## STAFF REPORT

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| **Agenda Item:** | 12 | **Name:** | Mike Reed |
| **Proposed No**.: | 2021-0389 | **Date:** | December 8, 2021 |

**SUBJECT**

Authorization for the sale of $905,000,000 in bonds in support of capital construction and debt refunding for the wastewater capital program; and increased authority for the Finance Director in the sale of bonds for wastewater purposes.

**SUMMARY**

The Wastewater Treatment Division’s capital program is funded primarily through the issuance of bonded indebtedness, including sewer revenue bonds and general obligation bonds backed by the county’s General Fund. New issuances of bonds are authorized by ordinance approved by Council and historically, approval of specific sales has been subject to a sale motion approved by Council. Proposed Ordinance 2021-0389 would authorize the sale of up to an aggregate principal amount of $905,000,000 in bonded indebtedness for wastewater construction purposes and would grant the Finance Director the authority to approve bond sale actions within specified criteria.

**BACKGROUND**

King County’s regional wastewater treatment system operates a $4 billion capital plant, including three regional wastewater treatment plants, two localized treatment plants, more than 390 miles of sewer interceptors, 48 pump stations, 25 regulator stations, and various related facilities and systems. The regional system receives wastewater from cities and sewer districts and conveys it to treatment facilities for treatment and discharge.

The 2021-2022 biennial capital budget for King County’s Water Quality Construction Fund, that supports debt service, system upgrade, maintenance and replacement is $553,182,487. Major capital undertakings include the expansion and upgrade of interceptor pipelines (Conveyance System Improvement Project), the construction of Combined Sewer Overflow control facilities, treatment plant upgrades and repair, and other costs.

Major capital project costs are supported by debt issuance, including revenue bonds, general obligation bonds, variable rate bonds, State Revolving Fund loans administered by the Washington Department of Ecology, and infrastructure project loans administered by the Public Works Trust Fund of the Washington Department of Commerce.

Bonds are authorized by ordinance approved by Council and have historically been followed by Council consideration of a motion approving bond sale actions, addressing terms, amounts, buyers, and other specifics.

**Sale of Bonds.** The Wastewater Treatment Division’s capital program has historically been funded primarily by the sale of bonds, consistent with Wastewater Financial Policies provided for in King County Code:

**28.86.160 Financial policies** FP-13:  The wastewater system’s capital program shall be financed predominantly by annual staged issues of long-term general obligation or sewer revenue bonds…

The agency currently carries an outstanding principal of approximately $3.55 billion of bonded indebtedness, based on the long-term capital program described above. Table 1 provides a breakdown of the bonds by the type of debt instrument.

**Table 1. Summary of Outstanding Wastewater Debt Obligations**

**Based on Original Principal**

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| --- | --- | --- | --- |
| **Type of Instrument** | **Years of Issue** | **Total of Original Principal** | **Outstanding Principal** |
| Outstanding Parity Bonds | 2011-2021 | $2,887,565,000 | $2,200,370,000 |
| Outstanding Parity Lien Obligations | 2008-2021 | $1,142,860,000 | $730,450,000 |
| Outstanding Variable Rate Debt | 2017-2021 | $627,885,000 | $624,240,000 |
|  | **Total** | **$4,658,310,000** | **$3,555,060,000** |

Bonds are repaid by scheduled debt service payments supported by the sewer rate approved annually by Council. According to information provided with the Council’s consideration of the 2021 sewer rate, total debt service payments for 2020 are budgeted at $248 million.

**ANALYSIS**

Proposed Ordinance 2021-0389 would authorize the issuance of up to an aggregate principal amount of $905,000,000 in bonds through 2025 for wastewater capital purposes. This debt can be sold either as sewer revenue bonds, to be repaid exclusively through sewer rate revenues, or “double barrel” limited tax general obligation bonds, which obligate sewer rate revenues as the primary repayment source, but also pledge the full faith and credit of the county’s General Fund for additional bond-buyer security.

Revenues from these bond sales can be used to pay for needed improvements to the wastewater capital plant, as planned through the Council-approved capital budget. Proposed Ordinance 2021-0389 provides that those revenues can also be used, under appropriate circumstances, to “refund” existing debt. As noted above, the agency has over $3.5 billion in outstanding debt obligations, issued in various increments over the last decade. Some of that debt may be carrying higher interest rates than are available either currently or in the future, creating an opportunity for savings. Current debt management policy authorizes replacing existing debt with new debt, or “refunding” debt, when sufficient savings can be realized. This authorization of $905,000,000 will provide revenue to support refunding certain debt issuances, contingent upon available rates.

The proposed ordinance would also grant additional authority to the Finance Director in the process of bond sales. As noted above, historically the Council has been asked to approve a sale motion agreement on a bond sale with a prospective buyer; the sale motion has specified the amount of the sale, the buyer, the interest rate, and other terms. Proposed Ordinance 2021-0389 notes that

*“…because conditions in the capital market are volatile, the council finds that it is in the best interests of the county and ratepayers of the system that the county retain the flexibility to issue the bonds in one or more series, as Parity Bonds or Parity Lien Obligations, to maximize interest rate savings and, where possible, to achieve further savings by refunding all or some of the Refunding Candidates. To achieve this flexibility, the Council further finds that it is in the best interest of the county and ratepayers of the System to delegate to the Finance Director the authority to sell the bonds in one or more series, as Parity Bonds, Parity Lien Obligations, as Tax-exempt obligations, Tax-Advantaged, Obligations or Taxable Obligations, by competitive bid or negotiated sale, or to the federal government or another purchaser, for current or future delivery, and to identify any Refunding Candidates to be refunded, in consultation with the county’s financial advisors.”*

The Finance Director is required to report the sale of any bond series on an annual basis, as part of the annual report to the Council and the Executive Finance Committee. The report is to be transmitted by March 31 of each year. This reporting requirement expires three years after the effective date of the proposed ordinance.

**Legal Consultation.** This legislation was prepared by the Executive in consultation with the county’s Bond Counsel, working through the Finance and Business Operations Division.

**Fiscal Impact.** The attached Fiscal Note indicates impacts resulting from this legislation of $6,265,658 in 2021-2022, and $70,439,084 in 2023-2024. These would be debt service payments.

**INVITED**

* Ken Guy, Director, Finance and Business Operations Division
* Nigel Lewis, Senior Debt Analyst, Finance and Business Operations Division
* Courtney Black, Rates, Capital and Debt Management Supervisor, Wastewater Treatment Division
* Rob Shelley, Managing Director, Piper Jaffray (Financial Advisor to the County)
* Carol Basile, Chief Treasury Officer, Department of Executive Services

**ATTACHMENTS**

1. Proposed Ordinance 2021-0389 (and its attachments)

Attachment A: Outstanding Parity Bonds

Attachment B: Outstanding Parity Lien Obligations

Attachment C: Form of Parity Bond

Attachment D: Form of Parity Lien Obligation

1. Transmittal Letter
2. Fiscal Note