

## City Bond Issuance and Debt Service

In addition to cash resources, the City also uses bonds and property tax levies to fund a variety of capital improvement projects. The City's budget must include funds to pay interest and principal on outstanding and proposed bonds. The City has issued three types of debt to finance its capital improvement programs: unlimited tax general obligation bonds, limited tax general obligation bonds and revenue bonds.

### Unlimited Tax General Obligation Bonds

The City may issue Unlimited Tax General Obligation (UTGO) Bonds for capital purposes if a proposition authorizing their issuance is approved by 60% of the voters in an election in which the number of voters exceeds 40% of the voters in the most recent general election. Payment of principal and interest is backed by the "full faith and credit" of the City. This means that the City commits itself to include in its property tax levy an amount that is sufficient to pay principal and interest on the bonds. Property taxes levied to pay debt service on UTGO bonds are not subject to the statutory limits in state law on the taxing authority of local governments, which is why UTGO bonds are "unlimited" (see the "Property Tax" section of the "Revenue Overview" for a description of statutory limits on property tax rates and growth). However, state law does limit the amount of UTGO bonds that can be outstanding at any time to 7.5% of assessed valuation of property in the city: 2.5% for open space and park facilities, 2.5% for utility purposes, and 2.5% for general purposes. As of December 31, 2021, there were approximately \$239 million in UTGO bonds outstanding.

### Limited Tax General Obligation Bonds

The City Council may authorize the issuance of Limited Tax General Obligation (LTGO) Bonds, also known as Councilmanic bonds, in an amount up to 1.5% of assessed valuation, without a vote of the people. The City pledges its full faith and credit to the payment of principal and interest on LTGO bonds, but this pledge must be fulfilled within the City's statutory property tax limitations. Thus, these are "limited" general obligation bonds. The combination of UTGO bonds issued for general purposes and LTGO bonds cannot exceed 2.5% of assessed property valuation. If LTGO bonds are issued up to the 1.5% ceiling, then UTGO bonds for general purposes are limited to 1% of assessed value.

The City also guarantees debt issued by the Seattle Indian Services Commission and the Museum Development Authority. As of December 31, 2021, the guarantees totaled \$31.65 million in addition to approximately \$701.6 million in LTGO bonds outstanding. Guarantees count against the City's LTGO debt capacity.

### Revenue Bonds

Revenue bonds are used to provide financing for the capital programs of City Light and the three other utilities - Water, Drainage and Wastewater, and Solid Waste - which are grouped together in Seattle Public Utilities. The City does not pledge its full faith and credit to the payment of debt service on revenue bonds. Payment of principal and interest on the bonds issued by each utility is derived solely from the revenues generated by the issuing utility. No tax revenues are used to pay debt service.

When revenue bonds are sold, the City commits itself to set fees and charges for the issuing utility that will be sufficient to pay all costs of operations and maintenance, and all payments of principal and

interest on the bonds. While the amount of revenue bonds is not subject to statutory limits, the utility's ability to repay debt with interest is a practical constraint.

### Forms of Debt Authorized by State Law

Table 1 below summarizes the conditions and limitations that apply to the issuance of the general obligation debt issued by the City.

**Table 1: Summary of Conditions and Limitations for City Debt Issuances**

| Form of Debt   | Voter Approval Required | Source of Repayment    | Statutory Limitation     | Current Limit <sup>1</sup> | Total Debt Outstanding 12-31-21 <sup>1</sup> |
|--|-------------------------|------------------------|--------------------------|----------------------------|--|
| <b>Unlimited Tax General Obligation Bonds (UTGO)</b> |                         |                        |                          |                            |  |
| Parks & Open Space                                   | Yes                     | Property Tax           | 2.5% of AV               | \$6.9 Billion              | \$0  |
| Utility  | Yes                     | Property Tax           | 2.5% of AV               | \$6.9 Billion              | \$0  |
| General Purposes                                     | Yes                     | Property Tax           | 1.0 % of AV <sup>2</sup> | \$2.8 Billion              | \$239 Million                                |
| <b>Limited Tax General Obligation Bonds (LTGO)</b>   |                         |                        |                          |                            |  |
|  | No                      | Taxes & Other Revenues | 1.5% of AV <sup>2</sup>  | \$4.1 Billion              | \$821 Million <sup>3</sup>                   |

<sup>1</sup> As of 12/31/21, assuming the latest certified assessed value of \$276.3 billion, issued on February 10, 2022 for taxes payable in 2022.

<sup>2</sup> The sum of UTGO and LTGO debt for general purposes cannot exceed 2.5% of assessed valuation.

<sup>3</sup> Includes \$31.65 million of PDA debt guarantees.

### City Debt Management Policies and Bond Ratings

The use of debt financing by the City is subject to federal and state laws as well as the City's own debt management policies ([Resolution 31553](#)).

