

State of Washington PSFOA Presentation



Office of the State Treasurer

Aug 8, 2018



Agenda

The LOCAL Program

- *Matthew Schoenfeld, Debt Program Administrator*

Local Government Investment Pool (LGIP)

- *Doug Extine, Deputy Treasurer, Investments*

School Bond Guarantee Program

- *Jason Richter, Deputy Treasurer, Debt*

NEW ISSUE, BOOK-ENTRY ONLY

Moody's Rating: Aa2
(See "RATING")

\$103,130,000

STATE OF WASHINGTON
CERTIFICATES OF PARTICIPATION, SERIES 2017A
(STATE AND LOCAL AGENCY REAL AND PERSONAL PROPERTY)

Dated: Date of Initial Delivery

Due: July 1, as shown on page i hereof

The LOCAL Program

Real Estate and Equipment Financing for Local Governments

The State of Washington Certificates of Participation, Series 2017A (State and Local Agency Real and Personal Property) (the "Certificates") are being executed and delivered by the Trustee pursuant to a Trust Agreement among the Trustee, the State of Washington (the "State") and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. The Certificates evidence and represent undivided proportionate interests in payments to be made by the State under Master Financing Agreements between the Corporation and the State (the "State Payments").

The interest represented by the Certificates is payable semiannually on each January 1 and July 1, beginning January 1, 2018. The principal represented by the Certificates is payable in the stated maturity amounts on each July 1 as shown on page i.

The Certificates are subject to optional prepayment prior to their respective Principal Payment Dates. The Certificates are subject to extraordinary mandatory prepayment upon the occurrence of certain events. See "THE CERTIFICATES—Prepayment."

The Certificates are issuable in fully registered form under a book-entry only system, initially registered in the name of Cede & Co. (the "Owner"), as owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Certificates. The Certificates will be issued in denominations of \$5,000 each and any integral multiple thereof within a single maturity. Principal and interest represented by the Certificates are payable by the Trustee (currently U.S. Bank National Association), to DTC, for subsequent disbursement to Beneficial Owners of the Certificates, as described under "THE CERTIFICATES—Book-Entry System."

The Certificates are being executed and delivered to finance the costs of acquisition and construction of certain real and personal property for the benefit of certain State Agencies and Local Agencies (together, the "Agencies") and to pay issuance costs with respect to the Certificates.

State Payments are payable from payments made pursuant to the Agency Financing Agreements between the State and the applicable Agency ("Agency Payments"). The Master Financing Agreements and the State Agency Agreements constitute limited obligations of the State payable solely from the sources and subject to the limitations therein and do not constitute a debt or a general obligation of the State or a pledge of the faith and credit or taxing power of the State. The obligation of any State Agency to make its Agency Payment and the obligation of the State to make State Payments are subject to appropriation by the Legislature and to Executive Order emergency reduction by the Governor. A determination by the Legislature not to appropriate or any Executive Order reduction would not constitute an Event of Default under the Trust Agreement, the Master Financing Agreements or any State Agency Financing Agreement. The obligation of each Local Agency to make its Agency Payment is secured by such agency's full faith and credit.

In the opinion of Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issue date of the Certificates, interest represented by the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. While interest represented by the Certificates also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest represented by the Certificates received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest represented by the Certificates received by certain S corporations may be subject to tax, and interest represented by the Certificates received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest represented by the Certificates may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

The Certificates are offered when, as and if executed and delivered, subject to the receipt of the approving opinion of Foster Pepper PLLC, Seattle, Washington, Certificate Counsel to the State, and certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the State by Foster Pepper PLLC, Seattle, Washington, as Disclosure Counsel to the State.

It is anticipated that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Trustee on behalf of DTC by Fast Automated Securities Transfer on or about March 2, 2017.





What is the LOCAL Program?

- A cost effective way for Washington municipalities to finance equipment and/or real estate projects, including construction of new facilities
- Structured as a financing contract, or lease, offered through the Office of the State Treasurer (OST)
- Examples of recent equipment and real estate financings include:
 - Energy updates and new HVAC in an elementary school
 - School buses
 - City hall building
 - Computers for a county building
 - Community college housing





Program Details

- Requires participants to have a general obligation pledge and the ability to levy property taxes
- Minimum borrowing threshold of \$10,000 for each lease
- Maximum borrowing amount is decided on a case-by-case basis, based on the borrower's non-voted debt capacity and ability to repay the debt
- Length of the financing is based on the useful life of the asset:
 - For real estate transactions, the maximum term is 25-years
 - Maximum term for equipment is determined by the Office of Financial Management guide:

<https://www.ofm.wa.gov/sites/default/files/public/legacy/policy/30.50.htm>



Program Details Cont.

