



Whatcom County, Washington

Overview of Municipal Financing

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Outline

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- 2 Debt Issuance by Washington Counties
- 3 Debt Policy & Authorization
- 4 Debt Capacity & Credit Ratings
- 5 Financing Considerations
- 6 *Appendix – Market Update*



Introduction

- **Duncan Brown** – Over 15 years experience in public finance. Serves as lead advisor to eight other counties in Washington and Oregon, along with numerous cities, ports, and other districts
- **Matt Schoenfeld** – Six years experience in public finance. Joined PFM in 2022 after previously serving in the Washington State Treasurer's Office, most recently overseeing the LOCAL program

Role of Financial Advisor

- Provide current market-based expertise
- Review of debt plan and affordability
- Structural and financial analysis and advice
- Selection and coordination of financing team; manage time schedule
- Communication with rating agencies, bond insurers, underwriters
- Administer bid solicitation for competitive bond sales
- Pricing review and input for negotiated bond sales
- *Fiduciary responsibility: must provide advice in the best interest of the client (municipal issuer)*



What is Municipal Financing?

- Borrowing by governmental entities
 - A bond is a loan; investors (bondholders) are the lenders
- Traditionally thought of as tax-exempt debt, but includes taxable
 - What does tax-exemption mean to the County?
 - Regulations and requirements
- Common financing methods:
 - Public bond market
 - Bank financing (loans)
 - Private placement of bonds
 - Seller/vendor financing
 - State Local Option Capital Asset Lending (“LOCAL”) borrowing
 - State (PWTF, SRF, CREB) or Federal (USDA) loans



Why Use Debt to Finance Capital Projects?

- Time value of money
 - Borrowing funds allows projects to begin sooner than they would otherwise
 - Mitigates construction cost inflation, increased property costs, etc.
 - Allows for faster project delivery – more advantageous to beneficiaries of project
- Intergenerational equity
 - Current users / beneficiaries of a project also pay related debt service
- Counties are perpetual
 - Unlike personal finance, there is no “paying off the mortgage before retirement”
 - When an asset reaches the end of its useful life, it probably needs to be replaced



Debt Issuance by Washington Counties

- State law governs the types of debt and most terms of debt
- **General obligation** debt is secured by the full faith and credit of the County. Payable from property taxes and other legally available funds
 - Non-voted general obligation debt (Limited Tax General Obligation or LTGO)
 - Requires approval of County Council (but no vote of the electorate)
 - May be accompanied by a voter-approved tax measure (e.g., sales tax) not *directly* tied to the proposed debt issuance
 - Voted general obligation debt (Unlimited Tax General Obligation or UTGO)
 - Requires a 60% yes vote of the electorate; payable from excess property tax levy
- **Revenue** debt is payable from revenues of a specific utility or enterprise (e.g., water, sewer, solid waste)
- **Local Improvement District (“LID”) / Road Improvement District (“RID”)** bonds (assessment bonds) are payable from assessments levied against property benefited by special improvements constructed from bond proceeds



The Bond Issuance Process

- The table below provides a rough outline of the key steps and timing of a bond sale, relative to the date of closing

Step	Timing
Craft funding and financing plans	<i>Ongoing</i>
Bond election planning (<i>for UTGO bonds and/or new tax measures</i>)	1+ years in advance
Bond election (<i>for UTGO bonds and/or new tax measures</i>)	<i>Varies</i>
County Council adopts bond ordinance delegating authority to County Treasurer to execute transaction	2-3 months prior (or earlier)
Draft Preliminary Official Statement (POS) Finalize plan of finance Apply for credit rating	1-2 months prior
Finalize and “post” POS	3-4 weeks prior
Sale of bonds	Two weeks prior
Close bonds (funds received)	--



Your Financing Team

- Internal Team
 - County Council authorizes any County issuance of debt
 - Treasurer's office plays a key role in debt issuance and management
 - Financial Advisor – PFM Financial Advisors LLC
 - Bond Counsel – K&L Gates LLP
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- Underwriting firm – *generally selected through competitive bid for each transaction*
 - Bonds may also be purchased directly by commercial bank
 - Bond Rating Agency
 - Moody's Investors Service (current rating of "Aa2")
 - Fiscal Agent/Paying Agent – *U.S. Bank (State fiscal agent)*
 - Additional team members for refunding (refinancing) transactions



Summary of County's Debt Policy

- The County's debt policy includes:
 - Governing principles regarding the use of debt financing
 - Defined roles and responsibilities for County Council, Treasurer, and County staff
 - Discussion of professional services (bond counsel, financial advisor)
 - Structuring and transaction-specific policies
 - Compliance & disclosure
 - Other debt related matters, like refunding savings and credit objectives
- Originally drafted in 2019, the current debt policy was re-approved in December 2022



