

AB 6715

First Reading of Ord. No. 25-13 Bond Levy for the PSM Facility July 1, 2025



Background

June 17 meeting the City Council

- ❑ Approved Public Safety & Maintenance (PSM) Facility schematic design.
- ❑ Approved PSM Facility project budget not to exceed \$103.9 million.
- ❑ Begin to solicit community members to serve on the Pro/Con committees.
- ❑ Directed staff to prepare the bond levy ordinance for first reading.

Action Items this Evening

Finalize elements of Ordinance No. 25-13 for second reading

1. PSM Facility and the 1% for the Arts requirement (Ord. No 25C-19).
 - ❑ Will inform the final not-to-exceed amount of bond issuance.
2. Length of the repayment schedule on proposed bonds.
3. Ballot proposition language.
4. Explanatory Statement language review.

1% for the Arts Requirement

If the City Council adopted Ordinance No. 25C-19 (AB 6725)
AND would like to wholly or partially exempt the PSM Facility
from the 1% for the Arts requirement,
a motion is required to amend the bond ordinance and include
the exemption.

Bond Ordinance No. 25-13

- ❑ Outlines the purpose of the bonds – pay for PSM Facility from concept through completion.
- ❑ Limits eligible uses to designing, constructing, creating access to and furnishing the PSM Facility.
- ❑ Levies excess property taxes to pay the bonds.

City's Current Debt

- ❑ City's total capacity for debt limited by state law to 7.5% of total assessed value of taxable property within the City.
 - ❑ General obligation debt may not exceed 2.5%, of which 1.0% may be voted-debt (voter approved).
- ❑ Current debt amounts to \$33.2 million.
- ❑ With proposed UTGO bond issuance for PSM facility, City's remaining debt capacity is \$392 million, or 74% of total assessed value of taxable property.

Bond Issuance

- ❑ City's typically pay for public investments that span multiple generations via general obligation bonds.
- ❑ City pledges to use all available resources to repay debt (principal and interest) to bondholders.
- ❑ Two kinds of General Obligation debt:
 - ❑ **Limited Tax General Obligation (LTGO)**
 - ❑ **Unlimited Tax General Obligation (UTGO)**

Bond Issuance

Limited Tax General Obligation

- ❑ Debt must be repaid using existing resources.
- ❑ Does not require voter approval.

Unlimited Tax General Obligation

- ❑ Debt must be repaid using new resource: excess levy property tax.
- ❑ New tax resource dedicated strictly to pay for the PSM Facility.
- ❑ Requires 60% voter approval and 40% voter turnout based on the previous general election.

Bond Issuance

Based on the nature of the PSM Facility investment, staff recommends the City issue UTGO bonds via voter approval.