- All property financed on a tax-exempt basis is subject to IRS tax law restrictions regarding private business use:
 - When necessary, a taxable sale can be done
- Funds are generally available in Spring (March/April) and late summer/fall (Aug/Sept):
 - Some leases may qualify for a special issuance that could fall outside these regular dates
 - A local agency may also choose to participate in multiple issuances if needed



LOCAL COP Participants

Government Participants	Number of Leases
City	209
County	35
Fire District	217
Hospital District	15
Housing Authority	2
Irrigation or Reclamation District	1
Library District	1
Metropolitan Park District	12
Mosquito Control District	2
Park and Recreation District	16
Port District	7
Public Utility District	3
School District	260
Total Participants	780



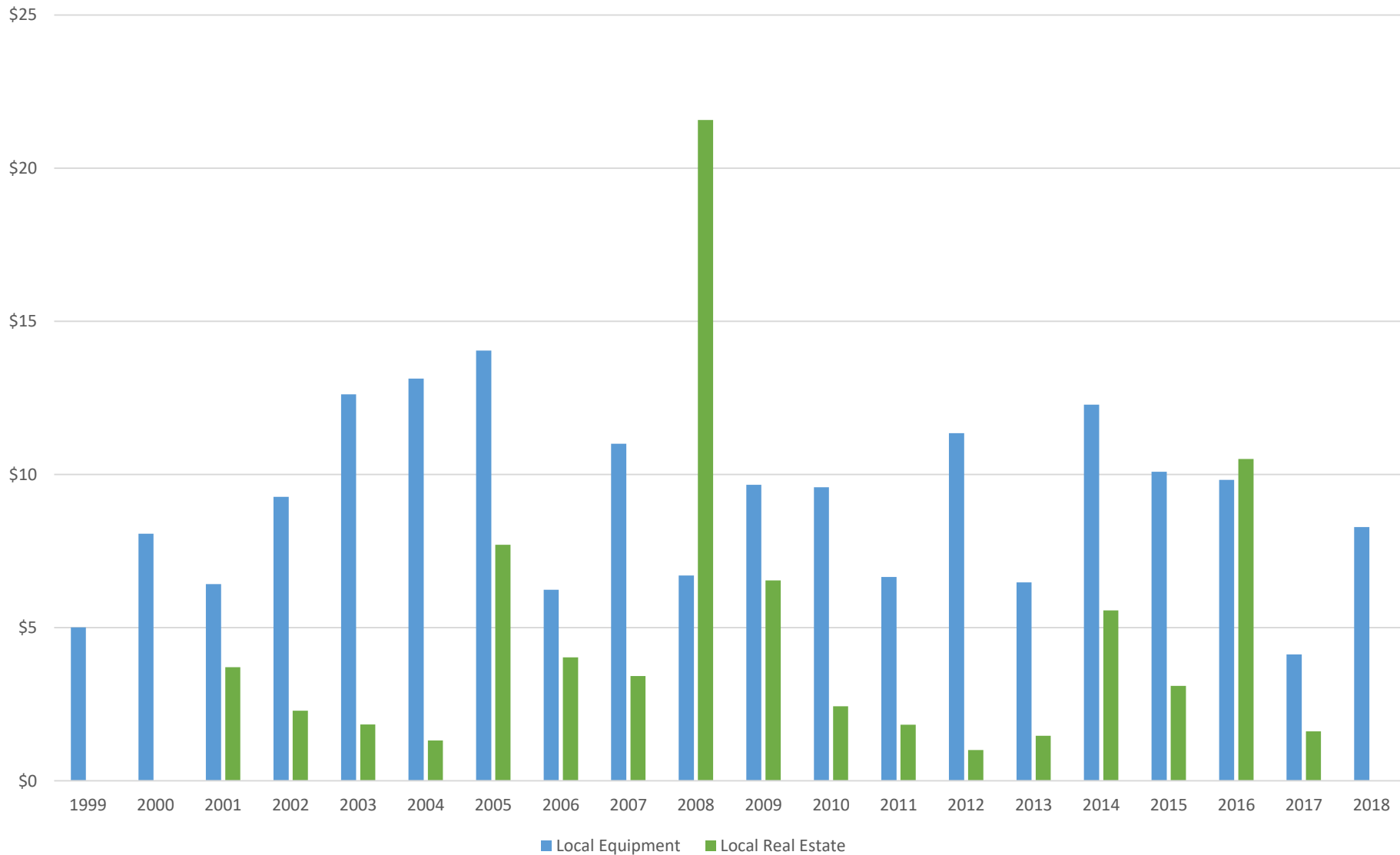
LOCAL COP Projects Financed

Type of Equipment/Real Estate	Number of Leases
Boats, Aircraft, Recreational Equipment	7
Commercial Vehicles -- Buses, Fire Trucks	301
Communication Systems	14
Computers & Peripherals	16
Energy Updates & HVAC	92
Machinery	28
Office Equipment & Furniture	13
Other	40
Portable Buildings -- Modular classrooms, yurts	7
Real Estate Buildings/Land	88
Road/Warehouse Vehicles -- Tractors, Forklifts	46
Vehicles -- Cars & Trucks	128
Grand Total	780



LOCAL COP Issuance by State FY*

Millions



*Includes refundings



Benefits – Low Interest Rates

- Pooling with the State's Aa2 rated COP issuances allows participants to take advantage of the State's very low tax-exempt financing rates
- LOCAL also allows participants to access to the national tax-exempt market through a competitive bid process, regardless of the size of their financing contract

Principal Payment Date	AAA MMD	2018B* Yields	Spread to MMD
2019	1.72%	1.79%	0.07%
2020	1.82%	1.89%	0.07%
2021	1.94%	2.04%	0.10%
2022	2.03%	2.18%	0.15%
