STATE FINANCE COMMITTEE
PUBLIC DEPOSIT PROTECTION COMMISSION

STATE OF WASHINGTON

BRIEFING BOOK

OFFICE OF THE STATE TREASURER

MEETING OF JANUARY 25, 2011

State Finance Committee

January 25, 2011
Office of the State Treasurer
Legislative Building, Room 230
Olympia, WA
11:00 AM

AGENDA

1. Action: Approval of Minutes of the July 28, 2010 State Finance Committee meeting

2. Action: Resolution 1107 appointing The Bank of New York Mellon, New York, as fiscal agent

3. Information: Municipal Market Update
   Recent General Obligation Bond Sales
   Current Credit Ratings
   Future Sales

4. Information: Debt Affordability Study

5. Action: Motion to Approve Debt Issuance Policies
   - Amendment to Debt Management Policy, Conditions of Sale
   - Guidelines for Use of Financing Contracts
   - Guidelines for Use of 63-20 Financing Contracts

6. Information: Upcoming State Finance Committee Schedule

Tab 1

State Finance Committee Minutes
Olympia, Washington
July 28, 2010
10:00 am

The State Finance Committee met in a special meeting after notice duly given to the press and radio of Thurston County.

Present: James L. McIntire, State Treasurer, Chair
Christine O. Gregoire, Governor
Brad Owen, Lt. Governor

Also Present: Ellen Evans, Office of the State Treasurer
Svein Braseth, Office of the State Treasurer
Bill Tonkin, Foster Pepper PLLC
Rob Shelley, Seattle Northwest Securities
Nancy Adams, Office of the State Treasurer
Jenny Poreé, Montague DeRose and Assoc.
Wolfgang Opitz, Office of the State Treasurer
Johnna Skyles Craig, Associate Attorney General
Chia Yang, Montague DeRose and Assoc.
Sue Penley, Office of the State Treasurer
Alicia Dunkin, Office of Financial Management
Elizabeth Dunfee, Associate Attorney General
Natalie Perkins, Montague DeRose and Assoc.
Bill Starkey, Seattle Northwest Securities
Doug Vaughn, Washington State Department of Transportation
Jeff Caldwell, Washington State Department of Transportation
Katherine Chapman, Office of the Lt. Governor
Chris McGann, Office of the State Treasurer
Sue Melvin, Office of the State Treasurer
Wendy Kancianich, Office of the State Treasurer
Pam Johnson, Office of the State Treasurer
Noah Crocker, Office of the State Treasurer
Gina Stark, Office of the State Treasurer

Chairman McIntire called the meeting to order at 10:05 am on July 28, 2010.

Treasurer McIntire introduced the motion to approve the minutes from the May 25, 2010 State Finance Committee meeting. The motion was moved by the Governor, seconded by the Lt. Governor and approved with one correction.

Treasurer McIntire stated the rates Washington State received on today's sale were at historical lows. He added that the $1.1 billion Build America Bonds issued in May 2010 achieved the lowest rates in the nation with the exception of two AAA-rated universities.

Treasurer McIntire reported that the state has maintained its strong credit ratings. Treasurer McIntire also noted that the Treasurer's office had recently engaged in dialogue with Standard and Poor's concerning a report containing significant errors in its description of the state's pension system. A corrected report has been issued.

Treasurer McIntire asked Ms. Ellen Evans, Deputy Treasurer - Debt Management to describe the day's sales.

Ms. Evans explained that Series R 2011-A refunded outstanding various purpose general obligation bonds to realize present value savings of approximately $42,458,759, or 10.58% of the refunded par amount. The $365,605,000 refunding received eight bids in a competitive sale. J.P. Morgan Securities LLC was the successful bidder at a True Interest Cost (TIC) of 2.6292357%. Ms. Evans stated that this was 12 basis points lower than expected. The next highest bid was Goldman, Sachs & Co. with a TIC of 2.6449473%. All the major financial firms participated in the sale: Banc of America Merrill Lynch (2.6624595%), Citigroup Global Markets Inc. (2.6642245%), Barclays Capital Inc. (2.6976607%), Wells Fargo Bank, National Association (2.7016905%), Morgan Stanley & Co Inc (2.7059397%), and Jefferies & Company, Inc. (2.7381755%).

The second sale Series 2011T (Taxable) was a new money sale of $118,215,000 General Obligation Bonds with a final maturity of 2020. Ten bids were received. Citigroup Global Markets Inc. was the winning bidder with a True Interest Cost (TIC) of 2.9772594%. Bidding was aggressive and the winning TIC was 27 basis points below what had been expected. Other bids were J.P. Morgan Securities LLC (3.0161440%), Robert W. Baird & Co. (3.0180626%), Goldman, Sachs & Co. (3.0235513%), BMO Capital Markets (3.0303544%), Ramirez & Co. (3.0308708%), Barclays Capital, Inc. (3.0476397%), Banc of America Merrill Lynch (3.0727249%), Morgan Stanley & Co Inc (3.2374256%), and Jefferies & Company, Inc. (3.3389804%).

Third, was the Series 2011A Various Purpose General Obligation Bond competitive sale of $347,295,000. This series was structured with level debt service through the final maturity of 2035. Ms. Evans reported that five bids were received: Barclays Capital, Inc. was the winning bid with a True Interest Cost (TIC) of 4.2063199%; Goldman, Sachs & Co. (4.2147957%); J.P. Morgan Securities LLC (4.2176948%); Citigroup Global Markets Inc. (4.2206818%), and Morgan Stanley & Co Inc (4.2313562%).

Resolution 1099
Resolution 1100
Resolution 1101

Treasurer McIntire moved Resolution 1099. The Governor moved the motion and Lt. Governor seconded the motion. Resolution 1099 was adopted.

Resolution No. 1099 awards the sale of $347,295,000 of State of Washington Various Purpose General Obligation Bonds, Series 2011A, as authorized by Resolution No.1084 of the Committee and one or more of the Bond Acts identified therein.

Treasurer McIntire moved Resolution 1100. The Governor moved the motion and Lt. Governor seconded the motion. Resolution 1100 was adopted.

Resolution No. 1100 awards the sale of $118,215,000 of State of Washington General Obligation Bonds, Series 2011T (Taxable), as authorized by Resolution No. 1084 of the Committee and one or more of the Bond Acts identified therein.

Treasurer McIntire moved Resolution 1101. The Governor moved the motion and Lt. Governor seconded the motion. Resolution 1101 was adopted.

Resolution No. 1101 awards the sale of $365,605,000, of State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2011A, as authorized by Resolution No.1023 of the Committee and one or more of the Bond Acts identified therein.

Resolution 1102

Treasurer McIntire moved Resolution 1102.

Resolution No. 1102 amends resolutions nos. 945, 1023, 1084 and 1085 to provide for delegation of authority to the state treasurer to establish the method of sale of bonds and adopt bond sale resolutions; amending the undertakings to provide ongoing disclosure set forth in such resolutions; and providing for other matters properly related thereto.

Resolution 1102 makes use of new authority that was granted the State Finance Committee in SB 6220 (Chapter 18, Laws of 2010, 1st Special Session), to delegate certain bond sale and refunding tasks from the Committee to the Treasurer. Delegation of these tasks is designed to improve the execution of bond transactions so that lower costs can be achieved for taxpayers than would otherwise be possible. Resolution 1102 also makes certain technical changes in the form of the State's undertaking to provide continuing disclosure to the municipal securities market with respect to State bonds.

Treasurer McIntire asked if there was any discussion. Governor Gregoire expressed her view that the new delegation authority should be used and that it also facilitated communication among staff in the Governor's office, the Lt. Governor's office and the Treasurer's office.

Lt. Governor Owen questioned whether the group will be presented with a list of upcoming bond issuances and then have an opportunity to discuss them. This was confirmed.

Treasurer McIntire noted that the State Finance Committee will meet at the beginning of the year to discuss a Debt Affordability Study to be presented to the Legislature in December. Lt. Governor Owen clarified that each office will have an opportunity to review preliminary drafts of the debt affordability study prior to the January State Finance Committee meeting. Treasurer McIntire confirmed that drafts would be made available.

The Governor moved the motion and Lt. Governor seconded the motion. Resolution 1102 was adopted.

Ms. Evan indicated the next refunding of motor vehicle bonds was expected to take place in the fall and new funds may not be needed for the Department of Transportation until July 2011.

As there were no further questions, Treasurer McIntire moved to adjourn the meeting. The Governor moved the motion and Lt. Governor seconded the motion.