The City has earned very high ratings on its bonds as a result of a strong economy and prudent financial practices. The City's UTGO debt is rated Aaa by Moody's Investors Service (Moody's), AAA by Fitch IBCA (Fitch), and AAA by Standard & Poor's (S&P), which are the highest possible ratings. The City's LTGO debt is also rated Aaa by Moody's, AAA by Fitch, and AAA by S&P. In addition, the City's utilities have very high ratings for revenue debt, reflecting sound finances and good management.

### 2023 Projected Bond Issues

In 2023, the City is authorized to issue approximately \$128 million of limited tax general obligation (LTGO) bonds for a variety of purposes. Table 2 lists the financed projects and other details of the financing plan. Bond proceeds will be deposited into the 2023 Tax Exempt and Taxable Multipurpose Bond Funds. City departments responsible for all or portions of projects listed in Table 2 will then draw money from the funds as appropriated to implement the projects. The appropriation authority for spending these bond funds is included in the respective departments' sections of this budget.

**Table 2: 2023 Multipurpose LTGO Bond Issuance Costs - Informational Only (\$1,000s)**

| <i>Project</i>  | <b>Capital Cost</b> | <b>Approx. Par Amount (1)</b> | <b>Max. Term</b> | <b>Approx. Rate</b> | <b>Debt Service Adopted 2023</b> | <b>Debt Service Estimated 2024</b> | <b>Debt Service Funding Source</b> |
|---|---------------------|-------------------------------|------------------|---------------------|----------------------------------|------------------------------------|------------------------------------|
| Fire Station 31   | 17,000              | 17,510                        | 20               | 5.50%               | 963                              | 1,465                              | REET I                             |
| Seattle Municipal Tower Elevator Rehab                    | 3,167               | 3,262                         | 10               | 5.00%               | 163                              | 422                                | FAS Rates                          |
| Human Capital Management System                           | 18,185              | 18,730                        | 8                | 4.75%               | 890                              | 2,869                              | FAS Rates                          |
| Drive Clean Seattle Fleet Electric Vehicle Infrastructure | 3,000               | 3,090                         | 7                | 4.75%               | 147                              | 529                                | Payroll Expense Tax                |
| Data and Telephone Infrastructure                         | 15,644              | 16,114                        | 8                | 4.75%               | 765                              | 2,468                              | IT Rates                           |
| Computing Services Architecture                           | 5,910               | 6,087                         | 8                | 4.75%               | 289                              | 932                                | IT Rates                           |
| Criminal Justice Information System Projects              | 12,996              | 13,386                        | 8                | 4.75%               | 636                              | 2,050                              | General Fund                       |
| Alaskan Way Main Corridor                                 | 713                 | 734                           | 20               | 5.50%               | 40                               | 61                                 | Commercial Parking Tax             |
| Overlook Walk and East-West Connections Project           | 6,237               | 6,424                         | 20               | 5.50%               | 353                              | 538                                | Commercial Parking Tax             |
| Aquarium Expansion  | 4,000               | 4,120                         | 20               | 5.50%               | 227                              | 345                                | REET I                             |
| Aquarium Expansion - Enhanced Facility                    | 20,000              | 20,600                        | 7                | 4.75%               | 979                              | 3,528                              | Park and Rec Fund                  |
| Aquarium Expansion - EF Fee Reserve                       | 4,338               | 4,468                         | 7                | 6.25%               | 279                              | 808                                | Park and Rec Fund                  |
| Waterfront Operations and Tribal Interpretive Center      | 13,000              | 13,390                        | 20               | 7.0%                | 937                              | 1,264                              | REET I                             |
| <b>Total</b>  | <b>124,189</b>      | <b>127,915</b>                |                  |                     | <b>6,668</b>                     | <b>17,279</b>                      |                                    |

(1) Includes 3% for costs of issuance and pricing adjustments.

**2023 Multipurpose LTGO Fund Issuance Costs - Informational Only (\$1,000s)**

| <b>Approximate Par Amount</b> | <b>Issuance Costs &amp; Pricing Adjustments</b> | <b>Approximate 2023 Issuance Cost</b> |
|-------------------------------|---|---------------------------------------|
| \$127,915                     | 3%  | \$3,726                               |

**2023 Debt Service**

In 2023, debt service associated with outstanding LTGO bond issues as well as the planned 2023 bond issuances is expected to be approximately \$112 million. Appropriation authority for debt service costs is included in the respective departments' sections of this budget. The Debt Service Appendix lists debt service amounts by paying fund.

**Council Changes to the Proposed Budget**

As part of the 2023 Adopted Budget, the City Council authorized an additional \$13 million of bonding for the acquisition and rehabilitation of the Waterfront Operations and Tribal Interpretive Center on the central waterfront. Council also added appropriation for the related debt service payments.