2023	2.14%	2.30%	0.16%
2024	2.23%	2.41%	0.18%
2025	2.30%	2.50%	0.20%
2026	2.38%	2.59%	0.21%
2027	2.44%	2.67%	0.23%
2028	2.50%	2.73%	0.23%
2029	2.55%	2.80%	0.25%
2030	2.60%	2.86%	0.26%
2031	2.65%	2.92%	0.27%
2032	2.71%	3.01%	0.30%
2033	2.77%	3.07%	0.30%
2034	2.83%	3.13%	0.30%
2035	2.87%	3.17%	0.30%
2036	2.90%	3.20%	0.30%
2037	2.93%	3.23%	0.30%
2038	2.96%	3.25%	0.29%
2039	2.98%	3.27%	0.29%
2040	3.00%	3.29%	0.29%
2041	3.01%	3.30%	0.29%
2042	3.02%	3.31%	0.29%
2043	3.03%	3.32%	0.29%

* \$62.04 million COPs, Series 2018B, priced on April 24, 2018



Benefits – Economies of Scale

- LOCAL significantly reduces issuance costs for local agencies
- State agencies pay the basic fixed costs of the pooled financing program, including:
 - Legal fees (bond and disclosure counsel)
 - Municipal advisor fees (for equipment)
 - Credit ratings
- Because of pooled approach, participants are only required to cover the incremental cost of their participation
 - Certain administration expenses
 - Escrow fees (if applicable)
 - Title insurance & municipal advisor fees (for real estate transactions)

Sources:	School District - School Buses
Bond Proceeds:	
Par Amount	\$1,085,897
Premium	80,560
	<u>\$1,166,457</u>
Uses:	
<i>Project Fund Deposits:</i>	
Project Fund	\$1,163,752
<i>Delivery Date Expenses:</i>	
Cost of Issuance	2,158
Underwriter's Discount	547
	<u>2,705</u>
	<u>\$1,166,457</u>
Fees as % of Proceeds	0.23%



Benefits – Administration

- LOCAL is user friendly as OST manages all technical aspects of the program, including:
 - General administration
 - IRS tax law compliance
 - Continuing disclosure
- LOCAL uses standardized documents and a standard repayment schedule
 - Debt service payments are always due on June 1 and December 1
- Once funds are available, proceeds can be sent directly to a participant's vendor or as a reimbursement to the local agency



