



King County
Metropolitan King County Council
Budget & Fiscal Management Committee

Agenda Item No.: 7 Date: July 20, 2010
Proposed No.: 2010-0371 Prepared By: Polly St. John

STAFF REPORT

SUBJECT:

A MOTION approving the Executive's recommended allocations of Recovery Zone Facility Bonds and Recovery Zone Economic Development Bonds authorized by the federal American Recovery and Reinvestment Act.

SUMMARY:

Proposed Motion 2010-0371, if adopted, will approve allocations for projects to receive federally subsidized bonds to finance business capital investments and public economic development projects.

The Council designated King County as a Recovery Zone as authorized by the federal American Recovery and Reinvestment Act (ARRA) in March of this year. With this designation, King County businesses – and the County itself – qualify for \$58 million in federally subsidized bonds to finance business capital investments and public economic development projects including infrastructure projects, job training and educational programs. The federal government subsidizes 45 percent of the interest costs of the public projects while the bonds for private projects are tax exempt, having the effect of lowering the cost of borrowing.

Ordinance 16787 established the Recovery Zone for this stimulus funding and a working group to review project applications. The workgroup rankings were forwarded to the Executive for his consideration. The Council must approve the recommended projects by motion.

There are no direct costs incurred by the County in approving the projects. The County's Bond Counsel and Financial Advisor have reviewed the proposals.

BACKGROUND:

Under ARRA, Congress created two new types of bonds that receive federal subsidies for the interest payments. These are Recovery Zone Facility Bonds and Recovery Zone Economic Development Bonds. Recovery Facility Zone bonds are tax-exempt private activity bonds that provide lower borrowing costs to private business to finance

depreciable capital projects. Recovery Zone Economic Development Bonds are taxable bonds that allow local governments to obtain lower borrowing costs, through a forty-five percent federal interest payment subsidy, to finance public infrastructure and facilities.

On March 29, 2010, the Council passed Ordinance 16787 declaring King County as a Recovery Zone for this stimulus funding and to qualify for Recovery Zone Facility Bonds and Economic Development Bonds. Ordinance 16787 also established a working group to review project applications. The workgroup rankings were forwarded to the Executive for his consideration. The Council must approve the recommended projects by motion.

(Attachment 3 to this report is the March 16, 2010 staff report regarding establishment of a Recovery Zone, which describes each type of bonds in detail, as well as the United States Department of the Treasury and the Washington State Department of Commerce process for the County allocations.)

Proposed Motion 2010-0371 would approve the proposed project allocations to allow the projects to proceed to financing and construction.

ANALYSIS:

Private companies are still having difficulty accessing credit and public sector revenues are down. Federal interest subsidies for public projects and tax-exempt bonds for private projects have the effect of lowering the cost of borrowing so that projects may become more viable.

King County has been allocated \$34,754,000 in issuing authority for Recovery Zone Facility Bonds (RZFB) and \$23,169,000 for Recovery Zone Economic Development Bonds (RZEDB). Bonds for both programs must be issued prior to January 1, 2011. The Office of Strategic Planning and Performance Management has overseen the application process.

It should be noted that there are no direct costs incurred by the County in approving the project allocations. The County's Bond Counsel and Financial Advisor have reviewed the proposals.

Recovery Zone Facility Bonds:

The Executive received two applications totaling \$14.7 million for RZFB. According to the transmittal letter, both projects have a preliminary bond counsel opinion that the projects are eligible for the program. Both projects have a letter of interest from a bank. As required by Ordinance 16787, the projects were reviewed by a working group which consisted of Michael Alvine from Council staff, Jeff Marcell, Chief Operating Officer of enterpriseSeattle, and Ray Moser, Economic Development Manager for King County. The working group recommended that the projects receive the bond allocation for which they applied. The projects are described below:

Issaquah Medical Building

This is a \$25.2 million project requesting \$13.2 in RZFB allocation. The project will construct a new, three-story medical building in the heart of Issaquah on the North/South I-90 undercrossing roadway. The proposed 55,000 square foot, medical building is designed to Leadership in Energy and Environmental Design (LEED) Gold standards. This project has been envisioned and designed with input from the City of Issaquah and has full support from the City.

The project will create 71 new construction jobs and 46 new permanent jobs. The tenants will represent independent private practice physicians providing specialty services such as imaging, gastro endoscopy, and OB/GYN, as well as internal medicine practices.