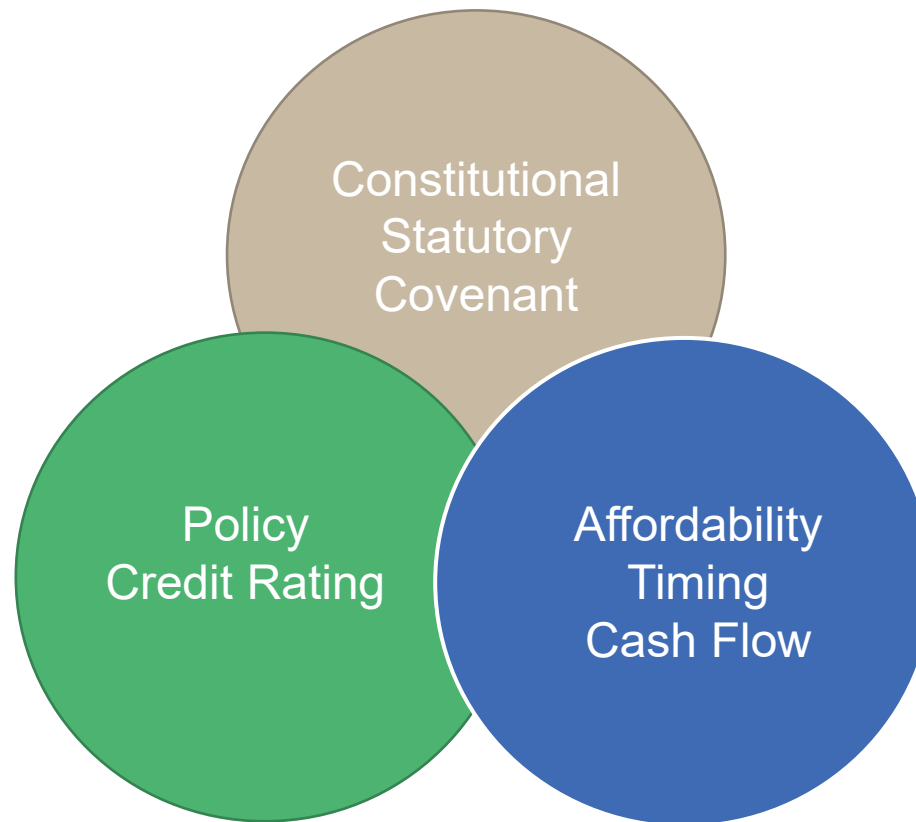
Authorizing the Issuance of County Debt

- It is the County Council's role to authorize the issuance of any debt through a bond ordinance
- The bond ordinance will also outline certain parameters related to the bond issuance:
 - Maximum (not-to-exceed) par amount
 - Date by when the bonds must be issued
 - Maximum interest rates (coupons) and True Interest Cost of the bonds
 - Final maturity date (e.g., the latest date on which bonds may mature)
 - Designate/describe the allowable uses of the bond proceeds
- In 2011, RCW 39.46.040 was amended to provide the option for a bond ordinance to delegate certain authority for bond issuance to a "designated representative(s)," which must be consistent with the County's debt policy
- The County's debt policy specifies that the County Treasurer, in coordination with the Finance Manager, will be the designated representative tasked with the day-to-day coordination of bond sale activities



What is Debt Capacity?

- Debt capacity is a broad term that can mean different things in different contexts
- May generally be thought of in three broad categories:





What is Debt Capacity?

- Constitutional/statutory debt capacity
 - Amount of general obligation bonds is restricted by State constitution and further by statute
 - Amount of revenue bonds is limited by financial covenants established in ordinance for outstanding revenue bonds
- Policy debt capacity
 - Additional restrictions on debt issuance established by policy or practice
 - May limit amount of GO debt issuance (as a % of statutory maximum, or based on repayment source)
 - Often informed by credit rating considerations
- Affordability and cash flow
 - How do we plan to pay debt service, and when will the revenues be available to do so?
 - How confident are we with the ability to sustain the revenue levels?



The County's Statutory Debt Capacity

- Non-voted (LTGO) debt may not exceed 1.5% of the value of the property in the County
- Total debt (non-voted and voted) may not exceed 2.5% of the value of the property in the County
- *Statutory debt capacity is not generally a limiting factor for counties in Washington*

Non-Voted General Obligation Debt Capacity	
Assessed Valuation for 2023 Tax Year	\$52,494,489,363
LTGO Debt Capacity (1.5% of AV)	\$787,417,340
Less: Outstanding Non-Voted LTGO Debt	<u>(1,395,000)</u>
Remaining LTGO Debt Capacity	\$786,022,340