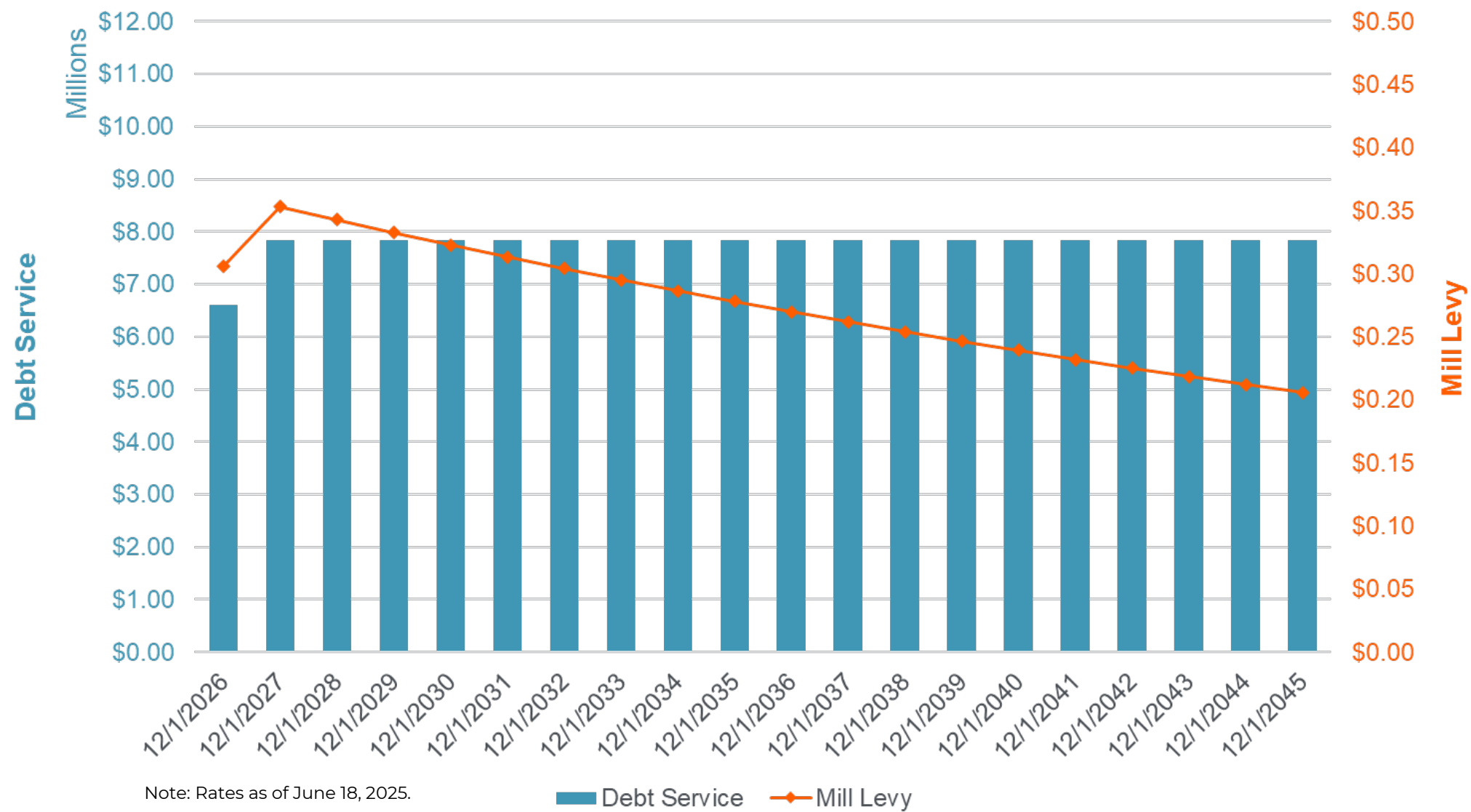
- ❑ Seismically rated level IV facility.
- ❑ A 50+ year useful life.
- ❑ Debt service from bonds exceeds the City's current revenue capacity.
- ❑ Bonds spread the financing costs over time.

