



King County

Dow Constantine

King County Executive

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May 29, 2020

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

Dear Councilmember Balducci:

This letter transmits a proposed ordinance that would authorize the addition of an interim financing component to the Wastewater Treatment Division's existing variable rate debt financing program. This added component to the variable rate debt financing program, referred to as the "interim financing program," will primarily support the short-term financing of large construction projects during construction and be limited to a maximum of \$250 million.

Variable rate debt has been utilized by the Wastewater Treatment Division ("WTD" or "utility") since 1996, but previously has not been used for the interim financing of construction projects. Examples of variable rate debt instruments include commercial paper, put bonds, variable rate demand bonds, and direct loans with banks. WTD's financial plan assumes that a portion of its debt portfolio will include variable rate debt instruments to allow the utility to borrow at lower interest rates. Although WTD's financial policies limit the amount of variable rate debt to 20 percent of all debt outstanding, the utility targets a more conservative ratio of approximately 15 percent for financial planning and sewer rate-setting purposes. Further, the addition of this interim financing program to the overall variable rate debt financing program is not contingent on changes in WTD's sewer rates.

The most immediate use of the interim financing program is to pay for the expenses of two major WTD projects that are currently underway: (1) the Georgetown Wet Weather Treatment Station Project (the Georgetown Project); and (2) the Ship Canal Water Quality Project (the Ship Canal Project). WTD plans to use the interim financing program to pay the construction costs on these projects until they are completed over the next three to five years. After construction ends and final costs are confirmed, then the County would permanently finance the projects by accessing long-term low interest rate loans offered under the federal government's Water Infrastructure Finance and Innovation Act administered by the Environmental Protection Agency (EPA). This combination of interim and permanent financing strategy allows WTD to pay lower short-term debt service costs during the construction period, then later access the favorable long-term interest rates that are already

locked-in on the EPA loans. For the Georgetown Project alone, this financing strategy is conservatively expected to save the utility \$1.35 million in debt service costs.

A second important anticipated use of the interim financing program is to maintain WTD's variable rate portfolio at its targeted 15 percent ratio over the next few years as existing variable rate debt instruments are planned to be steadily paid down. Beyond these specific uses, having such a proposed financing program in place will also be beneficial to provide funding for the overall WTD capital program in the event that the issuance of new long-term bonds becomes prohibitive.

The interim financing program includes the flexibility to allow debt to be issued as either Junior Lien Obligations, which would be secured solely by sewer revenues, or as so-called Multi-Modal Limited Tax General Obligation (LTGO)/Sewer Revenue Bonds, secured by sewer revenues and backed by a pledge of the County's full-faith and credit taxing authority. Prior to any issuance, the County's Financial Advisor will compare the all-in interest cost of each instrument, as well as of other pertinent considerations, in order to guide the choice.

The initial parameters of the interim financing program and the participants to the transaction—such as the underwriter, remarketing agent and liquidity provider—will be identified and approved in a sale motion to be adopted by the Council. After these initial parameters are established in the sale motion, the Council has delegated authority to the director of the Finance and Business Operations Division to make subsequent modifications to the variable rate program in response to changing market conditions, consistent with Ordinance 18898 approved by the Council in May 2019.

With the adoption of the ordinance, King County will be in a position to maximize savings from the interim financing program while reimbursing expenditures for the Georgetown project. The proposed ordinance is also the final part of a three-part debt financing package involving WTD, with the goal of having the Council's review and adoption of the entire package by no later than June 23, 2020. The other two debt financing proposals, which have already been transmitted to the Council, are Proposed Ordinance 2020-0171, which would authorize the issuance of new bonds and the refinancing of outstanding bonds on behalf of WTD; and Proposed Ordinance 2020-0188, which would approve a State Revolving Fund loan for another portion of the costs of WTD's Georgetown Project.

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The enclosed proposed ordinance furthers the efficient and accountable government goal of the King County's Strategic Plan because it enables the County to exercise sound financial risk management while building the County's long-term fiscal strength.

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 small "DK" monogram at the end.

Dow Constantine
King County Executive

Enclosures

cc: King County Councilmembers
ATTN: Carolyn Busch, Chief of Staff
Melani Pedroza, Clerk of the Council
Shannon Braddock, Deputy Chief of Staff, Executive's Office
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