Treasurer McIntire adjourned the meeting at 10:40 am.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

By______________________________________

James L. McIntire
State Treasurer and Chairman

By______________________________________

Christine O. Gregoire
Governor and Member

By______________________________________

Brad Owen
Lieutenant Governor and Member

ATTEST:

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Ellen Evans, Deputy State Treasurer
and Secretary

Tab 2

JAMES L. McINTIRE, *Chairman*
State Treasurer

CHRISTINE O. GREGOIRE, *Member*
Governor

BRAD OWEN, *Member*
Lieutenant Governor

State of Washington
STATE FINANCE COMMITTEE

January 25, 2011

MEMORANDUM

TO: The Honorable James L. McIntire
The Honorable Christine O. Gregoire
The Honorable Brad Owen

FROM: Ellen Evans
Deputy State Treasurer / Secretary

RE: Proposed Resolution No. 1107 - Extension of Fiscal Agent Agreement - Recommendation

Proposed Resolution No. 1107 provides a four-year extension of the statewide Fiscal Agent Agreement as recommended by local government stakeholders and Debt Management staff.

Pursuant to authority granted in Chapter 43.80 RCW, the State Finance Committee appoints one or more fiscal agents for the state to act as fiscal agent for all obligations issued by the state and its political subdivisions.

This contrasts with most other states in which fiscal agents are typically engaged separately by each issuer.

By contracting for statewide services, the state has been able to successfully negotiate favorable terms at cost effective rates for services that benefit both the state and local governments. The contract provides low fees that are predictable over extended time periods and offers all users online services for billing and financial activity statements.

The state's management of the statewide fiscal contract wide contract enhances effective communication between the state, local governments and the fiscal agent. The fiscal agent contacts the state whenever it encounters issues with a single issuer that may affect similar

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entities in the state. And the state periodically assists local governments to resolve any problems they may have experienced with the fiscal agent. Investors, too, enjoy the advantage of knowing which fiscal agent to contact for answers to their questions about debt service payments made by Washington issuers.

The fiscal agent agreement between the Bank of New York Mellon and the State of Washington was approved by the Committee December 6, 2006, by Resolution 1045. The agreement provides an initial term of four years that commenced February 1, 2007 and will end January 31, 2011, and provides an option for the State Finance Committee to extend the term of the agreement for additional periods, each not to exceed four years.

Local government users surveyed by OST overwhelmingly supported the further extension of the contract with the Bank of New York Mellon. All fees for the upcoming extension are at or below those in the previous contract period.

The Office of the State Treasurer recommends the extension of the statewide fiscal contract with The Bank of New York Mellon for an additional four year period.

STATE FINANCE COMMITTEE

OLYMPIA, WASHINGTON

RESOLUTION NO. 1107

A RESOLUTION OF THE STATE FINANCE COMMITTEE OF THE STATE OF WASHINGTON APPROVING AMENDMENTS TO AND A FOUR-YEAR EXTENSION OF THE AGREEMENT FOR FISCAL AGENCY SERVICES WITH THE BANK OF NEW YORK MELLON.

ADOPTED: JANUARY 25, 2011

STATE FINANCE COMMITTEE

OLYMPIA, WASHINGTON

RESOLUTION NO. 1107

A RESOLUTION OF THE STATE FINANCE COMMITTEE OF THE STATE OF WASHINGTON APPROVING AMENDMENTS TO AND A FOUR-YEAR EXTENSION OF THE AGREEMENT FOR FISCAL AGENCY SERVICES WITH THE BANK OF NEW YORK MELLON.

WHEREAS, pursuant to RCW 43.80.120, the State Finance Committee (the "Committee") of the State of Washington (the "State") and The Bank of New York Mellon, formerly known as The Bank of New York (the "Fiscal Agent"), entered into an Agreement for Fiscal Agency Services, dated February 1, 2007 (the "Original Agreement"), under which the Fiscal Agent agreed to perform Fiscal Agency and other services for the State and its subdivisions as described in the Fiscal Agency Agreement for an initial term of four years continuing through January 31, 2011; and

WHEREAS, Section 3.2 of the Original Agreement provides that the Original Agreement may be amended by mutual agreement of the parties; and

WHEREAS, Section 5.1 of the Original Agreement provides that the initial term of the Original Agreement may be extended at the option of the Committee for additional periods each not to exceed four years; and

WHEREAS, the Committee has determined pursuant to RCW 43.80.120 that it is in the best interests of the State and its subdivisions that the Original Agreement be amended as set forth in an Amended and Restated Agreement for Fiscal Agency Services dated February 1, 2011, on file with the Committee (the "Amended and Restated Agreement") and extended for an additional period of four years commencing on February 1, 2011, and ending on January 31, 2015; and

WHEREAS, the Fiscal Agent has accepted and agreed to the amendments set forth in the Amended and Restated Agreement and the extension of the term of its service thereunder for an additional period of four years commencing on February 1, 2011, and ending on January 31, 2015; and

NOW, THEREFORE, BE IT RESOLVED BY THE STATE FINANCE COMMITTEE ACTING FOR AND ON BEHALF OF THE STATE OF WASHINGTON, as follows:

Section 1. Approval and Authorization of Extension. The Committee approves and authorizes the Amended and Restated Agreement and the extension of its term for an additional period of four years commencing on February 1, 2011, and ending on January 31, 2015. The State Treasurer is authorized and directed to execute and deliver to the Fiscal Agent on behalf of the Committee, as agent for the State, the Amended and Restated Agreement, together with any notice, agreement or other instrument reasonably necessary in connection therewith.

Section 2. Immediate Effect. This resolution shall take effect immediately upon its adoption.

ADOPTED at an open meeting of the State Finance Committee after notice thereof was duly given as required by law, this 25th day of January, 2011.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

By ______________________________
James L. McIntire
State Treasurer and Chairman

By ______________________________
Christine Gregoire
Governor and Member

By ______________________________
Brad Owen
Lieutenant Governor and Member

ATTEST:

____
Ellen L. Evans, Deputy State Treasurer
and Secretary

Tab 3

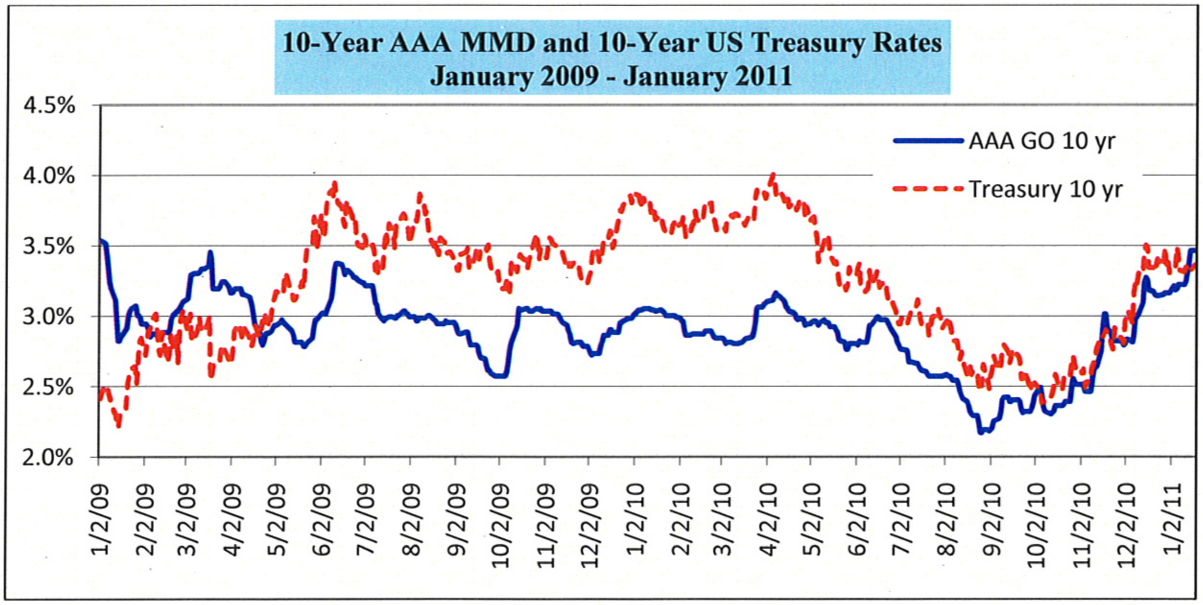
State Finance Committee – Informational Item

