CITY OF SEATTLE
GENERAL GOVERNMENT DEBT FINANCING

February 29, 2012

PRESENTERS

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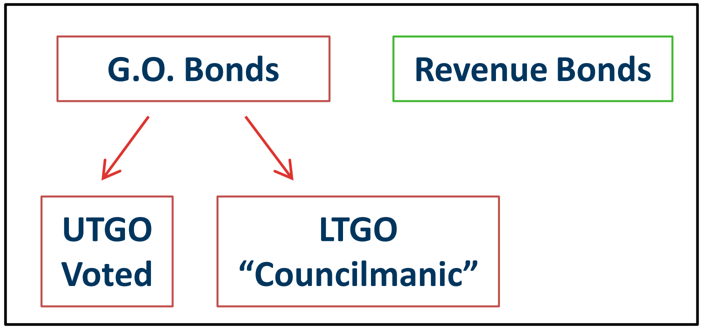
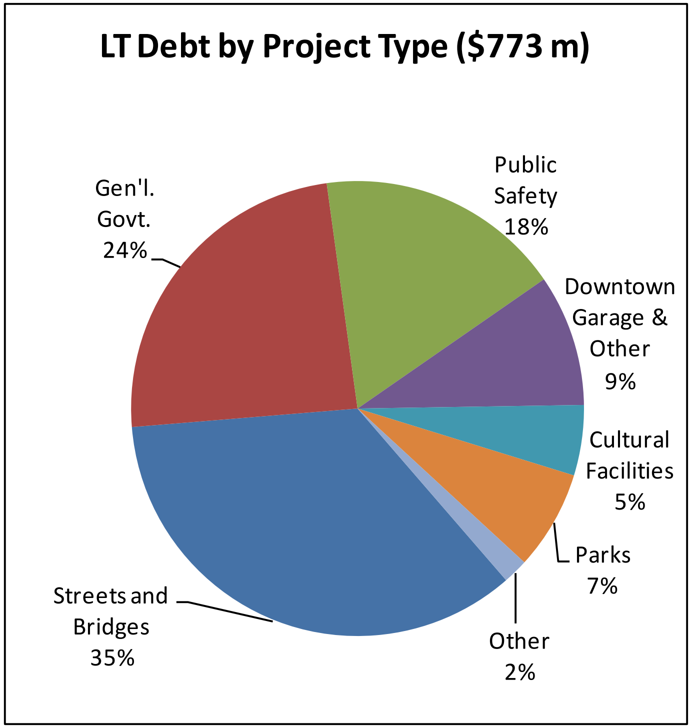
AGENDA

- Types and uses of City debt
- Factors constraining the use of debt
- Debt policies and practice
- “Legal” debt capacity
- “Practical” debt capacity
    - Existing debt profile
    - Revenue and “Non-self-supported” debt

Types and Uses of City Debt

- Two general types of debt used by the City to finance its capital programs are General Obligation Bonds and Revenue Bonds. Revenue bonds are used by the utilities.
- Two types of General Obligation bonds are Unlimited Tax General Obligation Bonds ("UTGO" or "voter-approved" bonds) and Limited Tax General Obligation Bonds ("LTGO" or "councilmanic" bonds).
- The only significant voter approved bonds currently outstanding were issued for "Libraries for All". UTGO requires 60% voter approval. These bonds are repaid with a voter-approved dedicated excess property tax levy.
- Interest and principal on LTGO bonds is paid from general government revenues, which may be internally dedicated (e.g. commercial parking taxes).
- LTGO debt has been used for a variety of general government purposes. Since Bridging the Gap, an increasing share of this debt has been issued for street and bridge improvements, which is repaid from commercial parking taxes.





- **Financial/Debt Policies and Practices**
- **State Law: “Legal Debt Capacity”**
- **Willingness and Ability to Pay: Committing future revenues for interest and principal repayment**
- **Strength of Local Economy: Tax base and bond ratings**
- **Voter Support**

- **City debt policies and practices have been intentionally conservative and sustainable.**
  - General government CIP largely financed on pay-as-you-go basis
  - Modest debt burden
  - Modest share of revenues dedicated to debt service
  - Rapid amortization (repayment of debt)
- **The City has issued only an average of $66 m of new LT (councilmanic) bonds per year since 2005.**
- **Together with a strong local economy, these conservative policies and practices translate into high bond ratings and low cost of borrowing.**

Annual City LT Bond Issues:

Issue	Amount ($m)
2005	58.1
2006	22.7
2007	36.4
2008	85.0
2009	95.5
2010	86.8
2011	79.2

"Legal" Debt Capacity

- State law limits outstanding G.O. debt to a share of total assessed value (AV). The limit for LTGO is 1.5%.
- The City has a very large legal capacity for voted (UTGO) debt.

