BOND FINANCING BY METROPOLITAN PARK DISTRICTS

Washington metropolitan park districts incur several types of debt to pay for capital improvement projects and other obligations. Districts have authority to issue general obligations payable from taxes, revenue obligations payable from the revenues of a particular enterprise and obligations payable from assessments. The obligation is usually in the form of bonds sold to the public via an underwriter, but the obligation can take other forms: bank lines of credit, bonds sold directly to an investor through a private placement, or financing leases, for example. The debt can be structured as long-term bonds or short-term notes. Typically, bonds or notes are structured so that the interest paid to investors is tax-exempt under federal income tax laws. By issuing tax-exempt bonds or notes districts can access capital financing at rates lower than the rates available to issuers of taxable obligations. The following provides a brief introduction to capital financing methods employed by Washington districts.

General Obligation Debt

General obligations are those obligations of a municipality to the payment of which the full faith and credit of the municipality is pledged. A general obligation is usually payable from property taxes, or at least from tax sources. General obligations may be incurred in the form of a registered warrant, conditional sale contract, lease or other instrument in which an unconditional and unlimited promise to pay is made.

Nonvoted General Obligation Bonds. Districts are allowed to issue nonvoted general obligation bonds backed by the district's taxing authority as long as all such outstanding obligations do not exceed .25% of the value of the taxable property in the district. Such obligations are payable from regular property tax levies (subject to the maximum levy rate and the 101% limitation), including the six year regular property tax. Included within this nonvoted debt capacity are any conditional sales contracts or financing leases that constitute "debt" under Washington law.

Voted General Obligation Bonds. Unlimited tax general obligation bonds are payable from property taxes in excess of regular tax levies. Districts may issue voted general obligation bonds in an amount, together with other outstanding voted and nonvoted debt, that does not exceed 2½% of the value of the taxable property in the district. An election must be held at which the total number of persons voting is not less than 40% of the total votes cast at the last preceding general election and at least 60% of those voting approve the bond proposition.

Revenue Debt

Districts may issue revenue bonds payable from the revenues of a particular enterprise. Traditionally, revenue bonds are "self-liquidating" in that they are repaid solely from revenues derived from the facility financed with proceeds of the bonds. Revenue bonds are commonly issued for water, sewer, solid waste and electric facilities. They also occasionally are issued for golf courses or other revenue producing recreation facilities. They are not general obligations or "debt" (within the debt restrictions of the state constitution or statutes) and have no claim on any tax revenues for payment of debt service. The revenues collected for the facility must be deposited into a special fund and pledged to pay debt service on the bonds.

LID or Assessment Bonds

Local improvement district ("LID") or assessment bonds are payable solely from assessments levied against property specially benefited by the improvements constructed out of the proceeds of the bonds. LIDs are typically formed to finance roads or water and sewer improvements and not park improvements. LID bonds do not impact a district's debt capacity.