Total General Obligation Debt Capacity	
Assessed Valuation for 2023 Tax Year	\$52,494,489,363
Total Debt Capacity (2.5% of AV)	\$1,312,362,234
Less: Outstanding Voted UTGO Debt	-
Less: Outstanding Non-Voted LTGO Debt	<u>(1,395,000)</u>
Remaining Total General Obligation Debt Capacity	\$1,310,967,234

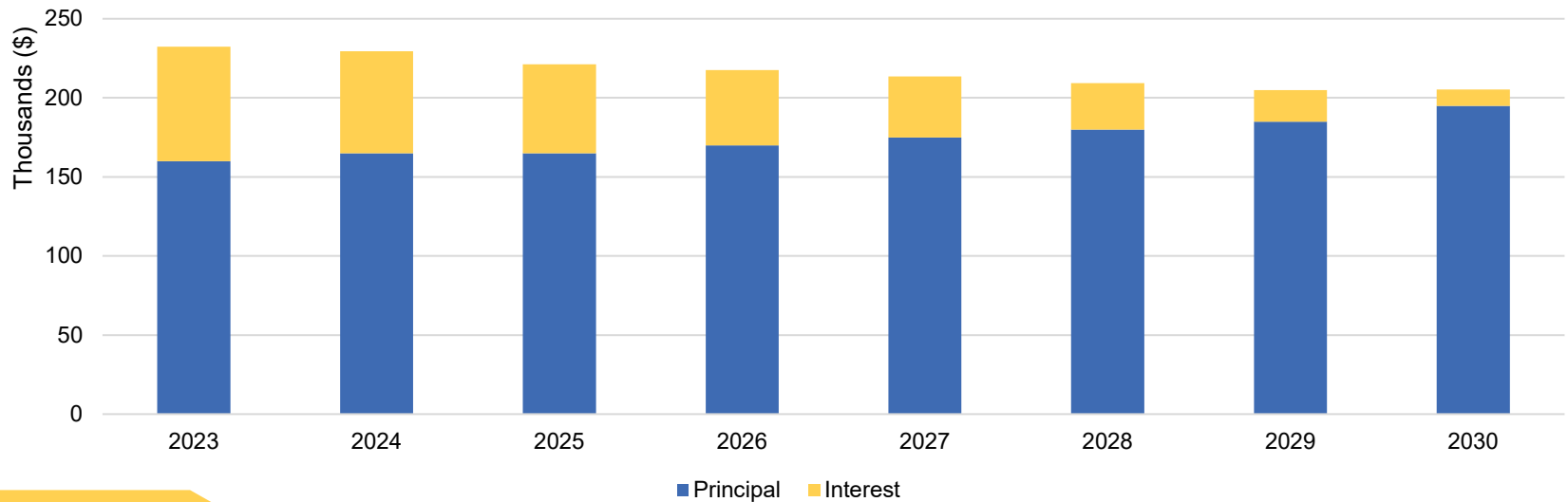


Outstanding Limited Tax General Obligation Debt

- The County has one outstanding series of LTGO bonds

Limited Tax General Obligation Debt Outstanding							
Series	Purpose	Outstanding Par	Delivery Date	Final Maturity	Call Date	Outstanding Coupons	Original Issue Size
2010B (Recovery Zone Economic Development Bonds)	Improvements to the County Jail	\$1,395,000	10/25/2010	12/1/2030	12/1/2020	5.00-5.25%	\$1,825,000

Remaining Debt Service on the 2010B Bonds





Rating Agencies

- Credit rating agencies are firms that analyze the probability of the debt instrument returning all of the principal to the investor
- Municipal credit ratings are opinions regarding the investment quality of bond issuers and issues in the municipal bond market
- Underwriters and investors rely upon the credit quality judgment made by the rating agencies
- Moody's Investors Service (which rates the County) focuses on several key areas:
 1. Local economy
 2. Financial performance of the entity
 3. Institutional framework
 4. Leverage (debt, pensions, and OPEB)
 5. Various qualitative "notching factors"

	Moody's	S&P	Fitch
Investment Grade	Aaa Aa A Baa	AAA AA A BBB	AAA AA A BBB
Non-Investment Grade	Ba B Caa Ca C	BB B CCC CC C	BB B CCC CC C



Moody's Credit Overview – General Obligation Debt

- On October 8, 2010, Moody's Investors Service assigned a "Aa3" rating to the County's 2010 LTGO bonds
- On February 15, 2017, Moody's upgraded the County and its outstanding LTGO bonds to "Aa2" as part of a broader change in methodology for local governments in Washington
- On May 28, 2021, Moody's provided its most recent annual comment for the County (no change to the rating)

Strengths

- Small debt burden
- Extensive tax base
- Healthy wealth and income profile
- Strong financial position

Challenges

- Mid-ranged pension liability that is unfavorable in comparison to rating
- Fund balance as a percent of operating revenues is materially lower than other rated counties