Structure of Bond Issuance

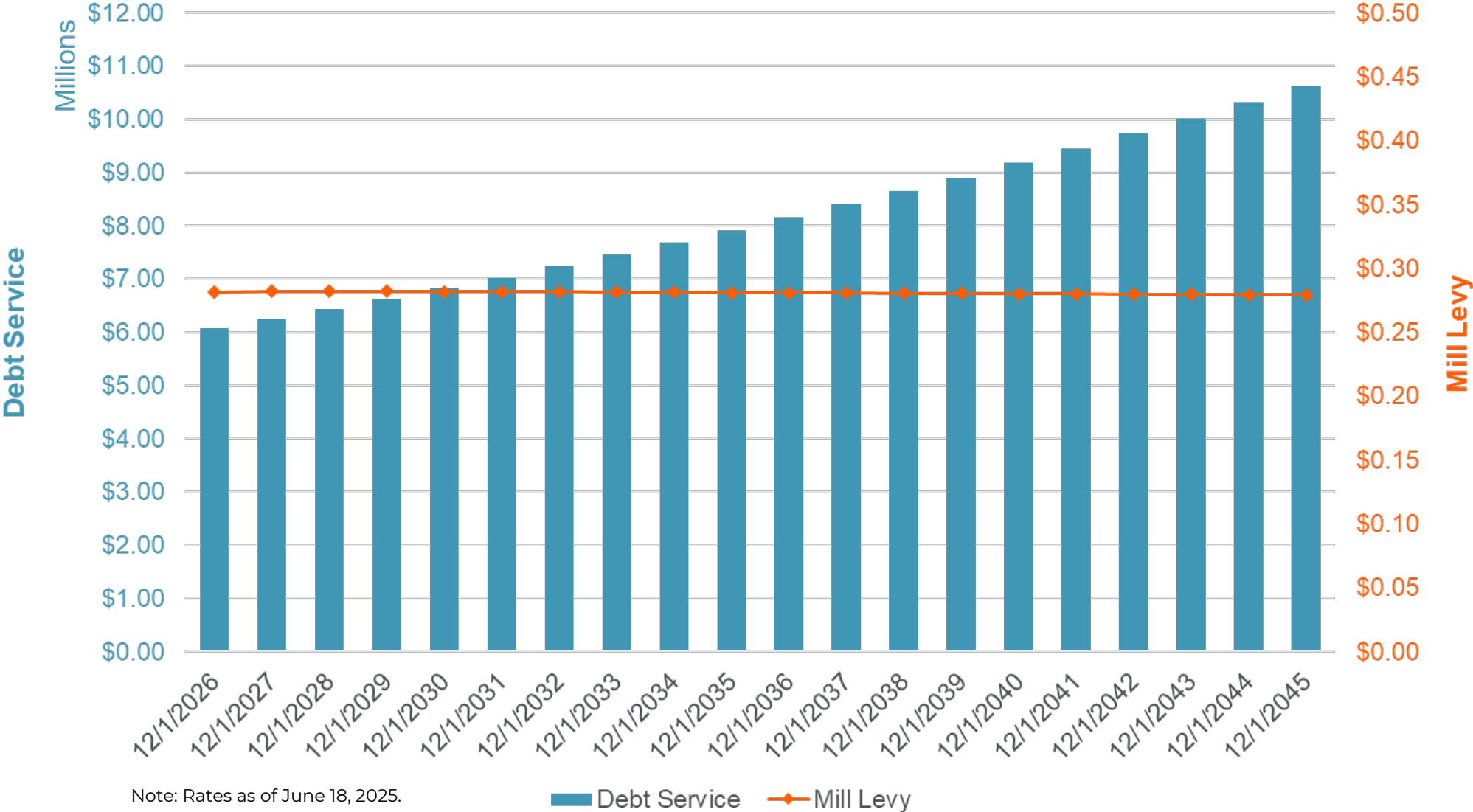
- ❑ With **Level Debt Service** the total annual principal and interest payments remains relatively constant over the life of the bonds.
 - ❑ A taxpayer's annual payment per year remains consistent year-to-year.
- ❑ With **Level Tax Rate** structure, the levy rate is kept constant and debt service payments increase year-to-year over the life of the bonds.
 - ❑ The amount paid by taxpayers increases year-to-year at the same rate as the projected growth of their property's assessed value.



UTGO Bonds – 20-year level debt service



UTGO Bonds – 20-year level tax rate



Structure of Bond Issuance

- ❑ **Level debt service** is assumed in Ord. No. 25-13.
 - ❑ Often favored for large, long-term capital projects by spreading the repayment burden evenly over the life of the bonds.
 - ❑ Avoids higher overall interest cost due to increasing year-to-year debt service.