January 25, 2011 Meeting

Agenda Item: 3 Municipal Market Update

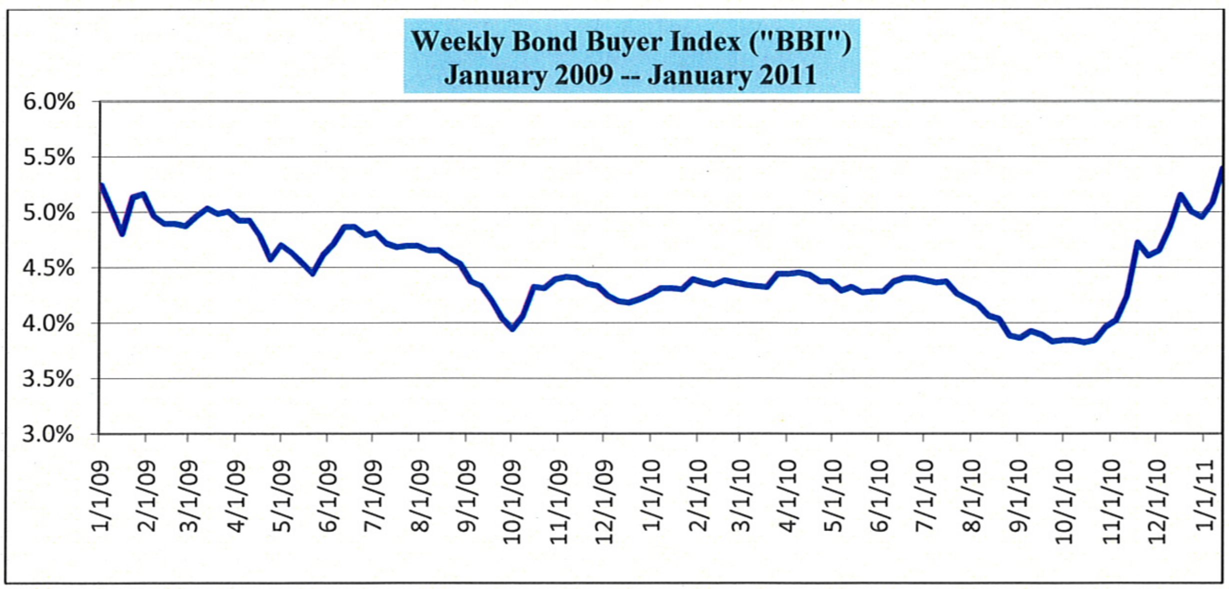
<u>2010</u> New issuance topped $430 billion (vs. $407 billion in 2009) as states and local governments took advantage of low interest rates and federal subsidies offered in ARRA Programs such as Build America Bonds.

<u>January 2011</u> Interest rates have risen sharply with signs of renewed economic activity.

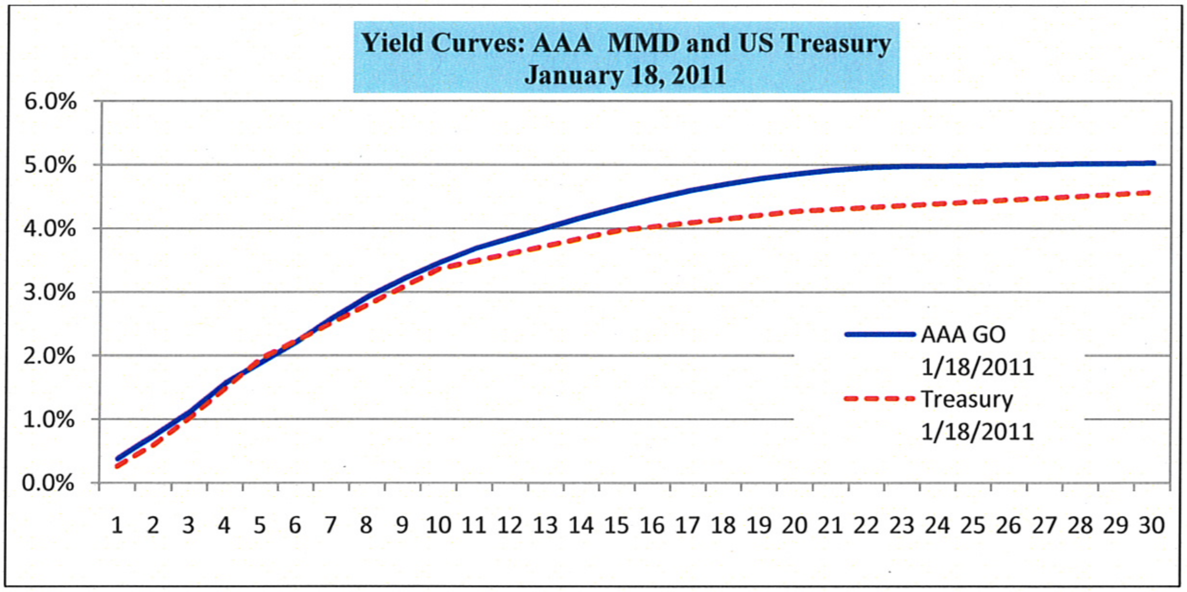


Tax-Exempt bond markets: Increase in yields even more pronounced.

- Negative headlines: Heightened investor concern about risks of municipal default
- Recent net outflows of $25 billion from tax-exempt mutual funds in 9 weeks



Agenda Item: 3 Municipal Market Update



Summary of Recent Bond Sales: *General Obligation Bond Issuance 2009-2011*

	Series	Sales Date	Purpose	Par	TIC
	2010A	7/14/2009	Various Purpose	$298,800,000	4.4301
	2010B	7/14/2009	MVFT	$401,410,000	4.2749
	2010T	7/14/2009	Various Purpose -- Taxable	$64,905,000	3.0035
	2010C	10/14/2009	Various Purpose	$229,970,000	4.2309
	R-2010B	10/14/2009	Various Purpose -- Refunding	$215,500,000	3.6727
	R-2010C	10/14/2009	MVFT -- Refunding	$121,235,000	3.7158
	2010D	10/15/2009	MVFT -- BABs	$503,365,000	3.5207
	2010E	1/13/2010	Various Purpose	$487,950,000	4.0953
	2010F	5/25/2010	MVFT -- BABs	$1,156,045,000	3.2173
	2011A	7/28/2010	Various Purpose	$347,295,000	4.2063
	2011T	7/28/2010	Various Purpose -- Taxable	$118,215,000	2.9773
	R-2011A	7/28/2010	Various Purpose -- Refunding	$365,605,000	2.6356
*	R-2011B	9/15/2010	Various Purpose -- Refunding	$401,435,000	3.0346
*	R-2011C	9/15/2010	MVFT -- Refunding	$393,950,000	2.8732
*	2011B	1/19/2011	Various Purpose	$361,950,000	4.9757
*	2011T-2	1/19/2011	Various Purpose -- Taxable	$90,375,000	3.0254

* Bids were accepted and the winning bid was awarded by the State Finance Committee acting by and through the State Treasurer.

Memos summarizing the September 15, 2010 and January 19, 2011 sales are attached.

Agenda Item: 3 Municipal Market Update

Credit Ratings: State of Washington (January 14, 2011)

General Obligation			
	Fitch	AA+	Stable Outlook
	Moody's	Aa1	Stable Outlook
	S&P	AA+	Stable Outlook
Certificates of Participation			
	Moody's	Aa2	Stable Outlook

Fitch KEY RATING DRIVER: The state's success in maintaining budget balance in the current downturn and developing sustainable long-term budget solutions.

Moody's Washington's rating outlook is stable reflecting Moody's expectation that the state's finances will remain well-managed despite its recent sizeable budget shortfalls although uncertainty surrounding the timing and strength of the economic recovery could pose additional budget challenges

S&P The stable outlook reflects our view that the state's financial management is strong, as demonstrated by its continued willingness to make timely and proactive budget amendments as it deems necessary to maintain budgetary balance.

Moody's

What Could Make the Rating Go Up

- Sustained trend of structural budget balance, plus restoration and maintenance of strong reserve levels.
- Economic expansion and improved industry diversification.
- Reduction of debt ratios to levels closer to Moody's 50-state medians.

What Could Make the Rating Go Down

- Deeper and longer recession or muted recovery that restrains consumer confidence, leading to prolonged revenue weakness and employment erosion.
- Protracted structural budget imbalance.
- Increased reliance on one-time budget solutions.
- Deterioration of the state's cash position.

Agenda Item: 3 Municipal Market Update

Rating Agency Assessments

Fitch	Moody's	S&P
STRENGTHS		
Sound financial and debt policies.	Institutionalized conservative budget controls.	Strong financial policies and practices.
The governor's power and commitment to make cuts as necessary and the state's demonstrated willingness to take actions to maintain budget balance		The state's financial management is strong, as demonstrated by its willingness to make timely and proactive budget amendments to maintain budgetary balance.
	Improved financial flexibility with increased Rainy Day Fund levels going into the 2007-09 session.	Historically, good year-end reserve balances, including a constitutional budget stabilization account
	Satisfactory liquidity levels.	
Frequent reviews of economic and financial forecasts allow the state to react to changing conditions.	Strong management tools such as its quarterly consensus revenue forecasting process.	
Increasing economic diversification and generally sound performance (though currently weakened).	Strong demographic trends.	Good income indicators. Well-educated workforce.
	Healthy pension funding levels; modest retiree health insurance liability.	Well-funded pension plans in the aggregate.
WEAKNESSES		
	Heavy dependence on sales tax receipts and no personal income tax makes the state more vulnerable to the negative impact of the recession on consumer confidence.	Sales-tax focused revenue structure that exhibits sensitivity to economic cycles but to a lesser degree than those states that rely primarily on income and corporate taxes.
Debt levels trending into the upper moderate range	Debt ratios above average and likely to increase.	Moderately high debt burden and challenges in two underfunded pension plans.
Active initiative and referendum environment creates a level of operating and financial uncertainty.	Frequent voter initiative activity introduces budget challenges.	
Manufacturing concentrated in the cyclical aerospace sector	Exposure to cyclical aerospace industry. Heavy dependence on sales tax receipts.	
	Diminished financial flexibility given depletion of financial reserves, significant use of one-time actions to balance current biennial budget, and implementation of sizeable budget reductions over the past two years.	