Peer Rating Comparison

County	Moody's	S&P
Asotin		AA-
Benton		AA+
Chelan		AA
Clark	Aa1	
Cowlitz	Aa3	
Douglas		AA-
Franklin		AA-
Grant	Aa3	AA-
Island	Aa2	
King	Aaa	AAA
Kitsap	Aa2	AA+

County	Moody's	S&P
Lewis	Aa3	
Mason		A+
Okanogan		AA-
Pierce	Aa1	AA
San Juan	Aa2	
Skagit	Aa2	
Snohomish	Aa1	AAA
Spokane	Aa1	AA+
Thurston	Aa1	AA+
Whatcom	Aa2	
Yakima	Aa3	

Sources: Municipal Securities Rulemaking Board EMMA; Moody's Investor Service, S&P Global Ratings. As of May 10, 2023.



Upcoming County Projects

- The County may issue long-term debt for some or all of the following projects:
 - Public Health and Safety Facility
 - Lummi Island Ferry
 - Smith and Northwest Buildings
 - Sheriff's Office
- For distinct projects with separate funding/financing plans, the County may combine bond issues in order to reduce up-front issuance costs and increase the marketability of the offering
- Rating agencies will also consider the County's overall capital and funding/financing plans in assigning a credit rating



Financing Considerations

Consideration	Notes
<i>Sales tax split among County & cities</i>	To be identified in interlocal agreement
<i>Debt service structure</i>	Borrow for specific amount or fully leverage tax revenues? Level vs. escalating debt service Debt service “haircut” vs. historical/projected tax revenues To what extent will additional sales taxes be needed for operations or other uses?
<i>Term (final maturity) of bonds</i>	Longer final maturity = greater ability to leverage tax revenues
<i>Multiple series of bonds?</i>	Greater up-front costs and time commitments Additional interest rate risk Greater ability to leverage tax revenues Greater flexibility re: total borrowing amount / structure
<i>Timing of bonds</i>	Potential for interim financing (including interfund loans) Potential to combine financing for multiple projects Reimbursement of prior (cash) expenditures



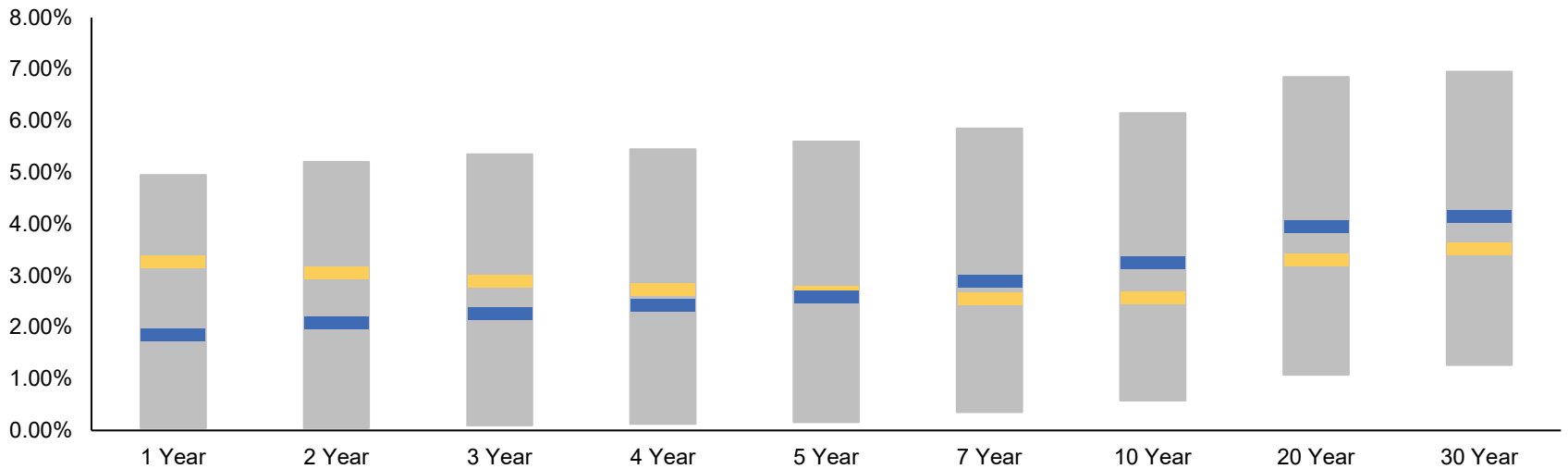
Appendix – Market Update



Historical AAA MMD Position

AAA MMD Rate Position
(30-Year History)

