



King County

Metropolitan King County Council

STAFF REPORT

Proposed No.:	2020-0400	Name:	Mike Reed
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SUBJECT

Authorizing the refunding of State Revolving Fund and Public Works Trust Funds loans issued to King County for the support of wastewater capital purposes.

SUMMARY

Ordinance 19112, adopted in June 2020, authorizing the issuance of bonds to support the refunding of wastewater debt did not include outstanding loans issued by the Washington Department of Ecology State Revolving Fund loan program (“SRF loans”) or the Washington Department of Commerce Public Works Trust Fund loan program (“PWTF loans”) which are currently being used for wastewater treatment construction purposes to be eligible refunding candidates. Historically low interest rates, however, provide an opportunity to achieve significant savings through the refunding of outstanding SRF and PWTF loans. Proposed Ordinance 2020-0400 would amend Ordinance 19112 to include the refunding authorization to SRF and PWTF debt.

BACKGROUND AND ANALYSIS

In June, 2020, the Council approved legislation (Ordinance 19112) authorizing the issuance of bonds to support the refunding (the sale of new bonds to pay off existing, often higher-interest bonds to achieve interest rate savings) of outstanding wastewater debt where there are opportunities for target levels of debt savings.

The Council adopted a Debt Management Policy (Motion 12660) in 2007 that establishes a savings target of 1% to 5% for current refundings depending upon the remaining term of the refunded issue.

During economic periods that feature notably low interest rates, the Executive has requested, and the Council has approved, wastewater debt refunding actions that have achieved significant interest rate savings over the years.

Typically, the debt instruments that are targeted for refunding are parity bonds, parity lien obligations, junior lien obligations, and multi-modal Limited Tax General Obligation (LTGO)/sewer revenue bonds. Historically, refunding authorizations have not usually

included loans from the Washington Department of Ecology's State Revolving Fund, or from the Department of Commerce Public Works Trust Fund. Such loans are generally available at already-low interest rates, and refunding initiatives typically have not featured interest rates that are sufficiently low to achieve targeted savings levels for SRF or PWB loans.

In that light, Ordinance 19112 authorized refunding of parity bonds, parity lien obligations, junior lien obligations, and multi-modal LTGO/sewer revenue bonds, but did not specifically include SRF or Public Works Trust Fund loans. The Executive indicates that, at the time of transmittal of that measure, an interest rate environment that would justify refunding SRF and PWTF loans was not anticipated.

Both SRF and PWTF loans include language authorizing early payoff of loan obligations. The SRF loan agreements specify as follows:

Prepayment of Loan. *So long as ECOLOGY¹ shall hold this loan, the RECIPIENT may prepay the entire unpaid principal balance of and accrued interest on the loan or any portion of the remaining unpaid principal balance of the Loan Amount. Any prepayments on the loan shall be applied first to any accrued interest due and then to the outstanding principal balance of the Loan Amount. If the RECIPIENT elects to prepay the entire remaining unpaid balance and accrued interest, the RECIPIENT shall first contact ECOLOGY's Revenue/Receivable Manager of the Fiscal Office.*

With interest rates recently falling to historically low levels as documented in Figure 1 below, the Executive indicates that targeted levels of savings through refunding of SRF and PWTF loans are now possible.

Figure 1. 10-Year AAA-Rated Municipal Market Data Rates, 2016-2020



¹ Referring to the Washington State Department of Ecology.

The Executive indicates that there are \$225 million in SRF and PWTF loans outstanding, and that refunding approximately \$150 million of these loans would currently achieve debt service savings that at least meet the county’s savings target for such transactions. As indicated by the Table 1 below, savings of \$14.5 million are potentially available through refunding of State Revolving Fund loan candidates. There are no Public Works Trust Fund loans that are current refunding candidates, though some may become candidates at a later date.

Table 1. State Revolving Fund Refunding Candidates (20-year Loans)

Project	Interest Rate (%)	Final Maturity	Amount Outs. (\$)	Total Savings (\$)	NPV Savings (\$)	NPV Savings %
Murray CSO	2.41%	2036	\$24,299,089	\$2,036,417	\$1,933,199	8.0%
Ballard Siphon	2.82%	2034	\$24,062,865	\$2,881,235	\$2,756,783	11.5%
Fremont Siphon	2.72%	2037	\$21,987,759	\$2,404,062	\$2,246,030	10.2%
S. Magnolia CSO	2.72%	2035	\$21,527,398	\$2,401,715	\$2,281,808	10.6%
Henderson/MLK CSO	1.50%	2025	\$15,569,402	\$317,982	\$329,014	2.1%
North Beach CSO	2.41%	2036	\$7,467,237	\$622,834	\$594,533	8.0%
Brightwater Outfall 01	2.72%	2030	\$6,484,556	\$641,348	\$632,935	9.8%
Carnation Treatment Plant	3.12%	2028	\$5,778,818	\$555,251	\$556,020	9.6%
Barton CSO	2.72%	2035	\$4,641,394	\$517,722	\$492,315	10.6%
S. Magnolia CSO Control	2.72%	2033	\$3,729,985	\$412,990	\$402,404	10.8%
Murray CSO Control	2.72%	2033	\$3,584,612	\$399,733	\$387,321	10.8%
Barton CSO Control	2.72%	2033	\$3,167,061	\$352,948	\$342,125	10.8%
North Beach CSO	2.72%	2035	\$2,443,983	\$272,803	\$259,371	10.6%
Brightwater Outfall	3.12%	2030	\$2,388,838	\$283,228	\$280,224	11.7%
North Beach CSO Control	2.72%	2033	\$2,112,384	\$231,356	\$228,066	10.8%
Fremont Siphon	2.72%	2033	\$983,634	\$108,451	\$106,454	10.8%
SW Interceptors	1.50%	2028	\$952,875	\$32,828	\$33,509	3.5%
Brightwater Outfall	2.61%	2030	\$552,512	\$47,500	\$50,946	9.2%
Carnation Treatment Plant	2.61%	2026	\$434,812	\$22,109	\$24,747	5.7%
Total			\$152,169,214	\$14,542,511	\$13,937,805	9.2%