Legal General Obligation Debt Capacity - City of Seattle
As of 12/31/2011
Assessed Value (AV) as of 1/31/12 - $117,503,213,124
($ millions)

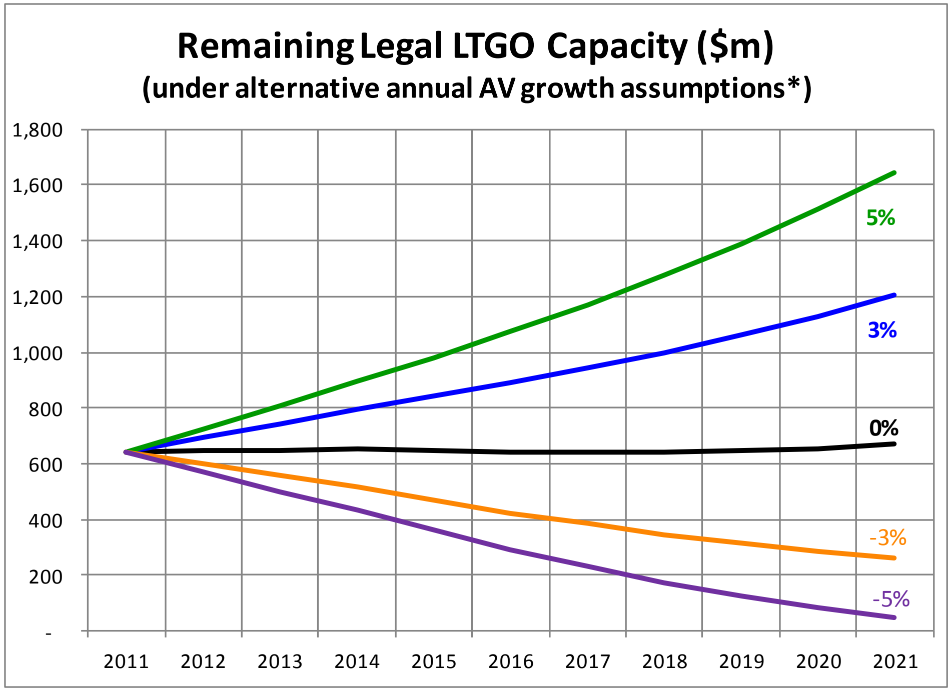
	Non-Voted General (LTGO)	Voted General (UTGO)	Voted Parks (UTGO)	Voted Utility (UTGO)
Limit as % of AV	1.5%	1.0%	2.5%	2.5%
Limit (2012 AV)	1,762	1,175	2,938	2,938
Outstanding*	-911	-108	0	-1
Remaining Statutory Authority	851	1,067	2,938	2,937
12% Emergency Reserve by City Policy	-211	n/a	n/a	n/a
Remaining Capacity	640	n/a	n/a	n/a

*Includes guarantees and required accounting adjustments.

- Legal debt capacity decreases (or increases) as AV declines (or increases). Remaining debt capacity increases as existing debt is repaid and decreases when new debt is issued.
- Historically, "legal" debt capacity has not been a binding constraint because AV has grown so much. The recent decline in AV has significantly lowered the City's "legal" debt capacity.
- Guarantees and accrued sick leave count against "legal" debt capacity.
- The City has a formal policy of preserving 12% of the legal LTGO limit for emergencies.