Agenda Item: 3 Municipal Market Update

Projected Future Sales of Obligations

Projected future sales include one or more sales from February 2011 through December 2011:

$500 million various purpose general obligation bonds,

$425 million motor vehicle fuel tax general obligation bonds and

$480 million bonds for the SR-520 Bridge Replacement and HOV Program

In addition, when and if market conditions allow, refunding of outstanding bonds will be considered.

JAMES L. McINTIRE, *Chairman*
State Treasurer

CHRISTINE O. GREGOIRE, *Member*
Governor

BRAD OWEN, *Member*
Lieutenant Governor

State of Washington
STATE FINANCE COMMITTEE

January 25, 2011

M E M O R A N D U M

TO: The Honorable James L. McIntire
The Honorable Christine O. Gregoire
The Honorable Brad Owen

FROM: Ellen Evans
Deputy State Treasurer / Secretary

RE: **Report on Bond Sale:** September 15, 2010 sale of State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2011 and State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2011C

On September 15, 2010, the State Finance Committee ("SFC") acting by and through the State Treasurer awarded the sale of

1) $401,435,000 State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2011B, by adopting Bond Sale Resolution 1103; and
2) $393,950,000 State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2011C, by adopting Bond Sale Resolution 1104.

The background and the results of the sale are summarized below:

- **Summary.** The R-2011B Bonds and R-2011C Bonds were issued to provide debt services savings for the state by taking advantage of lower interest rates. The Net Present Value (NPV) savings for Series R-2011B and Series R-2011C were $39,452,643 and $43,657,696, respectively, for a total savings of $83,110,339.

- **Background**. On August 16, 2005, the SFC adopted Resolution No. 1023, authorizing the issuance and sale by the State of not to exceed $3,000,000,000 various purpose general obligation refunding bonds, in one or more series; and of not to exceed $1,050,000,000 motor vehicle fuel tax general obligation refunding bonds, in one or more series.

During the 2010 1st Spec. Sess., the State Legislature amended RCW 39.42.030(2) to authorize the SFC to delegate to the State Treasurer the authority, by resolution, to approve the sale of bonds previously authorized by the SFC (Chapter 18, Laws of 2010, 1st Spec. Sess.)

On July 28, 2010, the SFC adopted Resolution No. 1102, amending Resolution No. 1023 to authorize the State Treasurer, on behalf of the SFC, to adopt Bond Sale Resolutions to approve the sale of any Series of Bonds within the aggregate total principal amount of Bonds authorized by the SFC to be issued under Resolution No. 1023

- **Sale.** Series R-2011B and Series R-2011C were sold through competitive sales at the Office of the State Treasurer, September 15, 2010 at 7:30 a.m. and 8:00 a.m., respectively.

- **Bid Results.** The following bids were received on each series. The sale on each Series was awarded to the bidder with the lowest True Interest Cost (TIC).

Series R-2010B	Bidder	TIC*	Results
	Wells Fargo Bank	3.0300420%	Low Bidder
	Banc of America Merrill Lynch	3.0553962%	
	Citigroup Global Markets Inc.	3.0590921%	
	J.P. Morgan Securities LLC	3.0761256%	
	Barclays Capital, Inc.	3.0780357%	
	Goldman, Sachs & Co.	3.0813941%	
	Jefferies & Company, Inc.	3.0929413%	
	Morgan Stanley & Co Inc	3.1142469%	

Series R-2010C	Bidder	TIC*	Results
	Banc of America Merrill Lynch	2.8749846%	Low Bidder
	Citigroup Global Markets Inc.	2.8994778%	
	J.P. Morgan Securities LLC	2.9221252%	
	Jefferies & Company, Inc.	2.9321588%	
	Barclays Capital, Inc.	2.9325046%	
	Wells Fargo Bank	2.9355020%	
	Goldman, Sachs & Co.	2.9476375%	
	Morgan Stanley & Co Inc.	2.9565284%	

*True Interest Cost (TIC).

- **Adopted Resolutions**. On September 15, 2010, the SFC acting by and through the State Treasurer adopted Resolutions Nos 1103 and 1104:

Resolution No. 1103 accepted the winning bid for the purchase of State of Washington Various Purpose General Obligation Refunding Bonds, Series R-2011B, in the aggregate principal amount of $401,435,000, fixing the interest rates, as authorized by Chapters 39.42 and 39.53 RCW and Resolution No 1023 of the SFC; and

Resolution No. 1104 accepted the winning bid for the purchase of State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2011C, in the aggregate principal amount of $393,950,000, fixing the interest rates, as authorized by Chapters 39.42 and 39.53 RCW and Resolution No 1023 of the SFC;

- **Summary of Refunding Results.** The following summarizes the refunding results for each series. The debt services savings on both of the series exceeded the savings target for refundings provided by the State Finance Committee Debt Issuance Policy.

Various Purpose General Obligation Refunding Bonds, Series R-2011B

Summary of Refunding Results

15-Sep-10

Bonds Refunded	Various Purpose					**Total/Average**
Series	2002A	2002B	2003A	2003D	2004A	
Par $	$45,335,000	$80,200,000	$134,390,000	$75,055,000	$86,505,000	**$421,485,000**
Average rate %	5.00%	5.00%	5.00%	5.00%	5.00%	**5.00%**
Refunding Bonds						
Par $	$43,165,000	$75,375,000	$127,955,000	$72,255,000	$82,685,000	**$401,435,000**
Rate (TIC %)	3.61%	3.47%	3.05%	2.49%	2.31%	**3.0346%**
Summary of Results						
Savings						
- Total Savings	$7,860,707	$13,788,969	$16,021,483	$7,613,706	$6,515,235	**$51,800,101**
- Total Savings FY 2011-13	$1,292,032	$1,893,419	$2,028,333	$1,038,456	$950,110	**$7,202,351**
- Present value	$5,893,908	$9,422,271	$12,774,008	$5,667,407	$5,695,050	**$39,452,643**
- PV as % of Refunded Bonds	13.0%	11.7%	9.5%	7.6%	6.6%	**9.4%**
- PV% policy minimum	5.0%	5.0%	5.0%	5.0%	5.0%	

Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2011C

Summary of Refunding Results

15-Sep-10

Bonds Refunded	Motor Vehicle Fuel Tax				**Total/Average**
Series	2002C	2003B	R-2003B	2002B	
Par $	$248,215,000	$102,160,000	$2,565,000	$63,745,000	**$416,685,000**
Average rate %	5.00%	5.00%	5.00%	5.00%	**5.00%**
Refunding Bonds					
Par $	$232,455,000	$97,950,000	$2,435,000	$61,110,000	**$393,950,000**
Rate (TIC %)	2.94%	3.03%	1.53%	2.29%	**2.8732%**
Summary of Results					
Savings					
- Total Savings	$40,331,390	$11,415,505	$218,840	$4,903,022	**$56,868,757**
- Total Savings FY 2011-13	$5,742,715	$1,120,164	$47,590	$803,522	**$7,713,991**
- Present value	$30,180,338	$8,971,184	$204,139	$4,302,036	**$43,657,696**
- PV as % of Refunded Bonds	12.2%	8.8%	8.0%	6.7%	**10.5%**
- PV% policy minimum	5.0%	5.0%	5.0%	5.0%	

- **Description of Bonds.** The Series R-2011B and the Series R-2011C Bonds are tax-exempt current interest bonds on which interest is paid semi-annually on the outstanding principal. The savings were structured to provide uniform or level debt service savings over the life of the Bonds.

The following tables list the Refunded Bonds.

