTY COUNCIL

February 11, 2004

Dear Councilmember Phillips:

The attached ordinance would authorize the 2004 issuance of the remaining \$164 million of the \$193.1 million of unlimited tax general obligation (UTGO) bonds that were approved by the voters in September 2000 to provide funding for the seismic improvement capital project at the Harborview Medical Center.

The original financing plan for the project had anticipated that the total voter-approved bond authorization of \$193.1 million would be sold in three separate series. The first series, in the amount \$29.1 million, was issued in early 2001, with the second and third series to be sold in 2004 and 2007 respectively. This was intended to generate a total of approximately \$16.1 million in interest earnings as part of overall project financing at an assumed average interest rate of 5.8%, the estimated bond borrowing cost. While the initial interest earnings rate was 6.6%, the very steep decline in interest rates over the past 3 years has brought the average yield to date to approximately 3.8%. This investment rate reduction has caused projected investment earnings on the bond proceeds to fall short of the amount anticipated in the original financing plan. The shortfall can be restored according to the proposed bond issuance schedule acceleration.

When we discussed this situation with the Council last year in the Budget and Fiscal Management Committee we had proposed, and the Council approved by motion, a financial plan authorizing a bond issuance plan revision that would generate budgeted income by issuing the entire remaining \$164 million authorization late in first quarter 2004. This plan was reviewed with Bond Counsel and based on then estimated cashflow was determined to be in compliance with Internal Revenue Service (IRS) guidelines requiring a minimum of 85% planned expenditures within 36 months of debt issuance. According to the updated cash flow schedule, with expenditures occurring at a slower rate, the goals of interest earnings maximization and IRS compliance are satisfied if we issue \$110 million in late March with the remaining amount \$54 million to be issued in the late summer. This two-phase issuance will meet the IRS test while generating approximately \$1 million more in interest earnings than a later single issuance in the fall of 2004.



An alternative to issuing the remaining bonds in two issuances in 2004 would be to revert back to the single 2004 issuance discussed with the Council last year which would occur in late summer. The consequence of this, however, would be either to reduce likely interest earnings by approximately \$1 million and require either a scope reduction of a similar amount or an increase in internal Harborview resources to meet the adopted revenue plan.

As we noted last fall, while the interest rate environment has negatively impacted interest earnings under the original financing plan taxpayers have significantly benefited from reduced borrowing costs. The first bond sale had an effective interest rate of approximately 4.75% and remaining bond sales are expected to sell at similar rates. The good news to taxpayers is that this lower rate would reduce estimated total debt service payments by approximately \$20 million from the original plan.

The bonds may be sold by either competitive bid or negotiated sale. The exact terms of the bonds will be established by the Director of the Finance and Business Operations Division in consultation with the financial advisor and then will be confirmed by the Council in separate sale motions to be adopted on the days of the sale. Two draft sale motions are also included in this legislative package for prior committee consideration.

Thank you for your consideration of this request. If you have any questions, please contact Bob Cowan, Division Director, Finance and Business Operations, at (206) 684-1935, or Nigel Lewis, Senior Debt Analyst, at (206) 296-1168.

Sincerely,



Ron Sims  
King County Executive

Enclosures

cc: King County Councilmembers  
    ATTN: Shelley Sutton, Policy Staff Director  
          Rebecha Cusack, Lead Staff, BFM Committee  
          Anne Noris, Clerk of the Council  
Steve Call, Director, Office of Management and Budget  
Paul Tanaka, County Administrative Officer, Department of Executive Services (DES)  
Bob Cowan, Director, Finance and Business Operations Division, DES  
Nigel Lewis, Senior Debt Analyst, Treasury Operations Section, DES