W.15.b.

Memorandum

Date: January 14, 2009
To: Board of Commissioners
From: David Suchart, Management Services Director
Re: Recommendation for Debt Reduction

The County had planned to issue bonds of approximately $21 million last spring. Due to the instability and unfavorable conditions in the municipal bond market, it was decided to delay the bond issuance until the fall of 2009, and an interfund loan was authorized to cover interim construction costs. If there are funds available for debt reduction, staff recommends the following options to avoid issuance of all or a portion of new debt.

Detail of planned bond issuance:

	Charnelton Building	AIRS Project	Total
Planned Bond Proceeds	$18.0 mil	$3.2 mil	$21.2 mil
Detail:			
Mortgage payment due 11/09	$6.2 mil		$6.2 mil
Interim Construction Costs FY 08/09*	$4.1 mil	$0.9 mil	$5.0 mil
Construction Costs FY 09/10	$7.0 mil	$2.3 mil	$9.3 mil
Construction Costs FY 10/11	$0.7 mil		$0.7mil
	$18.0 mil	$3.2 mil	$21.2 mil

*Financed through interfund loans due 11/09

Staff recommends the following options based on varying amounts available for debt reduction:

#1 Use $21.2 million to avoid issuing bonds.

Savings	Future debt service avoided	$35.7 million
	Total interest avoided (net savings)	$14.5 million
	Bond issuance costs avoided (savings)	$ .25 million
	Net present value interest savings**	$ 7.4 million

#2 Use $11.2 million to reduce borrowing to $10 million bank qualified level (additional interest savings result from BQ status).

Savings	Future debt service avoided	$17.8 million
	Total interest avoided (net savings)	$ 8.6 million
	Net present value interest savings**	$ 5.3 million

#3 Use $6.2 million to pay off existing mortgage. This provides some level of flexibility in timing of other costs which allow us to monitor changes in the bond market.

Savings	Future debt service avoided	$10.4 million
	Total interest avoided (net savings)	$ 4.2 million
	Net present value interest savings**	$ 2.1 million

#4 If the amount available is under $2 million, use $1.565 million to call remaining callable PERS bonds.***

Savings	Future debt service avoided	$ 3.2 million
	Total interest avoided (net savings)	$ 1.6 million
	Net present value interest savings**	$ .8 million

Note: Savings for all scenarios are based on estimates of interest rates consistent with Seattle Northwest Securities December 2008 estimates. Option #4 – PERS bonds interest rate is known.

**Net present value interest savings is the difference between the interest avoided and the interest that would be earned if the County invested the funds at a rate of 3.8% (historic 10 year average return is 4.09%, the current rate of return is 3%),

***Budget staff recommends that PERS bonds be paid with funds generated through the normal process by adjusting the rate charged to all funds. This is the only option currently available to ensure that all funds (not just the General Fund) pay their fair portion of the bond costs. The PERS Bond Fund currently has a balance of approximately $600,000 and it is estimated that the additional $965,000 needed to call the bonds can be generated in the FY 09-10 budget cycle while keeping the overall rate to departments level due to a temporary decrease in the employer rate set by the PERS Board.