

Chapter Four: Project Financing

This section provides a primer on the options available to the county to finance major capital projects. Debt and lease supported financing is explained. The county's required General Fund debt limitations are noted. A brief overview of Washington State's property tax structure is provided including a discussion of the limits on tax levies. The section concludes with an analysis of the various property tax levy rates for each scenario for the first phase of construction which addresses 2022 caseload needs.

A regular lid lift can be used to raise additional property tax revenue. Lid lifts expand the regular levy authority of a jurisdiction and are subject to many restrictions, including growth, duration, aggregate amounts, and voter approval. For a standard 9 year lid lift, the required levy rate per \$1,000 in assessed value (AV) in 2011 for the various scenarios ranges from \$0.032 to \$0.066.

Excess levies are authorized by the state constitution and do not impact regular levy limitations. For a 20 year excess levy, the levy rate per \$1,000 AV for the various scenarios ranges from \$0.018 to \$0.038. For a 30 year excess levy, the levy rate per \$1,000 AV ranges from \$0.015 and \$0.031.

These levy rates translate in specific annual tax payments for homeowners. Homeowners with a home assessed at \$400,000 in 2011 would pay ranging \$12.67 to \$26.51 annually for a 9 year lid lift, depending on the scenario selected. For a 20 year excess levy, that same homeowner would pay ranging from \$7.22 to \$15.12 depending on the scenario. For a 30 year levy a homeowner would pay ranging from \$5.86 to \$12.26.

Project Financing Options

Debt Supported Financing

Limited Tax General Obligation Bond (LTGO Bond) – This bond, also known as a councilmanic bond because it is approved by the County Council and does not require voter approval, is a bond secured by the full faith, credit and taxing power of the county. These bonds are secured by a pledge of the county's property tax authority. In the event of default, the holders of general obligation bonds have the right to compel a tax levy or legislative appropriation. The total amount of councilmanic debt outstanding at any given time is limited by the state constitution to a percentage of assessed value in the county. By policy, the county also limits the percentage of General Fund revenue that will be used to pay debt service on councilmanic debt to five percent.

Interim borrowing options are available in advance of bond issuance triggering the debt repayment schedule. Capital project financing occasionally employs the use of interim financing typically to coordinate the beginning of the debt repayment period with the beginning of benefit received when the project is completed. Interim borrowing can also be used for the purpose of postponing debt payments to remain within debt repayment limits during the interim borrowing period, and in cases where there is some uncertainty as to the final project costs to be financed with long term debt. Interim borrowing can be in the form of bond anticipation notes or interfund borrowing among county agencies. A bond anticipation note (BAN) is issued by the county and redeemed from the proceeds of

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the long-term bond proceeds issued at project completion. A BAN is usually the preferred option for an interim period over one year in duration.

Unlimited Tax General Obligation Bond - This bond is similar to the LTGO bond except that the borrowing authority is voter approved rather than County Council approved.

Lease Supported Financing

63-20 Financing – This financing option named for the authorizing federal tax policy, allows a county facility to be financed by a 501.c3 eligible non-profit organization. With this financing option a county makes lease payments to the non-profit organization. The lease agreement provides for county ownership of the facility at the end of the lease payment period which coincides with the non-profit's bond repayment period. Lease payments are approved in the county's annual budget. One of the primary benefits of the 63-20 financing option is the reduction of construction cost escalation risk. The King Street Center, Goat Hill Parking Garage, Chinook Building and Pat Steel Building are King County facilities that have been financed using the 63-20 method.

Certificate of Participation (COP) – This financing instrument is similar in concept to the 63-20 financing option except that in a COP the county issues certificates and makes payments to the lessor of the facility who reimburses the certificate holder. The lessor typically assigns the lease and lease payments to a trustee, who then distributes the lease payments to the certificate holders. The Issaquah District Court was financed using a certificate of participation because the selected site was neither owned by the county nor available for sale to the county. When the repayment period ends with the retiring of the certificates the ownership of the facility is transferred to the county.

Debt Limits

State Limit

Under the provisions of Article VIII of the State Constitution, counties have a debt limit equal to one and one half percent of county-wide assessed value. This limit applies to bonds approved by the County Council for general county purposes and metropolitan functions. Though King County is well below the limit specified in the RCW, the non-voter approved general purpose county debt approved by the County Council is subject to a more restrictive county policy limit.