■ MMD Range ■ MMD Current ■ MMD Average

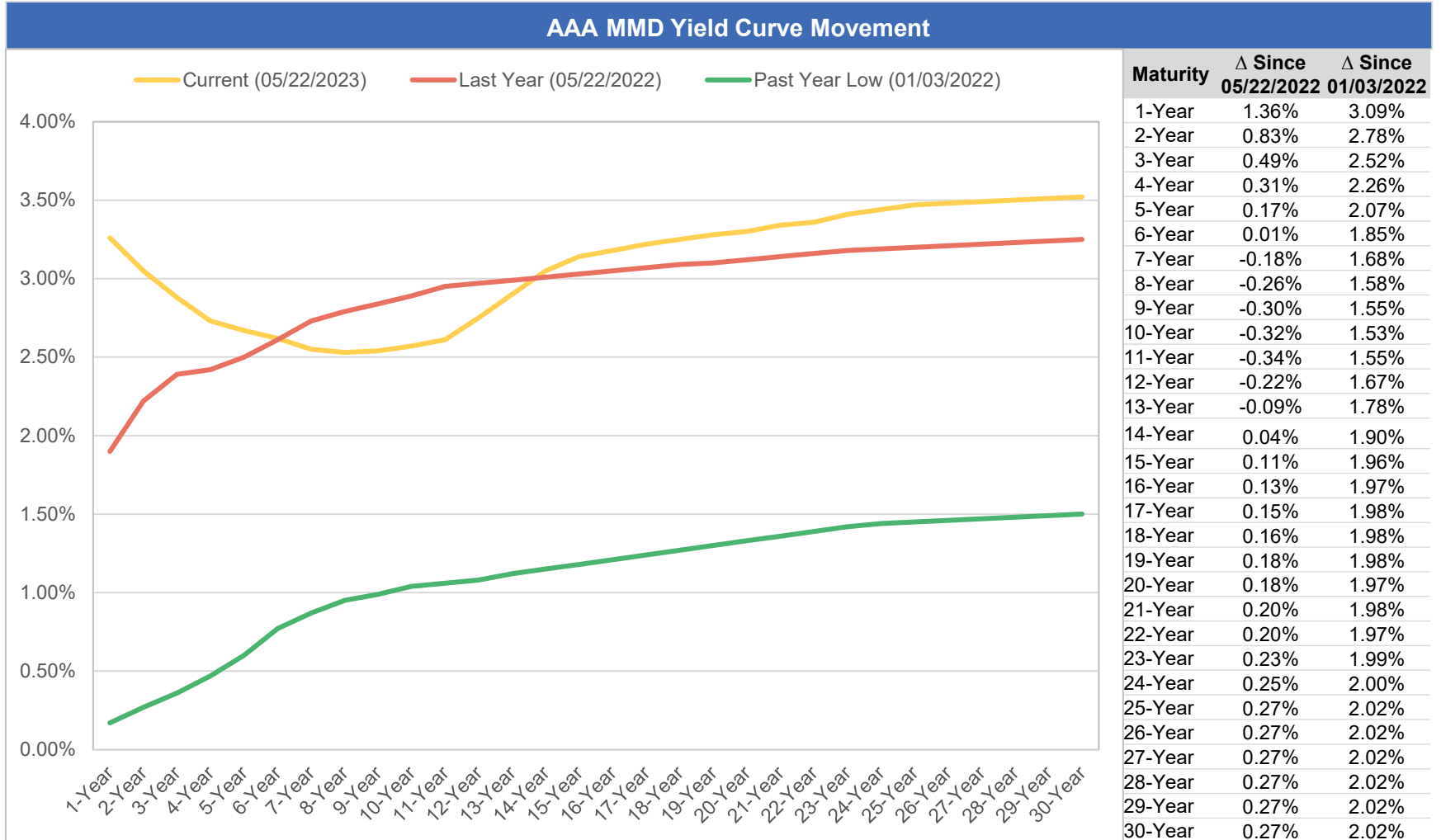


Statistic	1 Year	2 Year	3 Year	4 Year	5 Year	7 Year	10 Year	15 Year	20 Year	25 Year	30 Year
5/22/2023	3.26%	3.05%	2.88%	2.73%	2.67%	2.55%	2.57%	3.14%	3.30%	3.47%	3.52%
Average	1.84%	2.08%	2.26%	2.42%	2.58%	2.89%	3.25%	3.69%	3.95%	4.09%	4.13%
Spread to Avg.	1.42%	0.97%	0.62%	0.31%	0.09%	(0.34%)	(0.68%)	(0.55%)	(0.65%)	(0.62%)	(0.61%)
Minimum	0.05%	0.05%	0.10%	0.13%	0.16%	0.36%	0.58%	0.88%	1.08%	1.22%	1.27%
Spread to Min.	3.21%	3.00%	2.78%	2.60%	2.51%	2.19%	1.99%	2.26%	2.22%	2.25%	2.25%
Maximum	4.95%	5.20%	5.35%	5.45%	5.60%	5.85%	6.15%	6.65%	6.85%	6.90%	6.95%
Spread to Max.	(1.69%)	(2.15%)	(2.47%)	(2.72%)	(2.93%)	(3.30%)	(3.58%)	(3.51%)	(3.55%)	(3.43%)	(3.43%)
Percent of Market Days Lower	73.99%	65.52%	61.89%	56.70%	52.52%	45.79%	36.13%	36.93%	34.39%	34.22%	34.11%