Kenmore Air Harbor, Inc. Hangar

Kenmore Air Harbor is considered by some to be the world leader in seaplane fixed base operations. This is a \$1.6 million project requesting \$1.5 million in RZFB allocation. The project will construct a new 16,000 square foot hangar designed to provide indoor maintenance space. Currently, the company must conduct a significant portion of its maintenance operations, for its seaplanes and landplanes and for privately-owned aircraft, outside. This places it at a disadvantage with its largest competitors in the United States and Canada because it cannot perform work during the winter months. The new hangar will provide for year-round maintenance work resulting in the retention of three jobs and the creation of three new jobs. The project will create 12-18 construction jobs. The City of Kenmore has passed a resolution supporting this project.

Recovery Zone Economic Development Bonds:

The Executive is also proposing that a previously appropriated Roads project – NE Novelty Hill Road – that was planned to be financed using a bond issuance to be considered for allocation of the total RZEDB amount. The Executive, with the assistance of the County's financial advisor, Seattle Northwest Securities, believes that most efficient use of the County allocation of \$23 million would be for this project.

Project Background: The 2010-2015 adopted CIP budget includes \$37.9 million for the Novelty Hill Road Phase I project. (The total project budget is \$70,313,260 of which \$34,591,020 has been spent.) The Phase 1 project is designed to serve and to mitigate the traffic impacts of County-approved development and background traffic for eight to ten years after completion of construction, which includes all of the Trilogy, Northridge and Redmond Ridge East traffic impacts. This would meet the County's obligation under the Redmond Ridge East settlement agreement. The Phase 1 project provides a route from Novelty Hill Road via 196th Ave. NE to NE Union Hill Road westward to the Redmond city limits.

The Executive proposes to finance \$43 million of the project costs with \$23 million in RZEDB and the remainder with Build America Bonds. (The Build America Bonds receive a 35% federal interest payment subsidy and the RZEDB receive a 45% interest

payment subsidy.) Other revenue sources for the project include grants, the road fund, mitigation payment system, and vehicle license fees. The anticipated annual debt service for the bonds is \$3,463,029. This financial plan placeholder amount will be adjusted to reflect the actual debt service in the 2012-2017 budget after the bonds are sold. (However, due to the lower interest rates, the debt service could save as much as \$500,000 annually.)

The project is currently soliciting bids for the construction contract that will be opened in August. Construction is scheduled to start in September, 2010.

REASONABLENESS:

This approval of eligible project allocations to receive Recovery Zone Bonds represents a reasonable business decision for the County, as it will significantly reduce the amounts of interest on the qualified projects.

ATTACHMENTS:

1. Proposed Motion 2010-0371
2. Transmittal letter, dated June 28, 2010
3. March 16, 2010 staff report regarding establishment of a Recovery Zone

INVITED:

- Dwight Dively, Director of OMB and OSPPM
- Sid Bender, OMB
- Ray Moser, Manager, Business Relations and Economic Development
- Gary Prince, Roads
- Jay Osborne, Roads
- Ken Guy, Director, Finance and Business Operations
- Nigel Lewis, FBOD
- Rob Shelley, Financial Advisor



KING COUNTY
Signature Report

July 19, 2010

Motion

Proposed No. 2010-0371.1

Sponsors Patterson and Ferguson

1 A MOTION approving the executive's recommended
2 allocations of Recovery Zone Facility Bonds and Recovery
3 Zone Economic Development Bonds.

4 WHEREAS, Ordinance 16787 requires the executive to transmit a motion to the
5 council containing the executive's recommendations for projects that should receive
6 Recovery Zone Bond financing, and

7 WHEREAS, the county's allocation is \$34,754,000 for Recovery Zone Facility
8 Bonds and \$23,169,000 for Recovery Zone Economic Development Bonds, and

9 WHEREAS, the executive established a process for Recovery Zone Facility Bond
10 project applications to be submitted by May 14, 2010, and

11 WHEREAS, two Recovery Zone Facility Bond project applications were received
12 totaling \$14,700,000, and

13 WHEREAS, Attachment A to this motion contains Recovery Zone Facility Bond
14 project descriptions, and

15 WHEREAS, both Recovery Zone Facility Bond project applications are eligible
16 and are recommended for allocation by the working group formed by the executive in
17 accordance with Ordinance 16787, Section 2, and