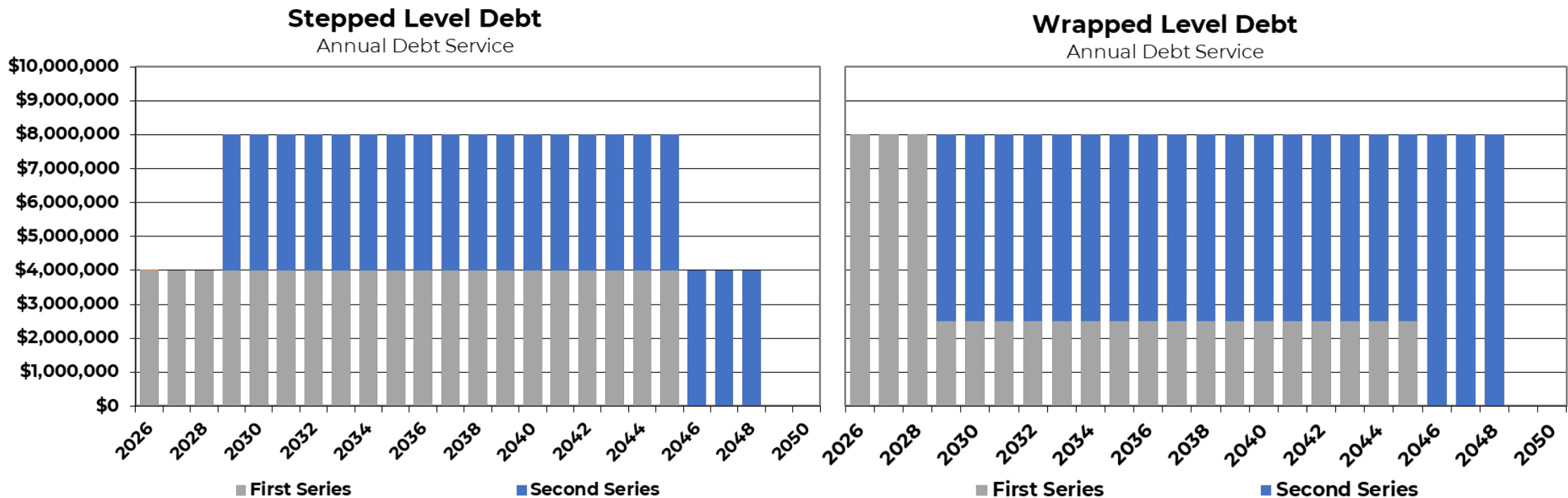
Phased Financing

- ❑ Federal tax laws require 85% “spend-down” within 3 years of issuance.
- ❑ Staggered bond issuances given project phases and overall timeline exceeds 3 years.
 - ❑ Smaller portions of the \$103.9 million issued to align with the different project phases instead of issuing one large Bond upon voter approval.



Phased Financing

- The structure of the bond series issued will impact the levy rate and annual debt service over the life of the bonds.



Premium Example

- Example of coupon/yield relationship
- 25-year term, level debt

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Premium (-Discount)
Serial Bonds:						
	12/01/2026	1,750,000	5.000%	2.700%	101.897	33,197.50
	12/01/2027	2,165,000	5.000%	2.720%	104.064	87,985.60
	12/01/2028	2,270,000	5.000%	2.740%	106.134	139,241.80
	12/01/2029	2,385,000	5.000%	2.780%	108.032	191,563.20
	12/01/2030	2,505,000	5.000%	2.860%	109.608	240,680.40
	12/01/2031	2,630,000	5.000%	2.980%	110.752	282,777.60
	12/01/2032	2,760,000	5.000%	3.120%	111.497	317,317.20
	12/01/2033	2,900,000	5.000%	3.180%	112.539	363,631.00
	12/01/2034	3,045,000	5.000%	3.350%	112.532	381,599.40
	12/01/2035	3,195,000	5.000%	3.510%	112.304	393,112.80
	12/01/2036	3,355,000	5.000%	3.690%	110.724 C	359,790.20
	12/01/2037	3,525,000	5.000%	3.790%	109.857 C	347,459.25
	12/01/2038	3,700,000	5.000%	3.890%	108.999 C	332,963.00
	12/01/2039	3,885,000	5.000%	3.990%	108.149 C	316,588.65
	12/01/2040	4,080,000	5.000%	4.110%	107.139 C	291,271.20
	12/01/2041	4,285,000	5.000%	4.230%	106.140 C	263,099.00
	12/01/2042	4,500,000	5.000%	4.360%	105.071 C	228,195.00
	12/01/2043	4,725,000	5.000%	4.470%	104.176 C	197,316.00
	12/01/2044	4,960,000	5.000%	4.530%	103.692 C	183,123.20
	12/01/2045	5,210,000	5.000%	4.580%	103.291 C	171,461.10
		67,830,000				5,122,373.10
Term Bonds:						
	12/01/2046	5,470,000	5.250%	4.750%	103.887 C	212,618.90
	12/01/2047	5,755,000	5.250%	4.750%	103.887 C	223,696.85
	12/01/2048	6,055,000	5.250%	4.750%	103.887 C	235,357.85
	12/01/2049	6,375,000	5.250%	4.750%	103.887 C	247,796.25
	12/01/2050	6,710,000	5.250%	4.750%	103.887 C	260,817.70
		30,365,000				1,180,287.55
		98,195,000				6,302,660.65



Premium Example

- ❑ Example of sources and uses of funds
- ❑ 25-year term, level debt

Sources:

Bond Proceeds:	
Par Amount	98,195,000.00
Premium	6,302,660.65
104,497,660.65	

Uses:

Project Fund Deposits:	
Project Fund	103,900,000.00
Cost of Issuance:	
Other Cost of Issuance	250,000.00
Delivery Date Expenses:	
Underwriter's Discount	343,682.50
Other Uses of Funds:	
Additional Proceeds	3,978.15
104,497,660.65	



Repayment Schedule Options

City Council, tonight we will need you to provide policy direction on the length of the repayment schedule.

Repayment Schedule

Length of time debt from bond issuance is repaid via excess levy

- ❑ Longer the term, the higher the interest rate and the greater amount of interest paid over life of the bond.
- ❑ Spreading repayments over a longer period lowers annual debt service.
 - ❑ **Result:** Lower monthly financial burden for Mercer Island taxpayers.
- ❑ Additional factors include current interest rates, impact to taxpayers, PSM Facility's useful life, intergenerational equity, among others.