VARIOUS PURPOSE REFUNDED BONDS

Bond	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Date	Call Price (%)	CUSIP Number
Various Purpose GO Bonds, Series 2002A, dated August 1, 2001						
Serials	07/01/2025	5.00	22,065,000	07/01/2011	100	93974AFA7
	07/01/2026	5.00	23,270,000	07/01/2011	100	93974AFB5
Subtotal			45,335,000			
Various Purpose GO Bonds, 2002B, dated January 15, 2002						
Serial	01/01/2023	5.00	14,295,000	01/01/2012	100	93974AGK4
Term	01/01/2027	5.00	65,905,000	01/01/2012	100	93974AGP3
Subtotal			80,200,000			
Various Purpose GO Bonds, 2003A, dated August 1, 2002						
Serials	07/01/2013	5.00	6,260,000	07/01/2012	100	93974AJY1
	07/01/2014	5.00	6,540,000	07/01/2012	100	93974AJZ8
	07/01/2015	5.00	6,840,000	07/01/2012	100	93974AKA1
	07/01/2016	5.00	7,165,000	07/01/2012	100	93974AKB9
	07/01/2017	5.00	7,510,000	07/01/2012	100	93974AKC7
	07/01/2018	5.00	7,875,000	07/01/2012	100	93974AKD5
	07/01/2019	5.00	8,275,000	07/01/2012	100	93974AKE3
	07/01/2020	5.00	8,695,000	07/01/2012	100	93974AKF0
	07/01/2021	5.00	9,145,000	07/01/2012	100	93974AKG8
	07/01/2022	5.00	9,625,000	07/01/2012	100	93974AKH6
	07/01/2023	5.00	10,140,000	07/01/2012	100	93974AKJ2
	07/01/2024	5.00	10,685,000	07/01/2012	100	93974AKK9
	07/01/2025	5.00	11,260,000	07/01/2012	100	93974AKL7
	07/01/2026	5.00	11,865,000	07/01/2012	100	93974AKM5
	07/01/2027	5.00	12,510,000	07/01/2012	100	93974AKN3
Subtotal			134,390,000			
Various Purpose GO Bonds, 2003D, dated February 5, 2003						
Serials	12/01/2014	5.00	6,695,000	06/01/2013	100	93974ASX3
	12/01/2015	5.00	7,060,000	06/01/2013	100	93974ASY1
	12/01/2016	5.00	7,440,000	06/01/2013	100	93974ASZ8
	12/01/2017	5.00	7,840,000	06/01/2013	100	93974ATA2
	12/01/2018	5.00	8,265,000	06/01/2013	100	93974ATB0
	12/01/2019	5.00	8,710,000	06/01/2013	100	93974ATC8
	12/01/2020	5.00	9,180,000	06/01/2013	100	93974ATD6
	12/01/2021	5.00	9,670,000	06/01/2013	100	93974ATE4
	12/01/2022	5.00	10,195,000	06/01/2013	100	93974ATF1
Subtotal			75,055,000			

Bond	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Date	Call Price (%)	CUSIP Number
Various Purpose GO Bonds, 2004A, dated August 6, 2003						
Serials	07/01/2014	5.00	9,020,000	07/01/2013	100	93974AWV2
	07/01/2015	5.00	9,480,000	07/01/2013	100	93974AWW0
	07/01/2016	5.00	9,965,000	07/01/2013	100	93974AWX8
	07/01/2017	5.00	10,475,000	07/01/2013	100	93974AWY6
	07/01/2018	5.00	11,015,000	07/01/2013	100	93974AWZ3
	07/01/2019	5.00	11,580,000	07/01/2013	100	93974AXA7
	07/01/2020	5.00	12,175,000	07/01/2013	100	93974AXB5
	07/01/2021	5.00	12,795,000	07/01/2013	100	93974AXC3
Subtotal			86,505,000			
Total			421,485,000			

MOTOR VEHICLE FUEL TAX REFUNDED BONDS

Bond	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Date	Call Price (%)	CUSIP Number
Motor Vehicle Fuel Tax GO Bonds, Series 2002C, dated January 15, 2002						
Serials	01/01/2013	5.00	11,225,000	01/01/2012	100	93974AHA5
	01/01/2014	5.00	11,780,000	01/01/2012	100	93974AHB3
	01/01/2015	5.00	12,375,000	01/01/2012	100	93974AHC1
	01/01/2016	5.00	13,015,000	01/01/2012	100	93974AHD9
	01/01/2017	5.00	13,695,000	01/01/2012	100	93974AHE7
	01/01/2018	5.00	14,430,000	01/01/2012	100	93974AHF4
	01/01/2019	5.00	15,215,000	01/01/2012	100	93974AHG2
	01/01/2020	5.00	16,050,000	01/01/2012	100	93974AHH0
	01/01/2021	5.00	16,940,000	01/01/2012	100	93974AHJ6
	01/01/2022	5.00	17,885,000	01/01/2012	100	93974AHK3
	01/01/2023	5.00	18,885,000	01/01/2012	100	93974AHL1
Term	01/01/2027	5.00	86,720,000	01/01/2012	100	93974AHQ0
Subtotal			248,215,000			
Motor Vehicle Fuel Tax GO Bonds, Series 2003B, dated October 1, 2002						
Serials	07/01/2013	4.00	4,715,000	07/01/2012	100	93974ALF9
	07/01/2014	4.00	4,930,000	07/01/2012	100	93974ALG7
	07/01/2015	4.00	5,165,000	07/01/2012	100	93974ALH5
	07/01/2016	4.00	5,410,000	07/01/2012	100	93974ALJ1
	07/01/2017	4.125	5,675,000	07/01/2012	100	93974ALK8
	07/01/2018	4.25	5,965,000	07/01/2012	100	93974ALL6
	07/01/2019	5.00	6,270,000	07/01/2012	100	93974ALM4
	07/01/2020	5.00	6,595,000	07/01/2012	100	93974ALN2
	07/01/2021	5.00	6,950,000	07/01/2012	100	93974ALP7
	07/01/2022	5.00	7,325,000	07/01/2012	100	93974ALQ5
	07/01/2023	5.00	7,725,000	07/01/2012	100	93974ALR3
Term	07/01/2027	5.00	35,435,000	07/01/2012	100	93974ALV4
Subtotal			102,160,000			

Bond	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Date	Call Price (%)	CUSIP Number
Motor Vehicle Fuel Tax GO Refunding Bonds, Series R-2003B, dated December 4, 2002						
Serials	09/01/2013	5.00	460,000[(1)]	09/01/2012	100	93974AQS6
	09/01/2014	5.00	485,000[(1)]	09/01/2012	100	93974AQT4
	09/01/2015	5.00	510,000[(1)]	09/01/2012	100	93974AQU1
	09/01/2016	5.00	540,000[(1)]	09/01/2012	100	93974AQV9
	09/01/2017	5.00	570,000[(1)]	09/01/2012	100	93974AQW7
Subtotal			2,565,000			

(1) Partial maturity.

Bond	Maturity Dates	Interest Rates (%)	Par Amounts ($)	Call Date	Call Price (%)	CUSIP Number
Motor Vehicle Fuel Tax GO Bonds, Series 2004B, dated August 6, 2003						
Serials	07/01/2014	5.00	6,645,000	07/01/2013	100	93974AXW9
	07/01/2015	5.00	6,985,000	07/01/2013	100	93974AXX7
	07/01/2016	5.00	7,345,000	07/01/2013	100	93974AXY5
	07/01/2017	5.00	7,720,000	07/01/2013	100	93974AXZ2
	07/01/2018	5.00	8,115,000	07/01/2013	100	93974AYA6
	07/01/2019	5.00	8,535,000	07/01/2013	100	93974AYB4
	07/01/2020	5.00	8,970,000	07/01/2013	100	93974AYC2
	07/01/2021	5.00	9,430,000	07/01/2013	100	93974AYD0
Subtotal			63,745,000			
Total			416,685,000			

- **Counsel and Advisors.**

Bond Counsel:	William Tonkin, Foster Pepper PLLC
Financial Advisors:	Jenny Poreé, Montague DeRose and Associates LLC
	Rob Shelley, Seattle-Northwest Securities Corporation

JAMES L. McINTIRE, *Chairman*
State Treasurer

CHRISTINE O. GREGOIRE, *Member*
Governor

BRAD OWEN, *Member*
Lieutenant Governor

State of Washington
STATE FINANCE COMMITTEE

January 25, 2011

MEMORANDUM

TO: The Honorable James L. McIntire
The Honorable Christine O. Gregoire
The Honorable Brad Owen

FROM: Ellen Evans
Deputy State Treasurer / Secretary

RE: **Report on Bond Sale:** January 19, 2011 sale of State of Washington Various Purpose General Obligation Bonds, Series 2011B and State of Washington General Obligation Bonds, Series 2011T-2 (Taxable)

On January 19, 2011, the State Finance Committee ("SFC") acting by and through the State Treasurer awarded the sale of

1) \$361,950,000 State of Washington Various Purpose General Obligation Bonds, Series 2011B, by adopting Bond Sale Resolution 1105; and
2) \$90,375,000 State of Washington General Obligation Bonds, Series 2011T-2, by adopting Bond Sale Resolution 1106.

The background and the results of the sale are summarized below:

- **Summary.** The Series 2011B Bonds were issued to provide funds to pay and reimburse the state for various capital projects. The Series 2011T-2 Bonds were issued to provide funds to pay for certain projects and purposes that cannot be financed with tax-exempt bonds.