18 WHEREAS, \$20,054,000 in Recovery Zone Facility Bonds remain unallocated,
19 and

20 WHEREAS, the state of Washington Department of Commerce has given the
21 county an extension to July 31, 2010, to solicit additional Recovery Zone Facility Bond
22 applications, and

23 WHEREAS, upon advice from the county's bond counsel and investment advisor,
24 the executive has selected one project to receive the county's allocation of Recovery Zone
25 Economic Development Bonds, and

26 WHEREAS, Attachment A to this motion contains the Recovery Zone Economic
27 Development Bond project description;

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

29 The projects listed in Attachment A to this motion are hereby approved for
30 Recovery Zone Bond allocation.

31

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Robert W. Ferguson, Chair

ATTEST:

Anne Noris, Clerk of the Council

Motion

APPROVED this ____ day of _____, _____.

Dow Constantine, County Executive

Attachments: A. Recovery Zone Bond Project Descriptions

June 17, 2010

Attachment A

Recovery Zone Bond Project Descriptions

A. Recovery Zone Facility Bond Project Descriptions

1. Issaquah Medical Building

This is a \$25.2 million project requesting \$13.2 in RZFB allocation. The project will construct a new, three-story medical building in the heart of Issaquah on the North/South I-90 undercrossing roadway. This 55,000 square foot, state-of-the-art medical building is designed to Leadership in Energy and Environmental Design (LEED) Gold standards. This project has been envisioned and designed with input from the City of Issaquah and has full support from the City.

The project will create 71 new construction jobs and 46 new permanent jobs. The tenants will represent independent private practice physicians providing specialty services such as imaging, gastro endoscopy, and OB/GYN, as well as internal medicine practices.

2. Kenmore Air Harbor, Inc. Hangar

Kenmore Air Harbor is largely considered to be the world leader in seaplane fixed base operations. This is a \$1.6 million project requesting \$1.5 million in RZFB allocation. The project will construct a new 16,000 square foot hangar designed to provide indoor maintenance space. Currently, the company must conduct a significant portion of its maintenance operations, for its seaplanes and landplanes and for privately-owned aircraft, outside. This places it at a disadvantage with its largest competitors in the United States and Canada because it cannot perform work during the winter months. The new hangar will provide for year-round maintenance work resulting in the retention of three jobs and the creation of three new jobs. The project will create 12-18 construction jobs. The City of Kenmore has passed a resolution supporting this project.

B. Recovery Zone Economic Development Bond Project Description

1. Northeast Novelty Hill Road

The first phase of the Northeast Novelty Hill Road will cost \$43 million of which \$23,169,000 will be financed with the county's allocation of Recovery Zone Economic Development Bonds. The balance of the \$43 million will be financed by Build America Bonds (thirty-five percent federal interest payment subsidy) and/or tax-exempt bonds. The first phase will design and construct road improvements to Union Hill Road in the vicinity of 196th Avenue NE, 196th/195th Avenue NE from Union Hill Road Northeast to Novelty Hill Road, and Novelty Hill Road at 196th Avenue Northeast. Work will include replacing Evans Creek Bridge, constructing stormwater facilities and stream and wildlife crossings, and developing mitigation sites.

June 28, 2010

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

Dear Councilmember Ferguson:

The enclosed proposed motion, if approved, will approve my recommendations for using King County's allocation of Recovery Zone Bonds.

On March 29, 2010, the King County Council passed Ordinance 16787 declaring King County as a Recovery Zone in order to qualify for Recovery Zone Facility Bonds and Recovery Zone Economic Development Bonds authorized by the Federal American Recovery and Reinvestment Act, also known as the federal Stimulus Program.

Recovery Zone Facility Bonds are tax-exempt private activity bonds that provide lower borrowing costs to private businesses to finance depreciable capital projects. Recovery Zone Economic Development Bonds are taxable bonds that allow state and local governments to obtain lower borrowing costs, through a forty-five percent federal interest payment subsidy, to finance public infrastructure and facilities.

Under both programs, the state of Washington is entitled to an allocation of the national bond limitation or volume cap in proportion to the state's 2008 state employment decline relative to the 2008 state employment decline of all of the states. The United States Department of the Treasury has further suballocated a portion of the state's volume cap to certain counties and large municipalities having a population greater than 100,000. Pursuant to such federal suballocation, King County has been allocated \$34,754,000 in issuing authority for Recovery Zone Facility Bonds and \$23,169,000 in issuing authority for Recovery Zone Economic Development Bonds.