County Limited Tax General Obligation Bond Policy

According to county policy, the debt payments associated with general purpose bonds authorized by the County Council, where debt service is paid by the General Fund, cannot exceed five percent of adjusted General Fund revenue. According to the revenue forecasts adopted with the 2009 budget, approximately \$100 million of debt capacity will be available after financing the Accountable Business Transformation (ABT) project, the elections facility purchase, the data center relocation project, the Passage Point housing project and the Jail Integrated Security and Jail Health Projects. Though the projected costs of the Alder Project are in excess of the available debt capacity amount under this policy, there are several other projects under consideration for use of this debt capacity. The project list includes the Maleng Regional Justice Center jail expansion, jail piping

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replacement, Sheriff's evidence facility, replacement systems for the Assessor's Property Based System and the Sheriff's IRIS/TESS Systems, as well as other miscellaneous facility and technology projects.

Brief Overview of Washington Property Tax Structure

Local jurisdictions in Washington State have the authority to levy property taxes. The amount of taxes to be levied each year is determined by the local authority and restricted by a variety of state-imposed constitutional and statutory limitations.

Generally, the annual growth of regular property taxes authorized for collection cannot exceed one percent plus a component due to the value of new construction. The one percent limit is called the limit factor. There are methods to exceed this growth limitation, but each requires voter approval. Voters can approve temporary or permanent increases to the authorized levy. An increase can be dedicated to certain purposes, but it does not necessarily need to be restricted for certain purposes in all cases.

In addition to annual growth restrictions, the legislature has also established restrictions on the total millage rate that can be assessed. Counties are generally limited to \$1.80 per \$1,000 of assessed value (AV). For 2009, the regular millage rate assessed by King County is \$0.95. Aggregate rate limits covering multiple jurisdictions are also established and discussed below.

Discussion of Levy Options

The two methods for increasing the allowable levy are lid lifts and excess levies. Excess levies do not count against regular levy limitations under state law. Lid lifts are subject to limitations imposed by the legislature.

Excess Levies

Excess levies are authorized by the state constitution and do not impact regular levy limitations. There are two types of excess levies. One form is a single-year excess levy related to impairment of contracts. The second form is a multiple-year levy dedicated to repayment of general obligation (GO) bonds issued for capital purposes. This second form is pertinent here.

An excess levy can be submitted to voters at any election but requires a sixty percent majority for approval. Voter participation must equal or exceed a number equal to forty percent of the voters in the previous general election. The county may not submit excess levy propositions to the voters more than twice in a calendar year.

Revenue from this levy is restricted to payment of principal and interest on the specific GO bonds authorized by the voters. As such, the duration of the levy equates to the lifetime of the bonds. These types of levies cannot be used for replacement of equipment. For an excess levy, the amount required to pay principal and interest is levied each year and there is no defined growth limit. The voter-approved Harborview improvement program is the most recent example of this type of levy.

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Lid Lifts

A regular lid lift can also be used to raise additional property tax revenue. Lid lifts expand the regular levy authority of a jurisdiction and are subject to many restrictions, including growth, duration, aggregate amounts, and voter approval.

Two general categories of lid lifts are available to the county, a standard lid lift or a multi-year lid lift. Both options require a simple majority approval with no minimum voter turnout requirements. The increase in the county’s regular levy authority can be either temporary or permanent.

The primary difference between a standard lid lift and a multi-year lid lift is the growth rate. A standard lid lift uses a limit factor of one percent, whereas a multi-year lid lift using an “alternate limit factor” can use any specified rate.

A lid lift utilizing an alternate limit factor may not exceed six years in duration and must be submitted to voters in a primary or general election. The proposition must contain the specific limited purpose for which revenues may be used. The authorizing statute also requires that the new revenues not replace or supplant existing funds for the same purpose.

For the standard lid lift, if one of the stated uses of the revenue is to repay bonds, then the levy cannot exceed nine years.

Table 50 provides a comparison of various lid lifts and excess levy regarding limit factors, duration, voter approval requirements, election timing and allowable uses.