- **Background**. On June 9, 2009, the SFC adopted Resolution No. 1084, authorizing the issuance and sale by the state of not to exceed \$2,408,510,000 various purpose general obligation bonds, in one or more series.

  During the 2010 1st Spec. Sess., the State Legislature amended RCW 39.42.030(2) to authorize the SFC to delegate to the State Treasurer the authority, by resolution, to approve the sale of bonds previously authorized by the SFC (Chapter 18, Laws of 2010, 1st Spec. Sess.).

On July 28, 2010, the SFC adopted Resolution No. 1102, amending Resolution No. 1084 to authorize the State Treasurer, on behalf of the SFC, to adopt Bond Sale Resolutions to approve the sale of any Series of Bonds within the aggregate total principal amount of Bonds authorized by the SFC to be issued under Resolution No. 1084.

- **Sale.** Series 2011B and Series 2011T-2 were sold through competitive sales at the Office of the State Treasurer, January 19, 2011 at 7:30 a.m. and 8:00 a.m., respectively.

- **Bid Results.** The following bids were received on each series. The sale on each Series was awarded to the bidder with the lowest True Interest Cost (TIC).

Series 2011B	Bidder	TIC*	Results
	Banc of America Merrill Lynch	4.9774615%	Low Bidder
	Citigroup Global Markets	4.9784690%	
	J.P. Morgan Securities	4.9863591%	
	Wells Fargo Bank	4.9994686%	
	Goldman, Sachs & Co	5.0426021%	
	Morgan Stanley & Co Inc	5.0497885%	
	Jefferies & Company	5.0574188%	
	Barclays Capital	5.0731353%	

Series 2011T-2	Bidder	TIC*	Results
	Citigroup Global Markets	3.0439015%	Low Bidder
	J.P. Morgan Securities	3.1016040%	
	Wells Fargo Bank	3.2092043%	
	Morgan Keegan & Co.	3.2178786%	
	BMO Capital Markets	3.2205865%	
	Barclays Capital, Inc.	3.2718991%	
	Banc of America Merrill Lynch	3.3697665%	
	Morgan Stanley & Co Inc	3.3853103%	
	Goldman, Sachs & Co.	3.3912623%	
	Jefferies & Company, Inc.	3.4924174%	

*True Interest Cost (TIC).

- **Adopted Resolutions**. On January 19, 2011, the SFC acting by and through the State Treasurer adopted Resolutions Nos. 1105 and 1106:

Resolution No. 1105 accepted the winning bid for the purchase of State of Washington Various Purpose General Obligation Bonds, Series 2011B, in the aggregate principal amount of $361,950,000, fixing the interest rates, as authorized by Chapter 39.42 RCW and Resolution No 1084 of the SFC; and

Resolution No. 1106 accepted the winning bid for the purchase of State of Washington General Obligation Bonds, Series 2011T-2, in the aggregate principal amount of $90,375,000, fixing the interest rates, as authorized by Chapter 39.42 RCW and Resolution No 1084 of the SFC;

- **Purpose of the Bonds.** The **Series 2011B** Bonds were issued to provide funds to pay and reimburse the state for various capital projects, multimodal transportation projects, state buildings, public school skill centers facilities, and state programs for Columbia River Basin water supply development, farmland preservation, riparian protection and outdoor recreation and to pay the costs of issuance of the Series 2011B Bonds.

  Bond proceeds are to be deposited to the following funds:

  State Building Construction Account (fund 057),
  Outdoor Recreation Account (fund 070),
  Farmlands Preservation Account (fund 09C),
  Riparian Protection Account (fund 09G),
  Columbia River Basin Water Supply Account (fund 10P),
  Multimodal Transportation Account (fund 218), and
  School Construction and Skill Centers Account (fund 359).

  The **Series 2011T-2** Bonds are taxable bonds in accordance with the Internal Revenue Code which limits the volume of tax-exempt bonds that may be issued to finance activities or facilities used for nongovernmental purposes. The sale of taxable bonds helps assure compliance with applicable federal tax laws by providing a source of funds (other than proceeds of tax-exempt bonds) for expected or potential expenditures to make loans to nongovernmental persons or to provide facilities that otherwise would not qualify for tax-exempt financing.

  The Series 2011T-2 Bonds will be used to fund cash flow requirements for the following programs:

  - **The Housing Trust Fund (HTF)** – $26,000,000, more or less. HTF within the Washington State Department of Commerce helps provide safe and affordable housing in communities throughout the state. HTF supports the construction or rehabilitation of more than 4,500 housing units each biennium.

    The trust fund provide low-interest loans and grants from bond proceeds to private non-profit entities, which may include charitable 501(c) (3) or other nongovernmental organizations.

  - **Public Works Board (PWB)** – $64,000,000, more or less. The Public Works Board within the Washington State Department of Commerce provides loans to local governments to finance improvements to local capital infrastructure construction, preconstruction activities, planning and emergencies, that may involve further direct or indirect loans to nongovernmental person or other private business uses.

Following the January 19, 2011 sale, $409,050,000 remains authorized unissued from resolution 1084:

Resolution 1084, 6/9/2009:	$2,408,510,000
Issued to date:	1,547,135,000
Series 2011B (January 19, 2011 sale):	361,950,000
Series 2011T-2 (January 19, 2011 sale):	90,375,000
Authorized Unissued:	$ 409,050,000

- **Description of Bonds.** The Series 2011B Bonds are tax-exempt current interest Bonds on which interest is paid semi-annually on the outstanding principal. Together, the debt service payments of Series 2011B Bonds and the Series 2010T-2 Bonds were structured to produce an approximate level debt service over the life of the Bonds.

  The Series 2011T-2 Bonds are taxable current interest Bonds on which interest is paid semi-annually on the outstanding principal. Together, the debt service payments of Series 2011T-2 Bonds and the Series 2011B Bonds were structured to produce an approximate level debt service over the life of the Bonds.

- **Counsel and Advisors.**

Bond Counsel:	William Tonkin, Foster Pepper PLLC
Financial Advisors:	Natalie Perkins, Montague DeRose and Associates, LLC

Tab 4

State Finance Committee – Informational Item

January 25, 2011 Meeting

Agenda Item: 4 Debt Affordability Study

In December 2010, the Treasurer submitted a Debt Affordability Study as requested by the Legislature in ESHB 2836. It is designed to provide a useful framework for policymakers as they make choices about the amounts, types and uses of debt financing undertaken in Washington State. This report is a starting point to help us better understand our ability to fund capital investments necessary to keep our economy growing and prosperous.

The Debt Affordability Study offers comprehensive and clear information about all of the state's debt obligations, from general obligation bonds, motor vehicle fuel tax bonds and certificates of participation to the School Bond Guarantee, and debt issued by higher education institutions. It describes debt issuance trends, borrowing costs and effective debt constraints and draws attention to financial indicators used to measure the affordability of debt in relation to the state budget, the state's taxpayers and the state economy.

By every measure, Washington is a high debt state.

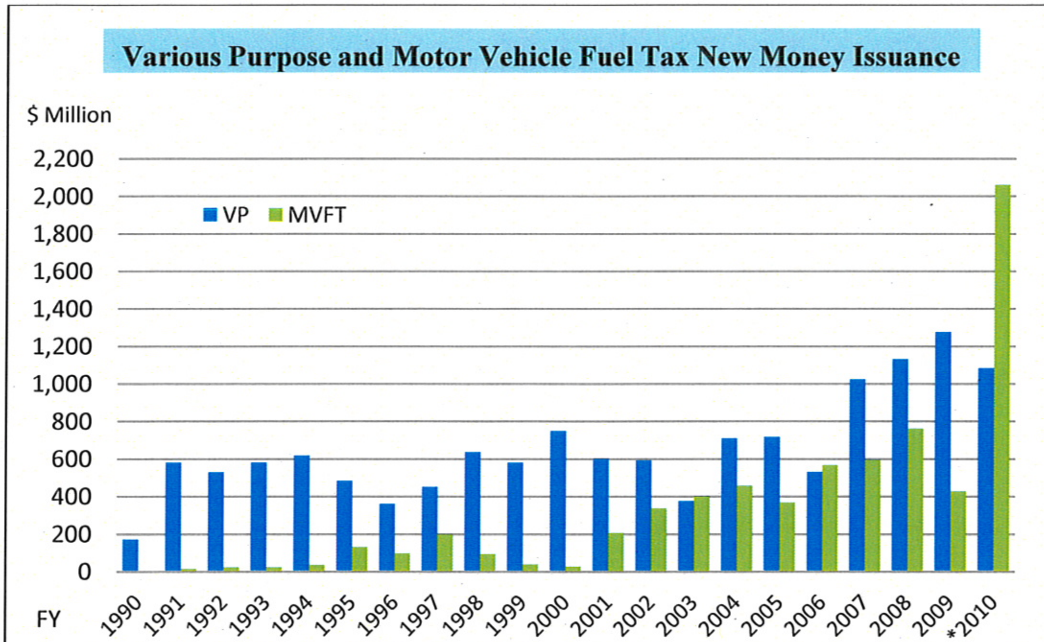
Debt Metrics: A Comparison to National Medians

