



JAMES L. McINTIRE
State Treasurer

Spring 2009

The LOCAL View

“Looking forward”

by **James L. McIntire**
Washington State Treasurer



James L. McIntire know and trust through the LOCAL program have not changed. The LOCAL team retains the considerable talents of Sue Melvin, Wendy Kancianich, Noah Crocker, Pam Johnson and Nancy Notter.

And with the addition of Ellen Evans, my new deputy for our Debt division, the office and the LOCAL team gain a wealth of experience and expertise as well as new perspective for working in the rapidly changing market.

Evans is a terrific talent who has had experience in the public and private sector. She started her career with the New York Fed, has worked for a number of different private places and spent five years with Seattle Northwest Securities as one of the state's financial advisors.

Other new staff members are Wolfgang Opitz, Assistant State Treasurer; Regina Stark, Executive Assistant; Chris McGann, Communications Director; and Andrew Smith, Communications Specialist.

I would also like to let you know of my plans to work with local governments. I've already been in contact with most, if not all, of the

county treasurers. Last month, I met with the LOCAL advisory group and listened to their concerns and needs. As you can see with the list of members in this newsletter, the advisory group represents all of you and the messages that they bring to us from you are important and valued.

Our office has a long tradition of working with other organizations and I intend to continue to work with the Washington Financial Officers Association, Association of Washington Cities and Washington Association of School Business Officers, just to name a few. My staff will continue coordinating debt and investment policy certification with the Washington Municipal Treasurers' Association and hosting workshops.

I plan to attend the WMTA conference this spring, the Washington Finance Officers Association this summer and as many other local government conferences as possible. These are great opportunities to exchange ideas and develop creative solutions.

We want you to know that the Treasurer's Office is committed to work with you to build the best partnership possible. I recognize the importance the LOCAL program has played – a role that may be even more important in the coming months.

You may notice some changes. We've added the search engine to our web site to make it easier to find what you are looking for on our web site. That's just the beginning.

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To provide better access for you and the public we are completely overhauling the site. In a few months you'll see a modernized, easy-to-use web site that could change the way you do business with our office. I invite you to take advantage of the host of resources we're working to make available.

And, I hope to meet you personally at one of the events this year. I look forward to working with you as a partner in public finance. ■

Come see us

LOCAL representatives will be available at these upcoming meetings:

Washington Municipal Treasurer's Association (WMTA)
April 15-17 at Lake Chelan

Washington Association State Business Officials (WASBO)
May 6-8 in Spokane

Washington State Association of Fire Chiefs (WFC)
May 27-28 in Spokane

Washington State Association of County Treasurers (WSACT)
June 16-19 in Kennewick

Association of Washington Cities (AWC)
June 23-26 in Spokane

Washington Finance Officers Association (WFOA)
Sept 22-25 in Bellevue

Washington Fire Commissioners Association (WFCA)
Oct 22-24 in Spokane

Infrastructure Assistance Coordinating Council (IACC)
Nov. 5-7 in Wenatchee

FAQ: Can we pay off a LOCAL lease early?

Yes... but it's not like paying off a mortgage...and you won't get the same perks.

As you are looking for ways to save money, you might consider paying off a LOCAL lease, thinking you can avoid paying future interest, but, that's not the way it works... LOCAL leases are funded with Certificates of Participation (COPs) which, in many ways, are similar to bonds – investors purchase a future stream of payments that include both principal and interest. When a lease is paid off early, the obligation to make those payments (both principal and interest) remains. (An exception may occur if the term of the lease is 10 years or more. In those cases, the COP may include the option for early redemption by the state, typically beginning at the 10-year maturity.)

A local government will sometimes find it necessary to make an early payoff and will contact us for an estimated cost. The money a local government sends us for early payment is used to purchase State and Local Government Securities (SLGS, pronounced “slugs”). Our financial advisor develops the estimate based upon the interest earnings from those securities.

When we get that estimated cost, typically within a day or two, we add any trust fees (the SLGS will be held in an irrevocable trust account for the benefit of the investors) and forward that information to the local government.

After reviewing the estimate, the local government can initiate the early payoff with a letter stating its wish to proceed. We must receive that letter three weeks before the local government intends to send the lump-sum payment. — At that point the local government is committed to proceed.

Local governments often decide that early payment of the lease is not the best use of their funds— while the SLGS earn some interest, it is typically not as much as the interest owed on the lease. If you'd like further information about early payment of a lease, please contact Pam Johnson, 360-902-9021 or pam.johnson@tre.wa.gov. ■

Bond Insurance Update

In the past, municipal issuers have been able to receive low interest rates in exchange for payment of a bond insurance premium to a bond insurer. Due to the significant financial turmoil of the past year and a half, there are now only three players, and even that landscape is changing: Assured Guaranty (rated Aa2/AAA/AAA) is the dominant

player; FSA (rated Aa3/AAA/AAA) is being acquired by Assured Guaranty; and Berkshire Hathaway (Aaa/AAA/NR) has limited its exposure to larger, higher-rated issues. Insurance can still be viable for some issuers, particularly those selling bonds with A-level ratings and revenue bonds. ■

Equipment Program Schedule: Quarterly? Or three times a year?