Application Process

Notice of Intent

Credit Form

Form of
Reimbursement
Resolution

Financing Documents

The application process is approximately two months long from the NOI/credit application deadline to the financing documents deadline



Application Process

Notice of Intent

- The Notice of Intent (NOI) is the first document to be submitted in the COP application process
 - The NOI is a standardized document to be completed by the primary point of contact at the local agency
- The NOI simply notifies OST the local agency's intent to participate in an upcoming financing
- It is a **non-binding** agreement
 - Actual participation in the financing sale requires a commitment to a specific dollar amount at a later date



Application Process

Credit Form

- The credit form allows for OST to analyze a participant's credit
 - OST provides this 3 page form to the local agency along with the NOI
 - The credit form and NOI are typically submitted to OST together
- OST reviews the fiscal health of the organization in order to determine compliance with credit guidelines
 - The process is similar to what one would fill out when applying for a bank loan
- OST will respond to request in between 2-3 weeks



Application Process

Form of Reimbursement Resolution

- A reimbursement resolution allows the local agency to purchase equipment or property in advance of being reimbursed by the financing
 - OST provides a template
- This provides the participant with flexibility to purchase equipment or property independent of the financing schedule
- The reimbursement resolution must be passed by the participant's governing body either **before** purchasing the equipment or property or **no later than 60 days after** the purchase date
- The reimbursement resolution due date depends on the timing of the equipment or property purchase
 - It may be required to be executed by the local agency's governing body prior to NOI submittal



Application Process

Financing Documents

- This portion of the process generates the majority of the transaction's documents
- Financing documents include (but are not limited to):
 - Authorizing Resolution (template provided by OST, prepared and passed by governing body)
 - Financing Lease (prepared by bond counsel, signed by authorized local agency representatives)
 - Tax Certificate (prepared by bond counsel, signed by authorized local agency representatives)
- OST requires 2 original copies of each document prior to document due date



Timeline

	Project Type	NOI & Credit Approval Cut-Off	All Documents Cut-Off	Funds Available	First Payment Due
Spring Sale	Real Estate	November 16, 2018	January 15, 2019	March/April	June 1, 2019
	Equipment	December 1, 2018			
Fall Sale	Real Estate	April 17, 2019	June 14, 2019	August/September	December 1, 2019
	Equipment	May 1, 2019			

All dates are tentative and subject to change based on the actual delivery date of funds

- OST typically goes to market twice a year, around March and August
 - OST has the ability to issue in between if the need arises
- Funds are available approximately two weeks after the sale date



Related Projects

- LEND Washington Program:
 - LEND at it's core is a database of all of the loan and grant programs offered through State agencies
 - Current estimate is there are over 140 such alternative financing programs available
 - OST is currently working on a web portal that can be used as a resource to any Washington entity looking to fund public works projects
- Infrastructure Bond Bank
 - OST is working to develop a financing program that is complimentary to LOCAL
 - As a lease based program, LOCAL requires a G.O. pledge and an asset to secure the financing contract
 - As such, participants with revenue pledges (water revenue) and general infrastructure projects (bridges) are unable to participate



Questions?

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Rating Action: Moody's assigns Aa2 to Washington State COPs, Ser. 2018C; outlook stable

06 Aug 2018

New York, August 06, 2018 -- Moody's Investors Service has assigned a Aa2 rating to the State of Washington's \$47.3 million Certificates of Participation Series 2018C (State and Local Agency Real and Personal Property). Following the issuance of the Series 2018C COPs, the state will have approximately \$952.6 million similarly-secured COPs outstanding, all rated Aa2. The outlook on these ratings is stable.

RATINGS RATIONALE

The Aa2 rating on the COPs, one notch below the Aa1 rating on the state's general obligation bonds, reflects the essential nature of the property being financed, the moderate legal structure and limited subject-to-appropriation nature of the state's payment obligations, active administration of the financing program by the state treasurer's office, and the state's established track record of making appropriation-backed payments under a variety of financing programs.

