



## King County

### **Dow Constantine**

King County Executive

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April 14, 2020

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

Dear Councilmember Balducci:

The letter transmits a proposed ordinance that would authorize the issuance of bonds on behalf of the Wastewater Treatment Division (WTD or “utility”). It would authorize the issuance of: (1) new-money bonds to finance the WTD capital program; and (2) refunding bonds to refinance the outstanding debt of the utility when certain targeted debt service savings thresholds can be achieved.

The proposed authorization for new-money bonds to provide funding for the WTD capital program is limited to the amount of \$825 million. Although only a portion of this amount is assumed to be issued in the current financial plan that supports WTD’s proposed monthly sewer rate for 2021, this larger proposed amount would accommodate the possible issuances needed to fund WTD’s entire capital program through 2022 if financial market conditions so warranted. In addition, although draws would probably not occur until beyond 2022, it accommodates the anticipated execution in 2020 of a \$110 million loan from the Environmental Protection Agency (EPA) for the Ship Canal project, which, per the preference of the EPA, will have the same senior lien position as WTD’s sewer revenue bonds and therefore will count against the proposed authorization.

Consistent with the current authorization under Ordinance 18587, the proposed authorization for refunding bonds does not limit the amount that may be issued in order to ensure that the County can expeditiously take advantage of favorable market conditions and maximize debt service savings for ratepayers. The issuance of any refunding bonds will only be undertaken when market conditions would permit the County to achieve the debt service savings targets identified in the adopted Debt Management Policy Motion 12660).

The proposed authorization would allow bonds to be sold as either sewer revenue bonds or so-called double-barreled limited tax general obligation bonds (LTGO bonds) which utilize

net sewer revenues as the primary source of repayment, with the added security to bondholders of pledging the full faith and credit of the County's General Fund. If the differential between the interest rates on LTGO bonds and sewer revenue bonds is not sufficiently wide, it will typically be prudent to issue the new debt in the form of sewer revenue bonds in order to preserve the County's debt capacity for potentially more adverse future market conditions when the County's full faith and credit is more highly valued. Prior to any issue, the County's Financial Advisor will recommend whether the use of LTGO bonds is warranted.

The proposed ordinance is consistent with previous authorizations with the exception of a new "springing" covenant that would eventually allow the County to gradually pay-off bonds issued with balloon maturities so that bond terms more closely match the expected life of the assets they fund. Such flexibility is potentially valuable when long term interest rates are much higher than short term rates. This covenant would only become effective at the point when 51 percent of all outstanding sewer revenue or LTGO bonds have been issued pursuant to this ordinance or future ordinances, which is unlikely to occur for at least 5 years.

The proposed ordinance includes an effective term through December 31, 2022, with the intent that a future authorization request will be adopted by June 30th, 2022 in conjunction with the adoption of WTD's 2023 monthly sewer rate. The December 2022 proposed expiration date is selected to ensure that there is no lapse in authority to issue bonds if the new legislation is delayed, and also to accommodate the possible forward delivery of bonds.

Expedited Council action is requested for this proposed legislation by June 30<sup>th</sup>, 2020 to avoid a lapse in the County's ability to issue new-money or refunding bonds after the expiration of the existing authority under Ordinances 18587 and 18588. A bond sale is currently targeted for July because the utility is expected to exhaust existing bond funds this summer and because there are substantial opportunities to reduce future debt service through the issuance of refunding bonds.

The exact terms of the bond issues will be established by the King County Finance Director in consultation with the County's Financial Advisor and confirmed by the Council in separate motions to be adopted on the days of the sales.

The enclosed proposed ordinance is aligned with the efficient and accountable government goal of King County's Strategic Plan because it exercises sound financial management and risk management while building the County's long-term fiscal strength.

The Honorable Claudia Balducci

April 14, 2020

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If your staff have any questions regarding the proposed ordinance, please contact Ken Guy, Director, Finance and Business Operations Division, at 206-263-9254.

Sincerely,

A handwritten signature in black ink, appearing to read "Dow Constantine". The signature is fluid and cursive, with a distinct "D" and "C".

Dow Constantine

King County Executive

Enclosures

cc: King County Councilmembers

ATTN: Carolyn Busch, Chief of Staff

Melani Pedroza, Clerk of the Council

Dwight Dively, Director, Office of Performance, Strategy and Budget

Caroline Whalen, County Administrative Officer, Department of Executive Services (DES)

Christie True, Director, Department of Natural Resources and Parks

Ken Guy, Director, Finance and Business Operations Division, DES