The Washington State Department of Commerce adopted permanent amendments to the Washington Administrative Code (WAC) to implement these programs on January 6, 2010.

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The Honorable Bob Ferguson

June 28, 2010

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Pursuant to these rules, the state acknowledges King County's authority to decide which projects are funded. Under federal law, bonds under either program must be issued prior to January 1, 2011, and there is no limit on project size up to the allocation limit.

Recovery Zone Facility Bonds

Project applications for Recovery Zone Facility Bonds (RZFB) were due on May 14, and we received two applications totaling \$14.7 million. Both projects have a preliminary bond counsel opinion that they are eligible, and both projects have a letter of interest from a bank. A brief description of each project is as follows:

1. Issaquah Medical Building. This is a \$25.2 million project requesting \$13.2 in RZFB allocation. The project will construct a new, three-story medical building in the heart of Issaquah on the North/South I-90 undercrossing roadway. This 55,000 square foot, state-of-the-art medical building is designed to Leadership in Energy and Environmental Design (LEED) Gold standards. This project has been envisioned and designed with input from the City of Issaquah and has full support from the City.

The project will create 71 new construction jobs and 46 new permanent jobs. The tenants will represent independent private practice physicians providing specialty services such as imaging, gastro endoscopy, and OB/GYN, as well as internal medicine practices.

2. Kenmore Air Harbor, Inc. Hangar. Kenmore Air Harbor is largely considered to be the world leader in seaplane fixed base operations. This is a \$1.6 million project requesting \$1.5 million in RZFB allocation. The project will construct a new 16,000 square foot hangar designed to provide indoor maintenance space. Currently, the company must conduct a significant portion of its maintenance operations, for its seaplanes and landplanes and for privately-owned aircraft, outside. This places it at a disadvantage with its largest competitors in the United States and Canada because it cannot perform work during the winter months. The new hangar will provide for year-round maintenance work resulting in the retention of three jobs and the creation of three new jobs. The project will create 12-18 construction jobs. The City of Kenmore has passed a resolution supporting this project.

As required by the ordinance, these projects were reviewed by a working group which consisted of Michael Alvine from Council staff, Jeff Marcell, Chief Operating Officer of enterpriseSeattle, and Ray Moser, Economic Development Manager for King County. The working group recommended to me that these projects receive the bond allocation for which they applied. I therefore request that you approve these two projects for RZFB allocation to allow them to proceed to financing and construction as quickly as possible.

Given our progress to date, the State Department of Commerce has extended our deadline to identify the use of our remaining \$20,054,000 in RZFBs to July 31, 2010. We have already begun to solicit additional project applications. If we do receive additional applications, I will send you a second motion with project recommendations at that time.

The Honorable Bob Ferguson

June 28, 2010

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Recovery Zone Economic Development Bonds

With the assistance of our financial advisor, Seattle Northwest Securities, we have determined the most efficient use of the county's \$23,169,000 allocation of Recovery Zone Economic Development Bonds (RZEDB) is to help finance the \$43 million first phase of the Northeast Novelty Hill Road project. The balance of the \$43 million will be financed by Build America Bonds (thirty-five percent federal interest payment subsidy) and/or tax-exempt bonds. The first phase will design and construct road improvements to Union Hill Road in the vicinity of 196th Avenue NE, 196th/195th Avenue NE from Union Hill Road Northeast to Novelty Hill Road, and Novelty Hill Road at 196th Avenue Northeast. Work will include replacing Evans Creek Bridge, constructing stormwater facilities and stream and wildlife crossings, and developing mitigation sites.

If you have any questions regarding this transmittal, please contact Elissa Benson, Deputy Director of the Office of Strategic Planning and Performance Management, at 206-263-9682, or Ken Guy, Director, Finance and Business Operations Division, at 206-263-9254.