Repayment Schedule Options

Length of Bond Repayment Schedule Years	20	25	30	35
Final Maturity	12/1/2045	12/1/2050	12/1/2055	12/1/2060
All-In True Interest Cost (TIC) ¹	4.20%	4.52%	4.73%	4.89%
Total Debt ²	\$155,400,606	\$175,436,841	\$196,304,404	\$218,938,553
Total Interest	\$58,245,606	\$77,241,841	\$97,204,404	\$119,668,553
City Average Annual Debt Service	\$7,832,034	\$7,062,201	\$6,578,198	\$6,283,814
Household Financial Impact per Month³	\$62	\$56	\$52	\$50

¹ Market conditions as of June 23, 2025.

² Source: Piper Sandler & Co.

³ Assumes a home with a \$2,000,000 assessed value in 2025.

Ballot Measure

Ballot Proposition

CITY OF MERCER ISLAND PROPOSITION NO. 1 PUBLIC SAFETY AND MAINTENANCE FACILITY BONDS

The City Council of the City of Mercer Island passed Ordinance 25-13 concerning a proposition for City facilities. If approved, this proposition authorizes the City to design, construct, furnish, and access a public safety and maintenance facility for the City's Police Department, Public Works Maintenance Teams, Emergency Operations Center, Information Technology, Geographic Information Systems, and Customer Service; issue up to \$103,900,000 of general obligation bonds maturing within a maximum of 35 years to finance such a project; and levy annual excess property taxes to repay the bonds, as provided in Ordinance 25-13.

Should this proposition be approved:

YES? ☐

NO? ☐

Explanatory Statement

Proposition No. 1
Submitted by City of Mercer Island, Washington

PUBLIC SAFETY AND MAINTENANCE FACILITY BONDS - \$103,900,000

Certain facilities of the City of Mercer Island, including facilities that house the Police Department and Public Works Maintenance Teams, are aging and/or failing, and are in need of replacement. The provision of adequate and efficient facilities is essential to public safety, emergency response, water and sewer service, storm response, snow and ice removal, well maintained and safe streets, and safe and clean parks, open spaces areas, and trails. Proposition 1 allows the City to construct a new Public Safety and Maintenance Facility that will replace the existing Public Works Buildings, Yard and City Hall building and provide a new combined location for the City's Police Department, Public Works Maintenance Teams, Emergency Operations Center, Information Technology, Geographic Information Systems, and Customer Service Team. The new facility is an investment in the City's public safety and emergency response facilities which are foundational for basic City operations, public safety, customer service, and emergency response coordination.

Proposition 1 would authorize the issuance of \$103,900,000 of general obligation bonds to be repaid over a maximum of 35 years and the levy annual excess property taxes to repay the bonds. Over 35 years, staff estimates the levy rate is \$___ per \$1,000 of assessed valuation, which converts to about \$___ per year, or \$___ per month, for a home with a \$2,000,000 assessed value.

Next Steps

- ❑ Any feedback this evening will be incorporated into the explanatory statement and/or Ordinance No. 25-13 for second reading and adoption at the July 15 Council meeting.
- ❑ Recruitment is underway for the formation of Pro and Con Committees. Applications will be presented at the July 15 Council meeting.

Staff Recommendation

1. **(Optional motion if Council passes Ordinance No. 25C-19 at first reading - AB 6725)** Provide direction via motion to bring back Ordinance No. 25-13 with either a full or partial exemption of the PSM Facility project from the 1% for Arts contribution requirement.
2. Provide direction on the explanatory statement and Ordinance No. 25-13 and schedule second reading and adoption of Ordinance No. 25-13 at the July 15, 2025 City Council meeting.
3. Move to Appoint Mayor Nice, Deputy Mayor Rosenbaum, and Councilmember Reynolds to the Ad-hoc Working Group to review the Ballot Proposition and the Explanatory Statement for the PSM Facility bond measure with the City Manager and the City Attorney and prepare a final recommendation for City Council consider at the July 15, 2025 Council meeting.

Questions

Jessi Bon, City Manager

Matt Mornick, Finance Director

Robbie Cunningham Adams, Senior Management Analyst

Deanna Gregory, Partner, Pacific Law Group

Justin Monwai, Senior Vice President, Piper Sandler & Co.