Source: Thomson Reuters



Recent AAA MMD Yield Curve Movement

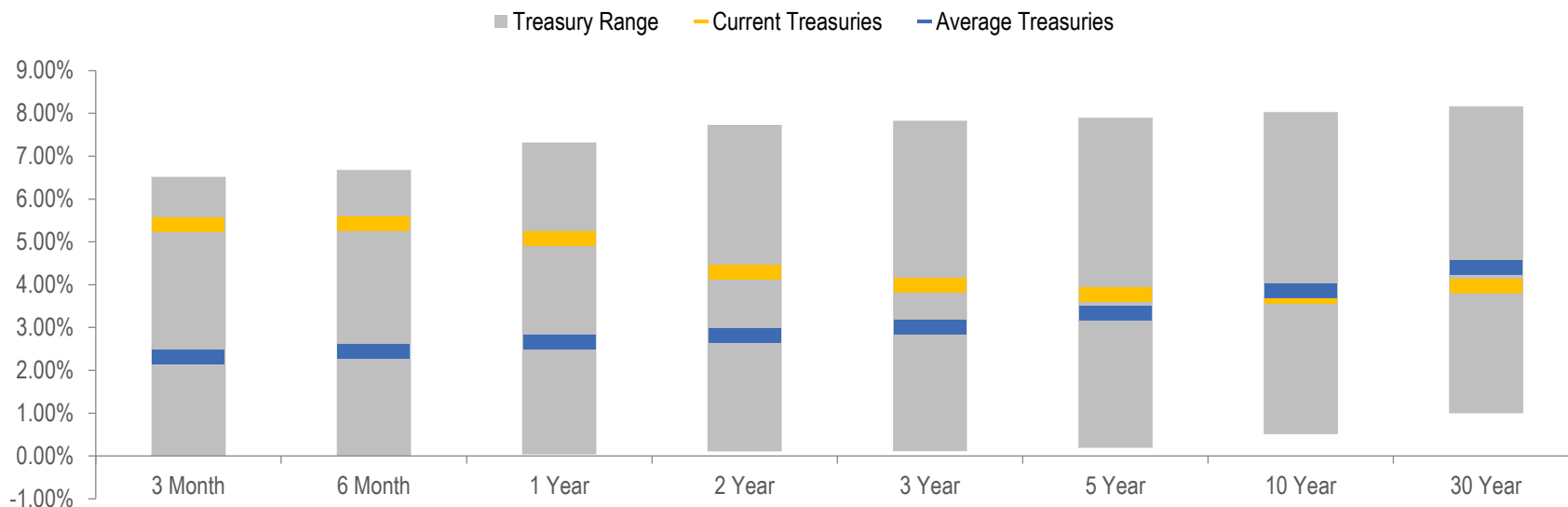


Source: Thomson Reuters



Historical U.S. Treasury Position

**U.S. Treasury Rate Position
(30-Year History)**

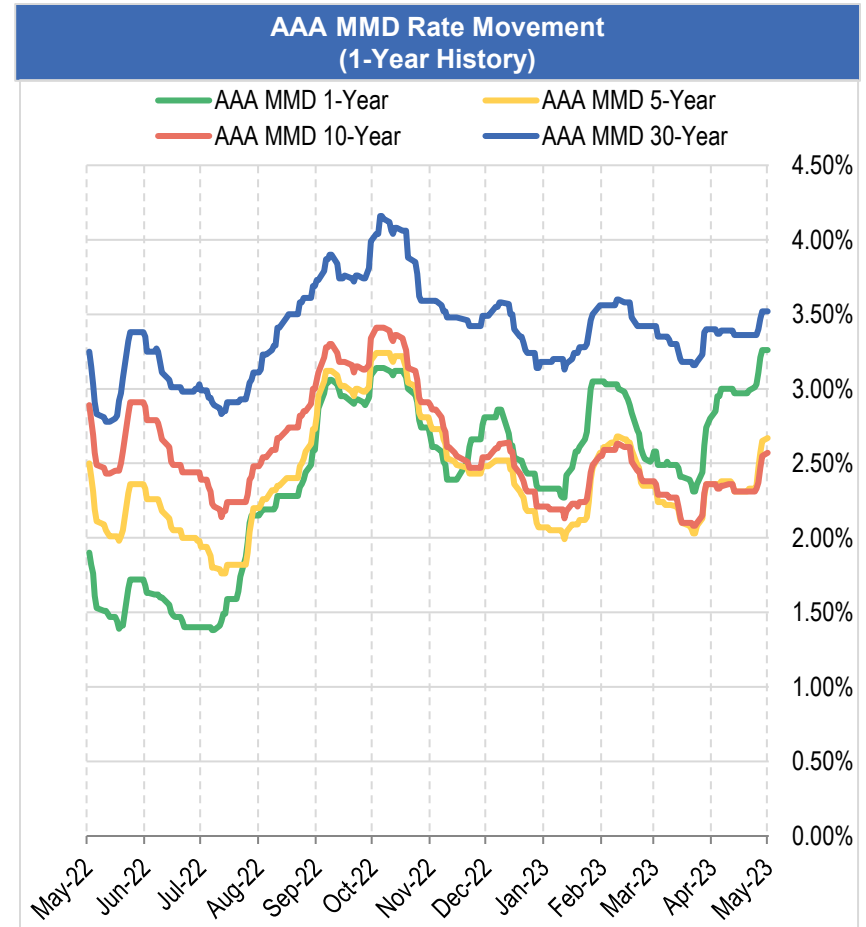
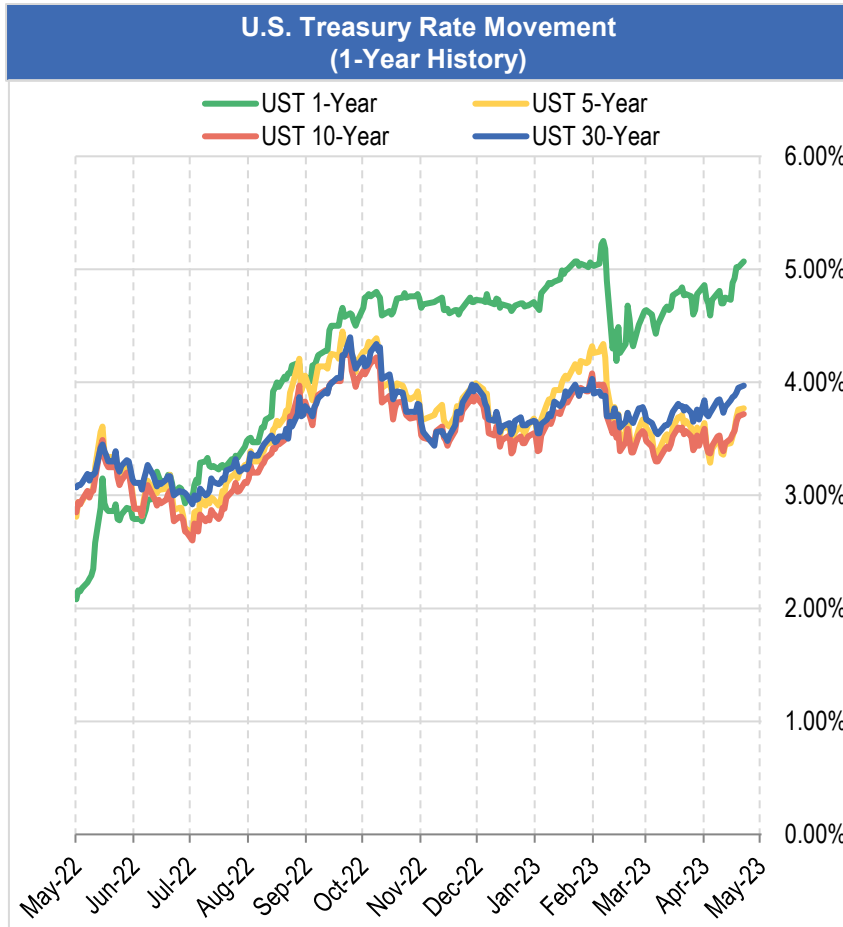


Statistic	3 Month	6 Month	1 Year	2 Year	3 Year	5 Year	10 Year	30 Year
5/22/2023	5.40%	5.43%	5.07%	4.29%	3.98%	3.77%	3.72%	3.97%
Average	2.31%	2.45%	2.65%	2.81%	3.02%	3.34%	3.86%	4.41%
Spread to Avg.	3.09%	2.98%	2.42%	1.48%	0.96%	0.43%	-0.14%	-0.44%
Minimum	-0.09%	0.00%	0.04%	0.10%	0.11%	0.19%	0.51%	1.00%
Spread to Min.	5.49%	5.43%	5.03%	4.19%	3.87%	3.58%	3.21%	2.97%
Maximum	6.44%	6.68%	7.32%	7.73%	7.83%	7.90%	8.03%	8.16%
Spread to Max.	-1.04%	-1.25%	-2.25%	-3.44%	-3.85%	-4.13%	-4.31%	-4.19%
Percent of Market Days Lower	93.06%	90.71%	80.97%	69.38%	63.53%	59.19%	48.49%	41.26%