Washington's Aa1 general obligation rating incorporates the state's sound management practices such as its quarterly consensus revenue forecasting process, multi-year revenue and expenditure projections, timely budget adoption, and demonstrated willingness to address budget shortfalls. The rating also reflects an economy that is growing and has out-performed the nation. Revenue trends are positive, supported by employment gains and improvement in the state's housing market, and available reserves have increased. These strengths are tempered by exposure to the cyclical aerospace industry and other export markets, and above-average debt ratios. Frequent voter initiative activity adds budget challenges although the state legislature has a history of responding effectively to maintain budget balance.

RATING OUTLOOK

Washington's rating outlook is stable, reflecting economic gains that are boosting revenues, a strong reserve position, and budget balancing solutions that are largely recurring. We expect that the state will continue to address any budget gaps that emerge, as it has in the past. Economic concentration in some industries that are historically volatile poses longer-term credit challenge.

Local Government Investment Pool

Investing Public Funds



Office of the State Treasurer



What is the LGIP?

- The Local Government Investment Pool (LGIP) was created by legislation in 1986
 - Separate from State treasury, local funds never commingled with State funds
- Open to all local government entities in the State
 - Voluntary participation
 - As of 2010, state can invest in LGIP, but LGIP cannot come into state
 - As of 2010, tribal governments can invest their governmental funds
- 100% liquidity daily by 10 am
 - No restrictions on transaction size or balances
- 616 participants, 890 accounts
 - All 39 counties
 - All cities > 10,000
 - PUDs, Ports, transit agencies, higher ed, etc.



What is the LGIP?

- Objective: Provide a safe, liquid, short-term investment vehicle for local governments
 - Patterned after private sector 2a-7 money market funds
 - Benchmark: net and gross yields of the iMoneyNet Government & Agency group of funds
 - 100% liquidity daily and NO maturity date
 - Safely invest while achieving a competitive rate of return
- By statute can only charge what it costs to run the LGIP
 - Fee includes all direct and indirect costs
- FY 2017 Activity
 - Participant Contributions - \$46,570,124,800
 - Participant Distributions - \$44,534,344,752



Low Administrative Fee

- 2017 Administrative Fee = 0.7 basis point
 - 1 bp = 0.01%
 - 11th year in a row it has been less than one basis point
- Current Fee:
 - 0.61 basis points (bp)
 - For example:
 - ✓ Gross Rate = 1.9787%
 - ✓ Administrative Fee = .0061%
 - ✓ Net Rate = 1.9787 - .0061
 - ✓ = 1.9726%



Daily Factor

- Based on Actual end-of-day Balances
- Annualized expense factor
- Expenses accrue daily
- Earnings accrue daily
- Distribution of earnings at the end of each month