	Moody's[1]	S&P[2]
Net Tax-Supported Debt		
Washington	**$14,832,717,000**	**$13,798,000,000**
Median of States	$ 4,274,192,000	$3,584,000,000
Net Tax-Supported Debt per Capita		
Washington	**$2,226**	**$2,107**
Median of States	$936	$739
WA Rank in comparison to other states	8th	7th
Net Tax-Supported Debt as% 2008 Personal Income		
Washington	**5.30%**	**5.00%**
Median of States	2.50%	2.10%
WA Rank in comparison to other states	9th	8th
Net Tax-Supported Debt (2009) as % of GSP (2008)		
Washington	**4.60%**	**4.30%**
Median of States	2.22%	1.80%
WA Rank in comparison to other states	10th	7th
Debt Burden as % of total gov't expenditures		
Washington		**6.00%**
Median of States		3.00%

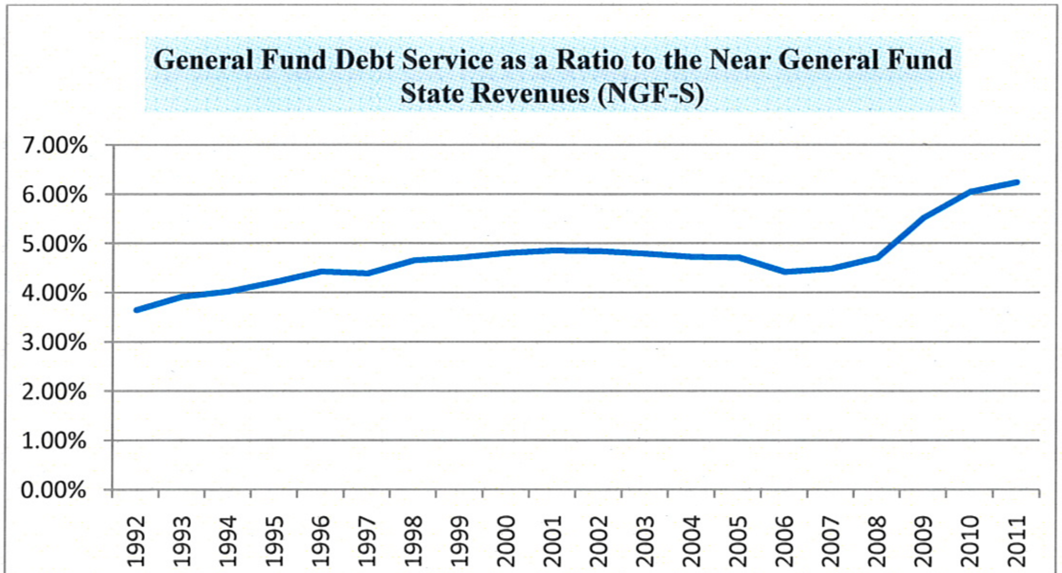
(1) *2010 State Debt Medians Report*. Moody's U.S. Public Finance. May 2010.
(2) *U.S. Public Finance Report Card.* Standard & Poor's U.S. Public Finance. December 16, 2009

Agenda Item: 4 Debt Affordability Study

In recent years, issuance of general obligation bonds (VP and MVFT) has increased and an increasing share of Near General Fund revenues has been dedicated to debt service.



* In 2010, the state accelerated FY 2011 MVFT GO issuance to lock in low rates available in the federal Build American Bond program.



Agenda Item: 4 Debt Affordability Study

Annual Debt Service by Fiscal Year
($ millions)

	6/29/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011
General State Revenues and Other Sources	797.8	843.2	908.1	957.8	995.3
MVFT	215.6	261.0	318.7	354.1	421.6
Total	1,013.4	1,104.2	1,226.8	1,311.9	1,416.9

How does the State Finance Committee help state government policy makers ensure the state does not over-extend its reliance on debt?

The State's Constitutional limit on debt service has a limited scope. It only addresses a portion of the state's debt.

In addition to the Constitutional limit, we need a more complete way to measure debt service paid on all obligations – VPGO bonds and MVFT bonds as well as COPs and lease revenue bonds

The Constitutional debt limit is pro-cyclical, resulting in limited debt capacity at a time when it may be needed most.

More active debt management is needed. In addition to the Constitutional limit, it may be useful for policy makers to have a way to monitor the portion of the operating budget allocated to debt service.

As the share of near-general fund revenue appropriated for debt service grows in the future, the state's flexibility when responding to budget challenges will be reduced.

MVFT financing capacity is limited. It is based on projected future gas tax revenues.

As MVFT/Go bonds are also backed by the full faith credit of the state, it may be prudent to consider a working limit of MVFT issuance in relation to the full legal capacity.

Need to focus on debt authorized but not yet issued. Decisions regarding the amount of future bond issuance should take into account both debt that has been issued and debt that has been authorized by the Legislature, but not yet issued.

Currently, at the beginning of this Legislative session, there are $1.9 billion VPGO bonds and $6.8 billion MVFT/GO bonds that have been authorized but not yet issued.

Taking this authorized but not yet issued amount into account further stresses Washington's debt metrics.

Tab 5

JAMES L. McINTIRE, *Chairman*
State Treasurer

CHRISTINE O. GREGOIRE, *Member*
Governor

BRAD OWEN, *Member*
Lieutenant Governor

State of Washington
STATE FINANCE COMMITTEE

January 25, 2011

MEMORANDUM

TO: The Honorable James L. McIntire
The Honorable Christine O. Gregoire
The Honorable Brad Owen

FROM: Ellen Evans, Deputy State Treasurer / Secretary

RE: Amendment to Debt Management Policy – Conditions of Sale;
Guidelines for Use of Financing Contracts;
Guidelines for Use of 63-20 Financing Contracts;
Requesting a Motion to Approve.

A. INTRODUCTION

The Legislature has delegated to the State Finance Committee authority to supervise and control the issuance of all state bonds and other state obligations, including financing leases, authorized by the Legislature. The Committee maintains a Debt Management Policy that addresses, among other things, debt structuring guidelines. This memorandum describes three proposed modifications to existing policies:

1. A modification of the existing Debt Management Policy which restates the Conditions of Sale to clarify that restrictions on the structure or amortization of obligations apply to general obligation bonds and - to the extent possible - to revenue bonds;
2. A new policy to provide basic legal, federal tax and policy guidelines for determining if state agency projects appropriately can be undertaken with financing contracts under RCW 39.94.
3. A second new policy to provide specific guidance for a form of financing contract known as a 63-20 financing.

B. PROPOSED ACTION ITEM

That the Committee approve and direct the State Treasurer to implement the amendment to the Debt Management Policy and the Guidelines for Use of Financing Contracts and Guidelines for Use of 63-20 Financing Contracts shown below.

C. (1) PROPOSED AMENDMENT TO DEBT MANAGEMENT POLICY – CONDITIONS OF SALE

V. Issuance Policies

In accordance with the finance committee's responsibility to establish the method and manner of sale of state debt, all state debt will be issued subject to the following policies.

Conditions of Sale

Unless otherwise justified, the issuance and sale of all state bonds, notes, and other evidences of indebtedness will be subject to the following conditions:

- The payment of debt will be assured by the full faith, credit, and taxing power of the state;
- The payment of principal and interest on general obligation ~~the~~ debt will be in approximately equal dollar amounts from one year to the next;
- The payment of principal and interest on debt backed by specific revenues will strive to be in approximately equal dollar amounts from one year to the next;
- The debt incurred will be limited to obligations with serial or term maturities; and
- The life of the debt incurred will be no greater than the projected life of the assets being financed.

~~The above conditions may not apply to some types of debt. Examples include, but are not limited to, debts secured by specific sources of revenue and those with maturities of one year or less.~~

Any recommendation submitted to the finance committee by the state treasurer will include an evaluation of the attendant costs and risks associated with the proposal. Costs to be evaluated include, but are not limited to, letters of credit, call options, underwriting or remarketing fees, legal representation, insurance, and administrative requirements. Risks to be evaluated include, but are not limited to, interest rate risk, counterparty risk, credit facility rollover or renewal risk, clearance risk, and tax law risk.

C. (2) PROPOSED GUIDELINES FOR USE OF FINANCING CONTRACTS

STATE FINANCE COMMITTEE

Guidelines for Use of Financing Contracts
To Finance State Agency Projects Under Chapter 39.94 RCW

This provides basic legal, federal tax and policy guidelines for determining if state agency projects appropriately can be undertaken with financing contracts under RCW 39.94. These guidelines are provided to help keep the state's use of financing contracts aligned with the judicial history and underpinnings of RCW 39.94. While these guidelines mainly refer to certificates of participation ("COPs"), separate, more detailed, guidance is provided for the unique conditions related to 63-20 financings. In all cases, careful consideration must be given not only to the state's ability to finance each project, but also to the cumulative effect of those financings on the state's overall ability to afford the debt, and to the effect on the state's credit ratings.