LOCAL Advisory Group

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Engrossed House Bill 5460 may impact the size and frequency of future equipment pools as state agencies reduce their equipment purchases. This may affect our schedule for financing LOCAL leases as we may be going to the market only three times each year rather than quarterly. Please plan accordingly and contact us before you make purchasing commitments.

The LOCAL Program pools both state and local requests for financing into one large debt issuance on a quarterly basis. A significant portion of each quarterly pool is made up of state agencies, which allows local agencies the opportunity to take advantage of economies of scale and access to the national capital markets.

Engrossed House Bill 5460 was signed by the Governor on February 18, 2009. The Bill encompasses a variety of savings measures aimed at reducing state agencies' expenditures. In anticipation of reduced program participation from state agencies, LOCAL staff is reviewing financing schedules. The next scheduled equipment financing is unchanged and will close June 16th.

Issuance dates for FY 2010 which begins July 1, 2009, will be determined in the very near future. We will publicize any schedule changes but if you plan on financing through the LOCAL Program after June, please contact Wendy Kancianich (360) 902-9022. ■

Gaining Access to Financing

Today it may be 'easy' for short-term borrowers with strong credit; for others, the key is flexibility

by **Susan Musselman**
DashenMusselman, Inc.

While it is true that the municipal market essentially ground to a halt in October 2008 – few bonds were sold nationally in October, compared to a historic trend averaging \$4 to \$5 billion per week – the market has been functioning since November. Initially it was challenging for issuers with bond issues that became “too large.” In a market where \$500 million to \$1 billion issues (or larger) were not unheard of, it initially took great effort to complete bond sales over \$200 million. This number has slowly increased, and in the past couple of weeks, the market has even started digesting issues approaching “billions” in size.

The Bond Buyer Index (a national index that tracks long term interest rates on high-grade bonds, known as the “BBI”) hit a high of 6.01% in mid-October, which was the first time the index exceeded 6% since February 2000. At the same time U.S. Treasury yields were dropping, with the 30-year hitting 3.99% in October, approximately 2% lower than tax free municipal yields. Since that

time we have been getting used to seeing the 10-year Treasury in the 2.5 to 3% range, and the 30-year Treasurer in the 3 to 3.5% range. More recently the BBI has ranged below 5.0%, not far from where it generally was a year ago.

So what does all of this mean for your sale of municipal bonds? While municipal bond interest rates have generally been volatile from week to week or month to month, bond issues from relatively small (say, \$5 million) to large (\$500 million) have been successfully sold. General obligation (“G.O.”) bonds rated Aa/AA or better are experiencing strong demand and therefore lower interest rates, while lower rated bonds, particularly revenue bonds are seeing higher interest rates. A phrase you may have heard more recently is the “widening of credit spreads.” This refers to the increasing difference between interest rates on highly rated G.O. bonds, and lower rated bonds, particularly revenue bonds. The spread between a 20-year AAA GO and a

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20-year BBB had averaged approximately 250 basis points (2.5%) over the past year; the current spread between the two is approximately 450 basis points (4.5%). This is a historically high credit spread.

Municipal issuers can expect to have successful bond sales, although average interest rates on a 20-year bond issue may be higher than you would have received a year or two ago. Note that due to the steepening of the yield curve, which results from decreases in shorter term rates relative to longer term rates, the average interest rate on a shorter term bond (i.e., up to 10 years) may be very attractive. For this reason many local governments are able to complete refinancing of currently callable bonds with short remaining lives and achieve attractive interest rate reductions. Depending on many factors, it is conceivable to see interest rates averaging 3% for a G.O. financing with a 10-year financing term.

A key factor in this market is flexibility; flexibility in time, process and structure. Because interest rates have been volatile, you may want to consider the volume

of other issues in the marketplace on the day or week that you are planning to sell bonds, and potentially plan around that competing supply. If you are using a negotiated sale method, you may want to consider adding a day to the pricing process to provide for a retail order period, to encourage retail investors to support your bond issue. You may benefit from use of term bonds, or in some cases moving maturities to earlier or later years to accommodate investor demand and achieve lower interest rates.

In any case, building additional time into your issuance process may help ensure that you have flexibility to respond to changing markets or changing investor interests. At the same time, be sure to brief your board or council on the realities of the current market, and the benefits of flexibility. If the board meets only one time per month, they may benefit from the use of special meetings to provide flexibility in timing, so you are not limited to one single day on which to sell bonds each month. ■

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Annual LOCAL financing schedules													
Real estate	<table border="1"> <tr><td>Cutoff</td><td>Jan. 1</td></tr> <tr><td>Fund date</td><td>March</td></tr> <tr><td>Cutoff</td><td>Feb. 1</td></tr> <tr><td>Equipment</td><td>May 1</td></tr> <tr><td></td><td>Aug. 1</td></tr> <tr><td></td><td>Nov. 1</td></tr> </table>	Cutoff	Jan. 1	Fund date	March	Cutoff	Feb. 1	Equipment	May 1		Aug. 1		Nov. 1
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