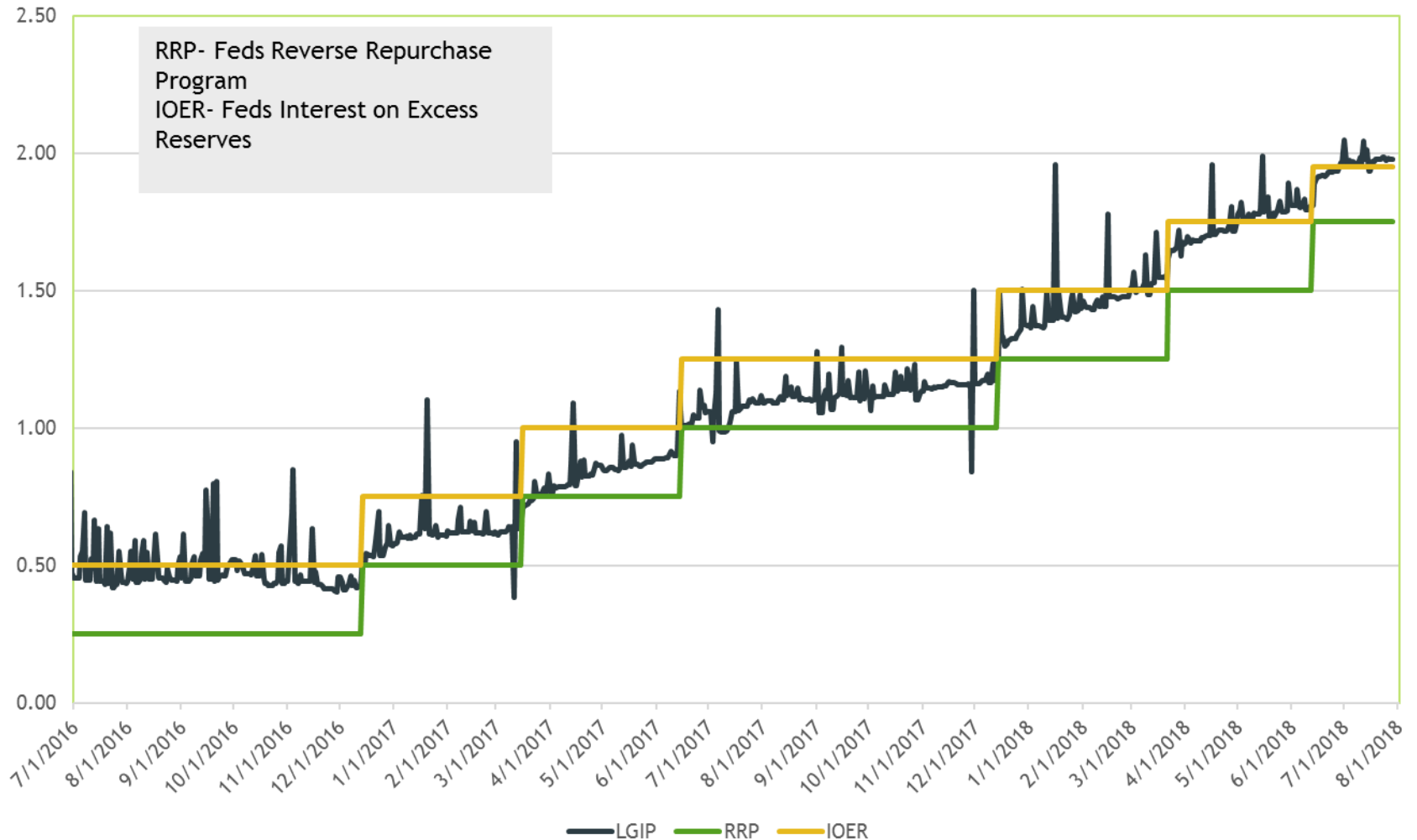


LGIP Yields

Date	Daily Yield	7-Day Yield	True Yield	30-Day True Yield
7/16/18	1.9711	1.9614	2.2139	1.9664
7/17/18	1.9689	1.9631	1.9689	1.9682
7/18/18	1.9704	1.9648	1.9558	1.9699
7/19/18	1.9784	1.9673	1.9598	1.9738