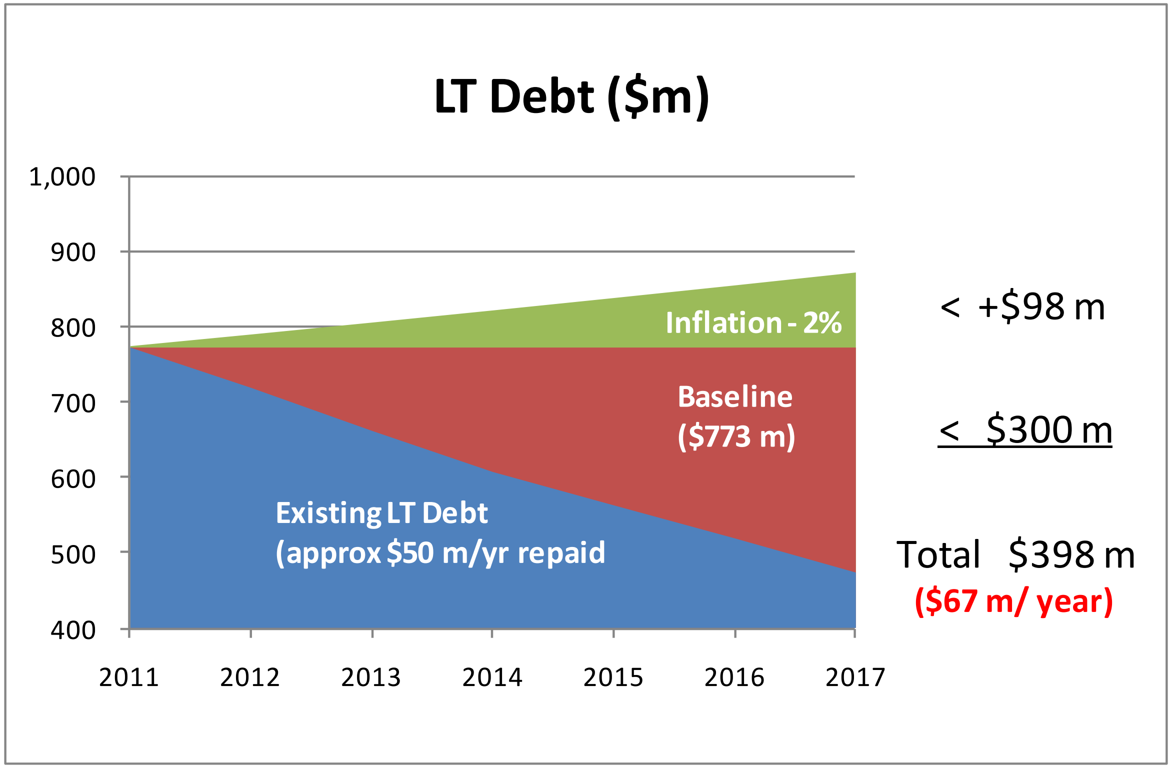
Projections of "Legal" Debt Capacity

- Projections of legal debt capacity are very sensitive to AV growth assumptions.
- Total AV has declined by 15% since 2009, reducing the legal limit by about $305 million.
- If AV is flat (0% growth), then remaining "legal" capacity will also remain flat. If it grows, "legal" capacity will increase, all else being equal.
- ***"Legal" debt capacity does not address the City's ability to repay principal and interest. This "practical" debt capacity must take into account repayment of existing debt and future revenues.***



* Assumes $52 m of new LTGO issued in 2012, as authorized in Budget, $60 million/year thereafter, and 12% reserve for emergencies as required by City policy.

Existing Debt Profile

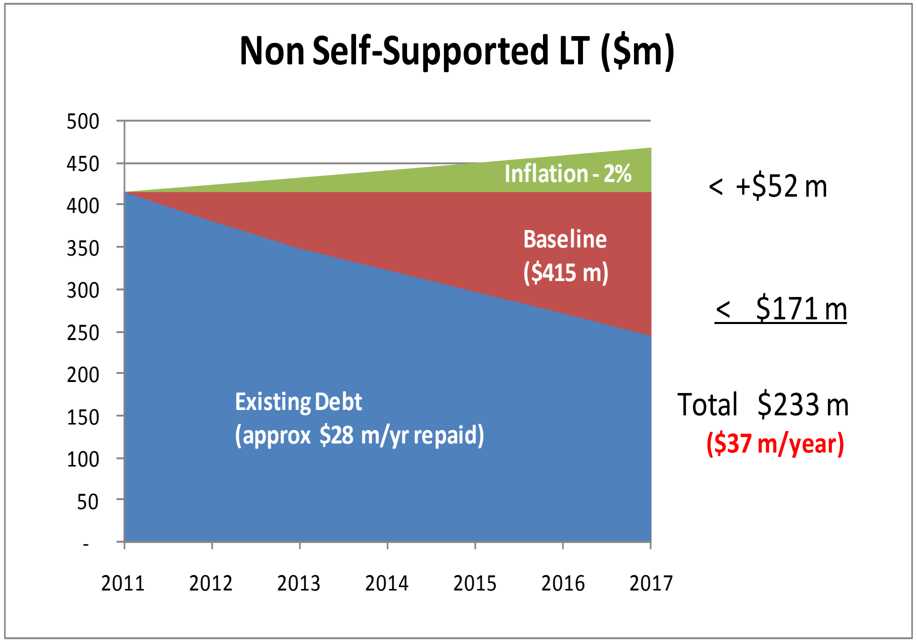


- The City pays off about $50 million of LT debt annually.
- As a result, the City could borrow about $50 of new LT each year without fundamentally altering its debt profile.
- Over the next 6 years, this could translate into about $300 million of new debt.
- An inflation adjustment would increase this to about $398 m, or an average $67 million per year.