Table 50 Comparison of Standard Lid Lift; Multi-year Lid Lift, Excess Levy

	Standard Lid Lift	Multi-year Lid Lift	Excess Levy
Max Limit Factor	1%	Any	NA
Max duration without bond repayment	Permanent	6 years	1 year (to avoid impairment of contract)
Max duration with bond repayment	9 years	6 years	Term of related bonds
Impacts jurisdiction’s regular levy limits	Yes	Yes	No
Upon expiration, increases county’s regular levy authority	Must be specified in ballot	Must be specified in ballot	No
Voter approval requirements	Simple majority, no turnout requirements	Simple majority, no turnout requirements	60%; minimum of 40% turnout in most recent previous general election
Election timing	Any	Primary or general	Any; not more than 2 elections with excess levy propositions per year
Revenue use limitations	None – need not be specified, but can be specified	Limited use must be stated on ballot	Repayment of bonds only

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Limits on Property Tax Levies

King County cannot levy more than \$1.80 per \$1,000 AV of regular property taxes. In 2008, King County's regular property tax millage was \$1.04. King County's millage in 2009 is \$0.95, leaving \$0.85 in capacity. This capacity can only be accessed with voter approval.

In addition to the county's \$1.80 limit on regular property taxes, the state legislature has also limited the cumulative millage rate for all local districts to \$5.90. This limitation excludes the state levy, excess levies, and a few other specific levies and jurisdictions (EMS, Ferry District, and Port). Within King County, there are over 500 taxing districts, i.e. state, counties, cities, fire districts, representing different combinations of local jurisdiction.

In the event that the \$5.90 rate limit is reached in a levy district, levy prorationing occurs. This is a process established by the legislature in which levies of local jurisdictions are reduced until the \$5.90 cap is restored. King County is considered a senior taxing district and would not be impacted by prorationing. Special districts, however, could be impacted. As prescribed by state law, parks and recreation districts would be the first jurisdictions impacted, followed by the ferry district. See RCW 84.52.010(2).

In 2008, the maximum cumulative rate subject to the \$5.90 cap in King County was \$5.40, leaving \$0.50 of overall capacity. As primary revenue sources remain constricted, local taxing districts may look to raise their regular authorized property tax levies to offset the impact of growing costs thus reducing the remaining capacity.

Excess levies fall outside of the rate limitations discussed here and would not impact the ability of other jurisdictions or King County to use existing levy capacity for other purposes.

Under current law, it appears that neither lid lifts nor excess levies would lend themselves to the 63-20 financing method. LTGO bonding would likely be required. Part of the county's legislative agenda for 2009 is to expand the ability of local jurisdictions ability to pledge lid lifts for longer-duration projects such as this, which could allow for 63-20 financing. Staff is continuing to explore options available for the 63-20 financing method.

Scenario Analysis – Property tax levy rates

An analysis of the potential impact on property tax levy rates has been completed for each scenario for the first phase addressing growth needs through 2022. A multi-year lid lift is primarily useful for projects tied to operating costs or when fewer dollars are required at the beginning of a project than at the end of a project. The initial levy rate can be smaller since it grows more quickly over time. Growth of the levy can be tied to inflation to better reflect operating cost growth over a few years. This has the effect of collecting more dollars in later years than in the first few years of the lid lift. In a scenario where a lid lift is dedicated to equal bond redemption payments over several years, a multi-year lid lift may not be appropriate. This is because the revenue needed is equally spread over a period of years, so a growth rate larger than one percent is not needed. Additionally, the levy is limited to six years. For these reasons, a multi-year lid lift may not be recommended for this project.

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While excess levies are more difficult to get approved by voters, requiring a 60 percent affirmative vote, they also do not pose a risk of threatening junior taxing districts regular levy capacity.

Table 51 summarizes various project options and resulting property tax levies and rates. These estimates assume that a ballot proposition is placed before voters in 2010 and the levy is first collected in 2011. These examples are simplified to portray the relative differences in costs between the various scenarios. These estimates assume only one bond issuance with level payments over the period of time specified. These estimates will differ from estimates based on a more complex cash flow analysis. These estimates also exclude costs related to parking or any revenue related to the sale of portions of land currently held by the county.