Sincerely,

Dow Constantine
King County Executive

Enclosures

cc: King County Councilmembers
 ATTN: Tom Bristow, Chief of Staff
 Anne Noris, Clerk of the Council
Dwight Dively, Director, Office of Management and Budget & Office of Strategic
 Planning and Performance Management
Elissa Benson, Deputy Director, Office of Strategic Planning and Performance
 Management (OSPPM)
Ray Moser, Manager, Business Relations and Economic Development
 (OSPPM)
Caroline Whalen, County Administrative Officer, Department of Executive
 Services (DES)
Ken Guy, Director, Finance and Business Operations Division, DES



King County
Metropolitan King County Council
Budget & Fiscal Management Committee

Agenda Item No.: _____ Date: March 16, 2010
Proposed No.: 2010-0070 Prepared By: Mike Alvine

REVISED STAFF REPORT

COMMITTEE ACTION:

At its March 16, 2010 meeting, the Budget and Fiscal Management Committee approved Substitute Ordinance 2010-007 with a vote of four ayes, no nos and one excused. The amendment requires the formation of a 3-5 member workgroup to evaluate and rank projects requesting Recovery Zone funding (one member of which shall be Council staff). The workgroup rankings will be forwarded to the Executive for his consideration. The Executive will transmit to Council a motion listing the projects he recommends for funding.

SUBJECT:

AN ORDINANCE relating to designating King County a Recovery Zone in order to qualify for Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds authorized by the federal American Recovery and Reinvestment Act.

SUMMARY:

Proposed Ordinance 2010-0070, if adopted, will declare King County as a Recovery Zone as authorized by the federal American Recovery and Reinvestment Act (ARRA). With this designation, King County businesses and the County itself will qualify for federally subsidized bonds to finance business capital investments and public economic development projects including infrastructure projects, job training and educational programs. The federal government subsidizes 45 percent of the interest costs of the public projects while the bonds for private projects are tax exempt, having the effect of lowering the cost of borrowing for businesses.

BACKGROUND:

Under ARRA congress created two new types of bonds that receive federal subsidies for the interest payments. The State of Washington is entitled to an allocation of the national limitation – also called volume cap – in proportion to Washington’s loss of jobs in proportion to the loss of jobs nationally. The United States Department of Treasury has further allocated a portion of the state’s volume cap to municipalities with a population of over 100,000. This methodology gives King County approximately \$23.2 million in issuing authority for taxable Recovery Zone Economic Development Bonds and just under \$34.8 million in tax-exempt Recovery Zone Facility Bonds. The cities of Bellevue and Seattle have their own allocations for each bond program. King County qualifies for this program through approximately eight measures of economic distress.

On November 29, 2009 the Washington State Department of Commerce adopted emergency amendments to the Washington Administrative Code (WAC) to implement these programs. Under these rules, the State acknowledges King County's authority to decide which projects get funded. ARRA requires that bonds under either program must be issued by December 31, 2010. Under the WAC rules, the State intends that any bond allocation not used by June 30, 2010 may be recaptured by the State and reallocated to other qualifying jurisdictions. The timeline is aggressive if King County wants to use its allocation by June 30.

ANALYSIS:

The Recovery Zone Facility Bond program is somewhat similar to tax-exempt private activity bonds, known as Industrial Revenue Bonds (IRB), authorized under the federal Internal Revenue Code. The Recovery Zone bonds have fewer restrictions and apply to public sector projects and programs, which IRBs do not.

It is clear that private companies are still having difficulty accessing credit and that public sector revenues are down. The federal interest subsidies for public projects may make it more feasible to pursue them. Tax-exempt bonds for private projects have the effect of lowering the cost of borrowing so that these projects may become more viable. For private companies that want to finance a project with the bond program, typically their bank would purchase the bonds as a mechanism to make the loan to the business. They accept a lower rate of interest on the bond than they would for a loan because the interest on the bond is exempt from federal income tax.

The Recovery Zone Economic Development Bond program could save King County financing costs on projects already in the pipeline that are planned to be financed using general obligation bonds. The timeline means only projects ready to go will be considered.

For private sector projects, Executive staff indicates that the Washington Economic Development Finance Authority (WEDFA) will issue the bonds. WEDFA also issues Industrial Revenue Bonds and is well suited to perform this function. Executive staff has prepared an application for Recovery Zone Facility Bonds and is preparing one for Recovery Zone Economic Development Bonds. Due to the short timeline of June 30 to issue bonds in King County, the Executive proposes that he determine which projects are funded. This raises a policy issue.

Policy Issue: Should the Executive decide which public and private projects should use the allocations or should the Council have input or final approval? The Executive would prefer to have the authority due to the short timeline to issue the bonds. On the other hand, the Council may wish to determine which projects are selected. For either bond program one project could use the entire allocation. Given the size of many public infrastructure projects, it would be fairly easy for one project to use the entire allocation. There is the potential that if the public and private allocations are used by June 30, King County could receive additional allocations from the State.

REASONABLENESS:

This program in general represents a reasonable business decision for the County.