Revenue to Support Debt Service Payments: "Non-Self-Supported LT Debt"

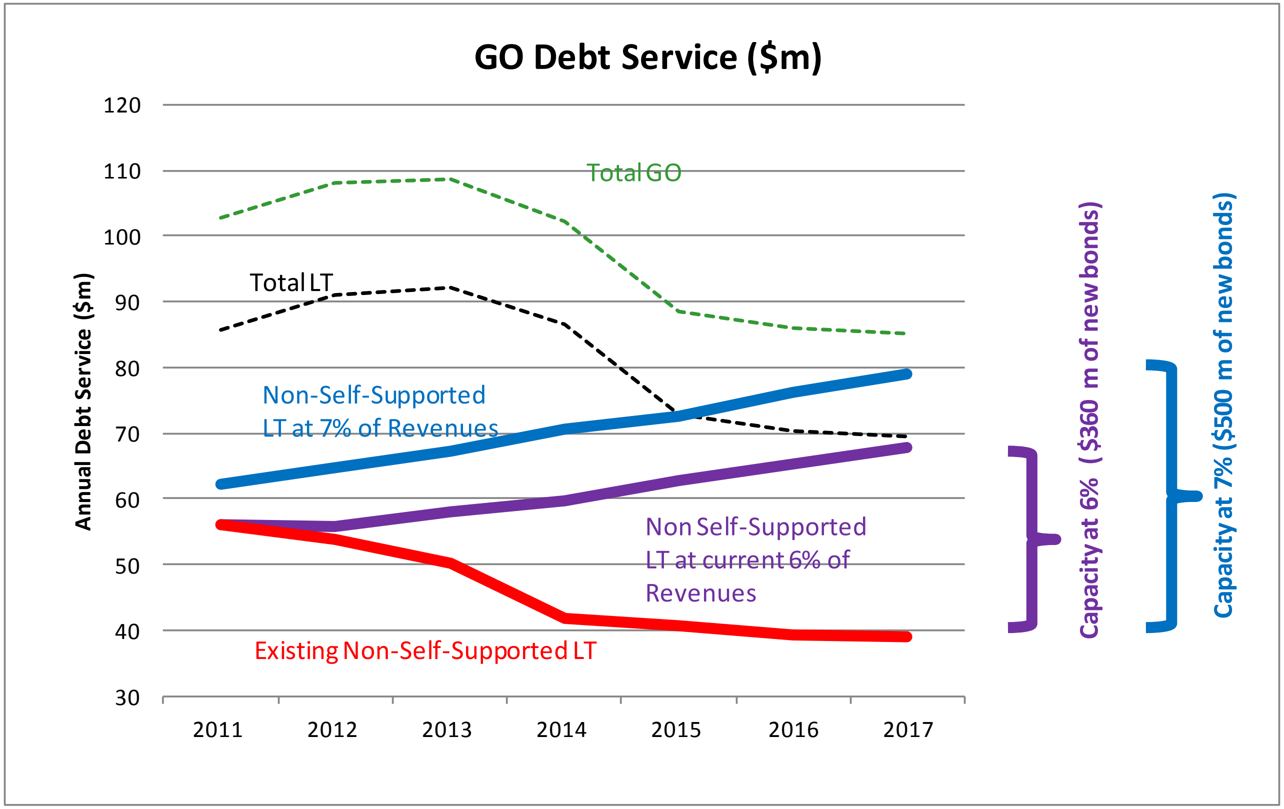
- "Self-Supported" LT Debt: Some of the City's LT debt is supported by project-specific revenues, such as the debt issued for BTG projects, Pike Place Market (levy), Aquarium (piers), Pacific Place Garage, and utility shares of Seattle Municipal Tower.

- "Non-Self-Supported LT Debt: The rest is supported by general government revenues.



- The City has approximately $415 m of non-self-supported LT debt outstanding and repays about $28 m annually.
- The City will repay about $171 m of this debt over the next 6 years and could issue this amount of new debt without altering its debt burden.
- Even with an adjustment for inflation, this approach to debt capacity neglects consideration of potential revenue growth.

Practical Capacity for "Non-Self-Supported LT" Debt



- At current payment (debt service) levels, about $360 m of new non-self-supporting LT could be issued over the next 6 years **($60 m/year)**.
- This would require the City to continue dedicating about 6% of general government revenues for this purpose. Taking on even more debt, resulting in a ratio above 6%, would require cutting other costs.
- Most of this "capacity" is not available until 2014-2017.

Summary

- The City's capacity for debt financing is limited. Decisions about debt financing of projects in the City's CIP involve material trade-offs.
- The City has a very large "legal" capacity for voter-approved (UTGO) debt. Its "legal" capacity for councilmanic (LTGO) debt is much more limited.
- "Legal" capacity has fallen recently due to a contraction of assessed value and projections of future capacity are very sensitive to AV growth rate assumptions.
- The City's practical capacity for debt is limited by revenue available for debt service (interest and repayment of principal).
- If the City wants to maintain its past conservative financing practices, it has the capacity to issue about $50-$70 m of new LTGO (councilmanic) debt per year.
- The City could undertake a more aggressive financing approach, but this would require it to either:
  - Accept a more leveraged debt financing profile (which could negatively affect the City's credit rating) and/or
  - Seek new revenue from which to support the debt (e.g. voter-approved levy)