Table 51 Comparison of Scenarios and Resulting Levy Rates (\$ millions)

	Replace Alder w/o growth	Replace Alder w/growth	Juvenile delinquency only at Alder	All Juvenile, No Family Law at Alder	All Juvenile & Family Law with Children at Alder	All Juvenile & Family Law at Alder
Scenario:	1	2	4	5	5.5	6
# of Courtrooms	7	9	7	10	15	19
Total (excluding parking costs):	\$87.4	\$106.0	\$95.3	\$113.9	\$158.4	\$182.8

Annual payments by duration (\$ millions)

Standard Lid Lift

9 Years	\$12.4	\$15.1	\$13.5	\$16.2	\$22.5	\$26.0
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Excess Levy

20 Years	\$7.1	\$8.6	\$7.7	\$9.2	\$12.8	\$14.8
30 Years	\$5.7	\$7.0	\$6.3	\$7.5	\$10.4	\$12.0

Required levy rate in 2011

Standard Lid Lift

9 Years	\$0.032	\$0.038	\$0.035	\$0.041	\$0.057	\$0.066
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Excess Levy

20 Years	\$0.018	\$0.022	\$0.020	\$0.024	\$0.033	\$0.038
30 Years	\$0.015	\$0.018	\$0.016	\$0.019	\$0.027	\$0.031

Impact on \$400,000 home in 2011

Standard Lid Lift

9 Years	\$12.67	\$15.36	\$13.81	\$16.52	\$22.96	\$26.51
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Excess Levy

20 Years	\$7.22	\$8.76	\$7.88	\$9.42	\$13.10	\$15.12
30 Years	\$5.86	\$7.10	\$6.39	\$7.64	\$10.62	\$12.26

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The estimates for levy rates required in 2011 range from 1.4 cents to 7 cents, with an estimated annual impact to the owner of a \$400,000 home of between \$6 and \$28. If a lid lift option is pursued, it is not anticipated that prorationing would be required as a result of this project alone. However, a substantial lid lift would reduce the capacity available to other taxing districts, especially in the near term. Other tax increases that occur prior to implementation might also narrow the available capacity.

Excess levies allow for a tax rate half of that required for a lid lift as repayments would be spread over twenty to thirty years. Additionally, regular levy capacity is preserved for all taxing districts.

Election Timing

A ballot measure must be submitted to the Elections Office 52 days prior to the election date for special elections and 84 days prior to a primary or general election. For a primary election the ballot measure is required in late May. For a general election the ballot measure is usually required in mid August. In 2009, August 11th is the due date. Additional time prior to the due date is required for review by the King County Executive and County Council.

The 2008 general election elicited very large voter turnout in King County, with 83.9 percent of registered voters participating. Assuming no change in the number of registered voters, this translates into a required 34 percent turnout for 2009 excess levies.

The most recent post-presidential general election achieved 53.9 percent voter turnout in November 2005 compared with 38 percent turnout in the 2001 general election. Special elections and primary elections typically experience even lower turnout. Achieving the required turnout is unlikely to occur in 2009 at any election except for potentially the November general election, unless a significant countywide issue was to be placed before voters at another earlier election. An excess levy proposition would likely have a lower turnout threshold in 2010 or 2011 compared with 2009, and could potentially go before voters at a special or the primary election.

Upcoming levy expirations (and possible renewals) include:

<u>Expiration</u>	<u>Description</u>
2009	Seattle Low Income Housing Levy
2010	Seattle School District Capital Levy
2011	Automated Fingerprint Identification System Levy
2011	Veterans and Human Services Levy
2011	Seattle Families and Education Levy
2012	Seattle Fire and Emergency Response Levy
2013	King County Parks Operating and Capital Levies
2013	Emergency Medical Services Levy

Assumptions

The assumptions used in this analysis were current as of preparation of this report, but will change over time. All levy and rate estimates should be updated prior to drafting any ballot language for a lid lift or an excess levy. Rapidly fluctuating interest rates, credit

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market conditions and property market conditions may also impact financing costs and levy rate estimates. This analysis assumed an interest rate of five percent and financing costs of one percent.

Additionally, the State Legislature is currently considering a number of bills that might impact how lid lifts and excess levies could be applied to a project such as this one. Proposals include limiting growth of assessed valuation and expanding the ability of local jurisdictions to pledge lid lifts to debt repayment for a period of longer than nine years. It is unclear at this point which legislation will move forward, but these developments could alter the findings of this analysis.