

Brightwater Debt Retirement Program

MWPAAC Finance Committee
September 6, 2018



King County

Department of
Natural Resources and Parks
**Wastewater Treatment
Division**

Brightwater Debt Retirement Program

- Up to \$21 million in debt payment reductions through 2032.
- Downward pressure on projected increases in the monthly sewer rate of up to \$0.23 annually.
- Cash-funding of capital program and debt reduction targets maintained at a lower cost.

Step 1– Debt Retirement

- Original Plan: Use Brightwater cash to pay for capital improvements through 2020.
 - Avoid issuing \$144M of debt for capital program.
- New Plan: Use Brightwater cash to retire debt in 2018
 - Create an escrow to retire high cost, 2010-2012 bonds.
 - Escrow pays interest and retires these bonds in 2020-22.
 - Bonds in the escrow are no longer outstanding under the terms of their authorizing ordinances.

Step 2 – New Debt

- County issues bonds in 2018 to pay for capital improvements that would have been paid from Brightwater funds.
- County saves \$21M in debt payments through 2032.
 - New bonds issued at 2.59% effective yield, compared to 5% rate on escrowed bonds.
 - Total principal and interest payments on the new bonds through 2032 are \$21 million less than payments on the escrowed bonds.

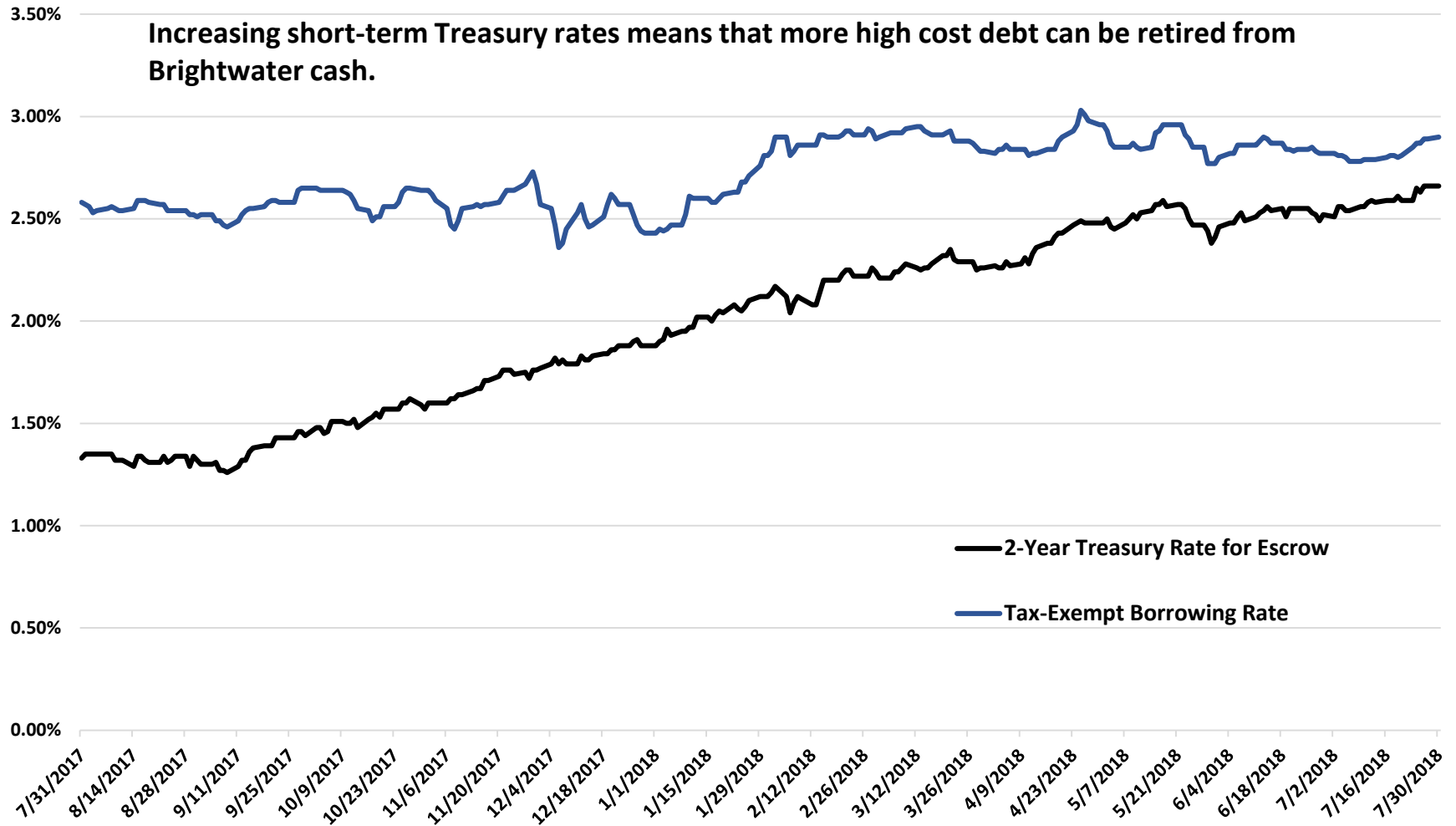
Why Now?

- \$1.8B of “advance refunding” bonds issued by WTD saved ratepayers
 - \$475M through 2052.
 - Lowered 2019 sewer rate by \$1.00.
- In an advance refunding, WTD
 - Issued tax-exempt bonds.
 - Placed proceeds in escrow to retire high interest rate bonds in 2 to 3 years at their earliest redemption date.
- Congress banned advance refundings with 2017 Tax Cut Act.

Why Now?

- WTD advanced refunded \$160M of 2009-2011 Bonds in December 2017.
- Since then,
 - Short-term taxable rates up 1%, lowering the cost of the escrow.
 - Tax-exempt rates up 0.40%
 - If advance refundings were still allowed, WTD would have \$240M of advance refunding candidates that would meet our savings targets.
- Escrow/new money program provides savings that could otherwise be achieved if advance refundings were still allowed.

Why Now?



Proposal supports WTD's debt reduction program

2019 Financial Plan

- \$144.9M Brightwater judgment spent on capital, 2018-2020
- \$3.931B in outstanding debt, 2024

Escrow/new money proposal

- \$144.9M Brightwater judgment placed in escrow and retires \$135.8M of bonds.
- \$23.3M reduction in debt in 2018
 - \$135.8M of 2010 & 2011 bonds placed in escrow.
 - \$123.6M 2018 new money issue.
- \$3.921B outstanding debt in 2024, a \$10M decrease.

Proposal supports WTD's 6-year, 40% cash-funding target

2019 Financial Plan

- 41% of 2019-2024 capital plan funded with cash transfers from operations
- Brightwater judgment spent on capital program, eliminating debt needed to finance \$144.9M of capital projects

Escrow /new money proposal

- 41% of 2019-2024 capital plan funded with cash transfers from operations
- Brightwater judgment used to retire outstanding bonds in 2018.

\$21.3M in debt service savings lowers the cost of achieving the 40% cash-funding target.

Next Steps

- Council consideration and approval of supplemental budget appropriation for debt service.
- Ordinance package under review by the County Executive's office with transmittal anticipated in September.
- Presentation to full MWPAAC on 9/26 if requested.
- Pending Council approval, WTD expects to create the escrow and sell new money bonds by late October, early November.