Source: Thomson Reuters



U.S. Treasury & AAA MMD Rate Movement



Source: Thomson Reuters

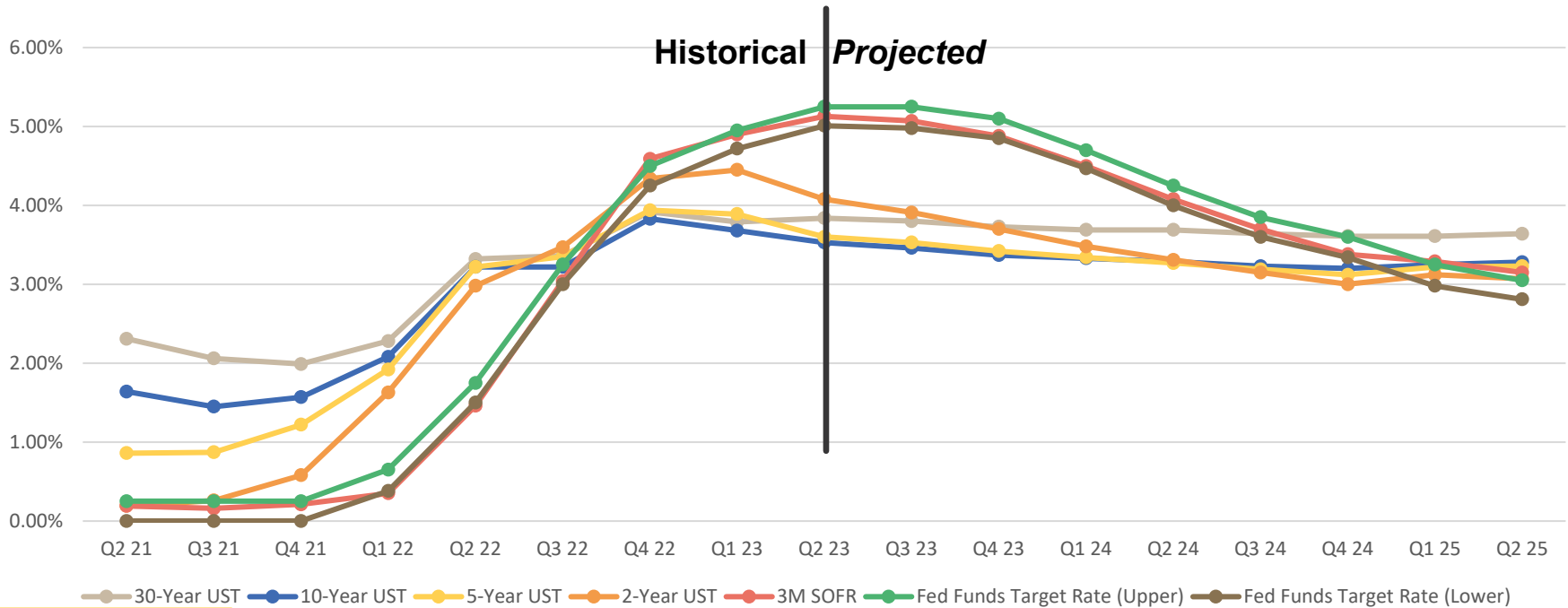


Historical and Forecasted Interest Rates

The charts below show consensus forecasts from numerous financial institutions as reported by Bloomberg.

Bloomberg Bond Yield Forecast

Average Forecasts	Current	Q2 23	Q3 23	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	Q1 25	Q2 25
30-Year UST	3.97%	3.84%	3.80%	3.73%	3.69%	3.69%	3.64%	3.61%	3.61%	3.64%
10-Year UST	3.72%	3.53%	3.46%	3.37%	3.33%	3.29%	3.23%	3.20%	3.25%	3.28%
5-Year UST	3.78%	3.60%	3.53%	3.42%	3.34%	3.27%	3.19%	3.12%	3.22%	3.23%
2-Year UST	4.33%	4.08%	3.91%	3.70%	3.48%	3.31%	3.15%	3.00%	3.12%	3.07%
3M SOFR	5.15%	5.13%	5.07%	4.88%	4.50%	4.08%	3.70%	3.38%	3.29%	3.15%
Fed Funds Target Rate (Upper)	5.25%	5.25%	5.25%	5.10%	4.70%	4.25%	3.85%	3.60%	3.25%	3.05%
Fed Funds Target Rate (Lower)	5.00%	5.01%	4.98%	4.85%	4.47%	4.00%	3.60%	3.34%	2.98%	2.81%



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