Proposed Ordinance 2020-0400 would include the bond refunding authorization made through Ordinance 19112 to also include loans made to King County for wastewater treatment purposes through the Washington Department of Ecology’s State Revolving Fund loan program and the Washington Department of Commerce Public Works Trust Fund loan program.

INVITED

- Ken Guy, Director, Finance and Business Operations Division
- Nigel Lewis, Senior Debt Analyst, Finance and Business Operations Division
- Dan Kaplan, Financial Services Administrator, Wastewater Treatment Division

ATTACHMENTS

1. Transmittal Letter
2. Fiscal Note



King County

Dow Constantine

King County Executive

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www.kingcounty.gov

October 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 bond authorization Ordinance for the Wastewater Treatment Division (WTD) that, if enacted, would amend Ordinance 19112, an existing bond authorization ordinance adopted by the Council in June of this year. The proposed Ordinance would authorize the issuance of refunding senior lien bonds in order to refinance WTD's outstanding State Revolving Fund (SRF) loans and Public Works Trust Fund (PWTF) loans that are held by the state's Department of Ecology.

Over the years, WTD has taken advantage of then-prevailing very favorable fixed rates on many SRF and PWTF term loans from the Department of Ecology to fund portions of the costs of various capital projects. Currently there are approximately \$225 million of such loans outstanding. With the steep decline in the interest rates over the past six months, it has become feasible to achieve significant debt service savings on many of these outstanding loans by refunding them with the proceeds of senior lien bonds. Specifically, it is estimated that the refunding of approximately \$150 million of these loans would currently achieve debt service savings that at least meet the County's 5 percent target for such transactions as identified in the adopted Debt Management Policy, Motion 12660.

Such a steep decline in interest rates had not been contemplated when Ordinance 19112 was transmitted; therefore, a request for the authority to refund the SRF and PWTF loans was not included at that time. Accordingly, this proposed Ordinance would permit such refundings.

We respectfully request expedited Council action on this proposed amending Ordinance in November or early December so that: (1) refunding bonds can be issued early in 2021 in order to capitalize on the current low level of interest rates; and (2) the resultant debt service savings can potentially be reflected in WTD's 2022 monthly sewer rate proposal. The exact terms of any bond issue will be established by the King County Finance Director in consultation with the County's Financial Advisor and confirmed by the Council in a separate motion to be adopted on the day of the sale.

The Honorable Claudia Balducci
October 29, 2020
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The enclosed proposed ordinance progresses the efficient and accountable government goal of the King County's Strategic Plan because it exercises sound financial management and risk management while building the County's long-term fiscal strength.

If your staff questions regarding the proposed amendment, 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".

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
Shannon Braddock, Deputy Chief of Staff, Office of the Executive
Karan Gill, Director, Council Relations, Office of the Executive
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

2019/2020 FISCAL NOTE

Ordinance/Motion: 2020-XXXX
 AN ORDINANCE amending Ordinance 19112 to amend the definition of Refunding Candidates in Section 1 thereof.

Affected Agency and/or Agencies: Wastewater Treatment Division, Department of Natural Resources

Note Prepared By: Nigel Lewis, 263-2857

Date Prepared: September 30, 2020

Note Reviewed By: Nathaniel Bennett, Executive Analyst, PSB

Date Reviewed: October 22, 2020

Description of request:

This amending Ordinance would authorize the issuance of senior lien bonds on behalf of the Wastewater Treatment Division (WTD) in order to refund WTD's outstanding State Revolving Fund (SRF) and Public Works Trust Fund (PWTF) loans in order to reduce future debt service costs.

Revenue to:

Agency	Fund Code	Revenue Source	2019/2020	2021/2022	2023/2024
Water Quality	3610	Bond Proceeds	\$ -	\$ -	\$ -
	TOTAL		\$ -	\$ -	\$ -

Expenditures from:

Agency	Fund Code	Department	2019/2020	2021/2022	2023/2024
Sewer Revenue Bond Fund	8920	Exec Services	\$ -	\$ -	\$ -
	TOTAL		\$ -	\$ -	\$ -

Expenditures by Categories:

	2019/2020	2021/2022	2023/2024
Wastewater debt service expense	\$ -	\$ -	\$ -
TOTAL	\$ -	\$ -	\$ -

Does this legislation require a budget supplemental? No

Notes and Assumptions: Because any refunding activity is critically dependent on interest rates remaining favorable, no fiscal impact of such refundings should be assumed. However, based on current interest rates, the refunding of approximately \$150 million of the outstanding SRF and PWTF loans would achieve the County's 5% debt service savings target identified in the adopted Debt Management Policy (Motion 12660).