LGIP vs RRP and IOER



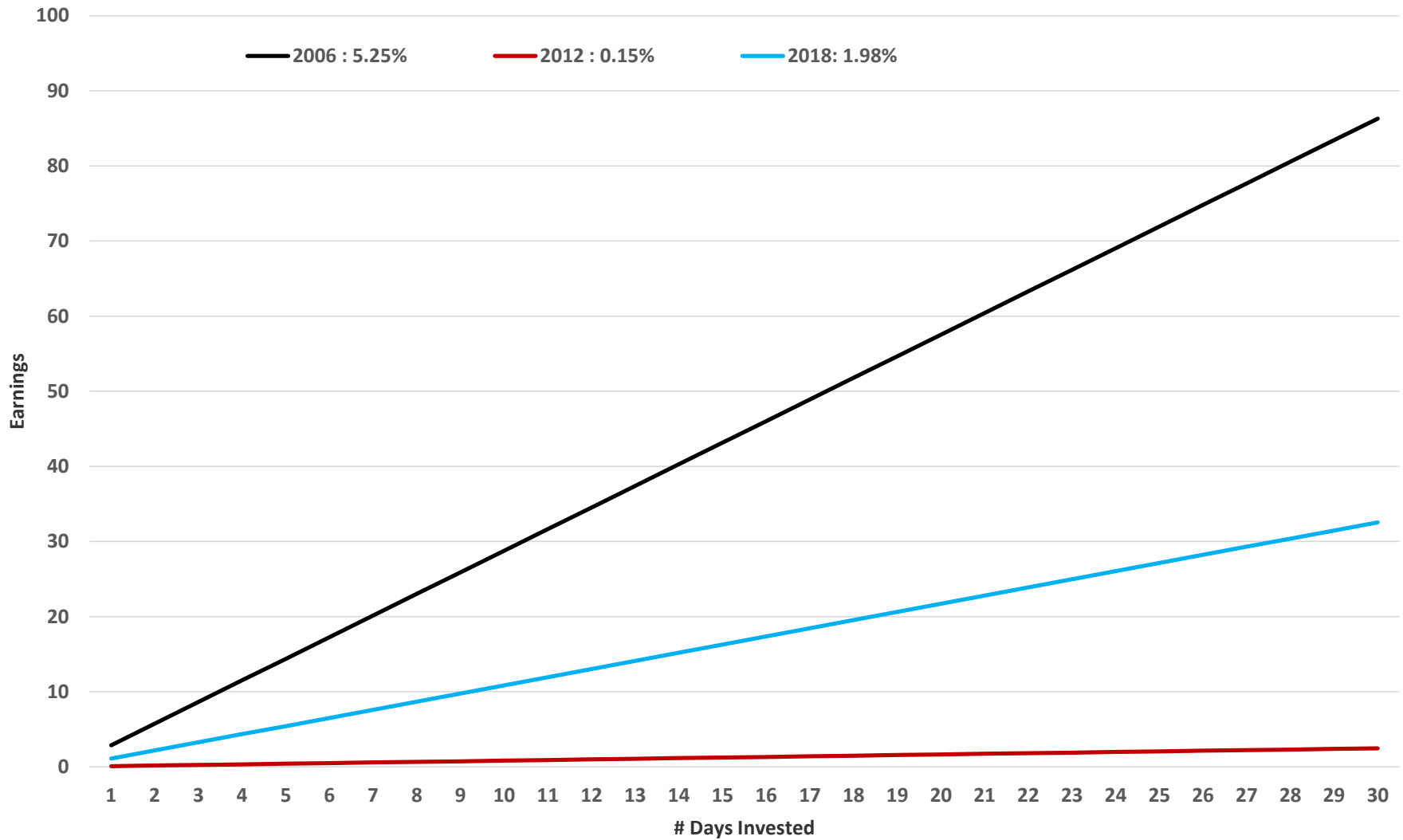


Consider Transaction Costs!

- **Wire Fees**
 - Wire to LGIP
 - Receive wire from LGIP
- **Wire fees may exceed the earnings, e.g., you lose money**
- **ACH Fees**
 - Has a lower fee than wire transfers
 - Be sure to take into account the deadline differences between Wires and ACH transactions



Cumulative Earnings on \$20,000 in LGIP





GASB 79 and the LGIP

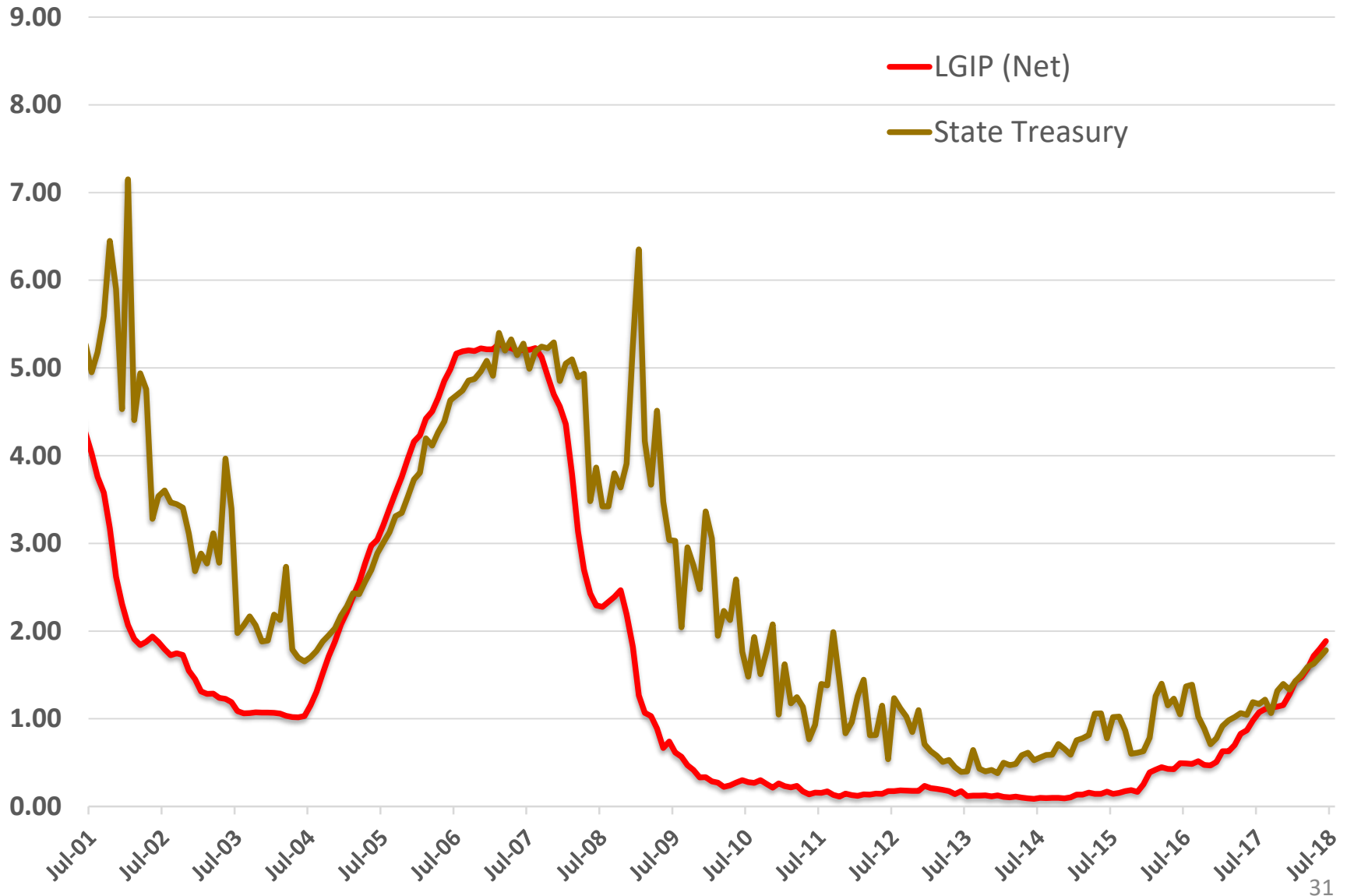
- LGIP Portfolio meets GASB 79 requirements
 - Maturity, quality, diversification and liquidity

SO,

- LGIP can measure investments at amortized cost
- LGIP Participants can report investments in LGIP at amortized cost
- LGIP Participants must report withdrawal restrictions
 - LGIP has 100% daily liquidity
 - LGIP has no gates, or liquidity fees



LGIP vs. Treasury Core: Accrued Yield





Questions?

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<https://www.tre.wa.gov/partners/for-local-governments/local-government-investment-pool-lgip/>

The School Bond Guarantee Program



Providing Extra Security for Public School Construction



Office of the State Treasurer



Program Overview

- State law authorized the School Bond Guarantee Program (SBG) in 1999
- Pledges State's strong credit (Moody's Aa1, S&P AA+, Fitch AA+) to guarantee the repayment of voter approved school district general obligation bonds
 - Provides extra security for school district bonds, strengthening the credit rating, and reducing interest costs
- Does not remove the District's debt obligation and is not considered State debt
 - This allows the State to guarantee all voter approved school district general obligation bonds since the program doesn't count against the State's debt limit



Process

- District submits request to the Office of the State Treasurer
- Request includes:
 - Application
 - \$100 application fee
 - Signed resolution
- Upon approval, District is issued a preliminary Certificate of Eligibility prior to the sale and a final Certificate of Eligibility before the sale closes
- Debt service payments verified by fiscal agent





SBG Facts

- As of August 1, 2018:
 - 181 school districts with outstanding bonds guaranteed by the State
 - 494 bond issues with \$13.2 billion of outstanding principal
 - \$24.6 billion guaranteed since start of program
- The SBG Program saves tax payers approximately \$11 million annually



Open source image from Flickr.com: dfirecop, 1985 Ford Saf-T-Liner School Bus, uploaded January 2, 2015



Questions?

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[*https://www.tre.wa.gov/partners/for-local-governments/school-bond-guarantee-program/*](https://www.tre.wa.gov/partners/for-local-governments/school-bond-guarantee-program/)