Judicial History

The use of financing contracts must be carefully restricted to those purposes and projects that substantially parallel the facts of *Department of Ecology v. State Finance Committee*, 116 Wn.2d 246 (1991) (the case in which the Washington Supreme Court upheld the issuance of COPs to finance the Ecology building in Lacey). Earlier, in *State ex rel. Washington State Building Financing Authority v. Yelle*, 47 Wn.2d 705 (1955), the Supreme Court had invalidated the use of a separate state entity to issue revenue bonds, outside the state debt limit, to finance buildings and higher education facilities that would then be "leased" to state agencies. At that time the Court said "*We cannot close our eyes to what is actually being attempted. When we strip the plan down to fundamentals, we find that it is not a leasing arrangement between landlord and tenant, but the installment purchase by the state of certain buildings and facilities with state moneys raised by taxation, far in excess of the constitutional limitation.*" 47 Wn.2d at 715.

Justice Robert Utter's lead opinion in the *Ecology* case, signed by two other justices, distinguished its facts from the *Building Financing Authority* case by stressing that an outside entity would own the leased facility, that the legislature had expressly reserved the right to discontinue making lease payments and to abandon the building, and that the risk of loss from any non-payment was clearly shifted to investors. Justice Utter emphasized that "debt only occurs when the State is *obligated* to make payments." 116 Wn.2d at 255.

A vigorous dissent signed by four justices in the *Ecology* case asserted that COPs were "merely an attempt to circumvent the debt limitation provisions" of the State Constitution 116 Wn.2d at 282. A concurring opinion by then-Chief Justice Richard Guy, signed by Justice Andersen and – significantly – by Justice Utter (the author of the lead opinion), stated that "it is important to emphasize that long-term lease agreements may not be used as a subterfuge to avoid the constitution's debt limitation" 116 Wn.2d at 261.

General Guidance

Because the *Ecology* case was so closely decided and contained multiple opinions, and especially because the lead opinion's author agreed that a COP program should "not be used as a subterfuge," the State Finance Committee concludes that it would not be prudent to expand the use of COPs beyond fact patterns that closely resemble the *Ecology* financing. This means COPs should be used solely to finance property, including improvements – and that the property should be of a nature that could be relinquished if the Legislature were to choose not to appropriate funds to make the relevant lease payments. Further, in view of the state's overall debt burden and in respect of the judicial history, care should be taken so that financing contracts are not used to avoid the constitution's debt limitation.

Specific Guidance

<u>Prior Legislative Approval is Required for Acquisition of Real Property and Certain Personal Property</u>. State law requires prior legislative approval of any state agency financing contract for the acquisition of real property (see RCW 39.94.040(4)). It is also a policy of the Office of State Treasurer to require prior legislative approval for state agency financing contracts used to finance major acquisitions of certain personal property such as information systems.

<u>Financing Must Involve Acquisition of Property</u>. RCW 39.94.030(1) provides in part that the state may enter into financing contracts for itself "for the use and acquisition for public purposes of real and personal property." RCW 39.94.020(2) also provides in part that a "financing contract" means any contract entered into by the state "which provides for the use and purchase of real or personal property by the state..." This means financing contracts may not be used to make grants or loans.

<u>Proceeds Must Be Spent on Capital Property</u>. For both state law accounting purposes and under federal tax rules applicable to tax-exempt obligations, the costs of property financed with COPs must be capital expenditures that can be properly charged to the capital account of the financed property. For example, the costs of purchasing, constructing and installing a property are capital expenditures. In addition, certain preliminary costs associated with a project, such as architectural, engineering, planning, permitting and legal costs, as well as direct payroll and payroll-related costs of state employees specifically allocated to project management, are capital expenditures. In contrast, proceeds of financing contracts, including COPs, may not pay current operating expenses of state agencies.

<u>Average Maturity of COPs Must Not Exceed 120% of Average Reasonably Expected Economic Life of the Financed Property</u>. IRS rules on tax-exempt financing provide certain direct and indirect limitations on the length of maturity of tax-exempt obligations that are issued to finance property. The IRS provides a safe harbor so that obligations issued to finance property are treated as meeting these requirements if the weighted average maturity of the obligations does not exceed 120% of the average reasonably expected economic life of the financed property, determined according to the cost of the financed property. IRS rules also provide certain guidelines that may be used to determine the useful life of property. For example, an office

building is deemed to have a useful life of 45 years. Because no financing contract under RCW 39.94 is allowed to exceed 30 years, this requirement is generally not an impediment to COP financing of real estate projects but may restrict financing for some personal property.

Timing of COP Issuance and Expenditure of COP Proceeds Must Satisfy Arbitrage Rules for Tax-Exempt Obligations. As in the ordinary tax-exempt financing of a capital project, the basic arbitrage rules for spending proceeds of tax-exempt COPs must be satisfied. Thus, COPs will be issued to finance property only if (a) the agency reasonably expects on the issue date that it will spend at least 85% of the sale proceeds on the capital project by the end of 3 years after the issue date, (b) the agency incurs within 6 months after the issue date a substantial binding obligation with a third party to spend at least 5% of the sale proceeds on the capital project, and (c) the agency proceeds with due diligence to spend the sale proceeds of the bonds and complete the capital project. This precludes issuing COPs earlier than necessary, and also precludes issuing COPs to finance expenditures over long periods of time, such as 4-5 years.

A project needs to be ready to proceed before it is financed so that it can meet these federal timing and expenditure constraints. As a result, it is the Office of State Treasurer's policy to require that a state agency has entered into a construction, design-build or general contractor / construction manager (GCCM) contract for the project prior to issuing a COP. This means the timing of a COP can be generally structured so that proceeds can be spent within either the 18-month or 24-month limits.

Financed Property Subject to Federal Tax Limits on Private Business Use. RCW 39.94 permits financing contracts be entered into for the use and acquisition of property only "for public purposes." And, to achieve the lowest borrowing costs, the state issues COPs on a tax-exempt basis. As a result, property financed with COPs is subject to federal tax limitations on the amount of private business use. In general, no more than 10% of the proceeds of any issue of COPs (or a corresponding portion of the property financed thereby) may be used for any private business use. Under federal tax rules, "private business use" means use by any person or entity other than the state and its departments and agencies or a local government unit of the state. Use by a private business corporation, nonprofit corporation, limited liability company, partnership, association, individual person engaged in a trade or business activity, or the federal government or any federal agency constitutes "private business use" for this purpose.

C. (3) PROPOSED GUIDELINES FOR USE OF 63-20 FINANCING CONTRACTS

STATE FINANCE COMMITTEE

Guidelines for Use of 63-20 Financing Contracts

Overview of 63-20 Financing Structure Under the 63-20 structure, tax-exempt bonds are issued by a non-profit corporation on behalf of a public agency. The non-profit corporation causes the project to be designed and built, typically through a fixed-price contract with a private real estate development company. The real estate development company contracts with the architect and general contractor to deliver a building that meets the specifications set by the public agency.

- Security for the bonds is a stream of future rent payments from the state agency to the non-profit corporation under a lease agreement that includes express provisions that payment of state agency rent is subject to Executive Order reductions and legislative non-appropriation.

- Bonds issued with a 63-20 structure are not subject to the state's constitutional debt limit as they are issued by a non-profit corporation, not by the state. However, because of the state's lease obligation to the non-profit corporation, these obligations are reported on the state's CAFR and national credit rating agencies and municipal markets view 63-20 bonds as appropriation-backed obligations of the state.

- Title to the project is held by the non-profit for the life of the bonds. Title to the project is transferred to the public agency when the debt is repaid, i.e. at lease maturity when bonds issued by the non-profit corporation are retired.

- The project is used by the state agency for its governmental purposes under the lease, but the property may be operated and maintained either by the public agency or by the non-profit corporation through a management contract with a private management firm. However, IRS rules restrict the structure of any management contract.

- Costs of issuance and ongoing fees on 63-20 financings are significantly higher than those on conventional financings and the borrowing typically bears higher interest rates.

- At times, a 63-20 transaction may offer certain advantages to the public agency by allowing the agency to engage a private developer/manager who oversees the project, accepts certain construction risks and guarantees a fixed price. In some cases, the 63-20 structure can shorten the construction period and can reduce the risk of cost increases.

- While projects financed by 63-20 bonds are not considered public works under state law, the state has provided that prevailing wages be paid.

Specific Guidance

1. Cost-benefit analysis using Life Cycle Cost Models Should Demonstrate the Value of the 63-20 Structure. Before choosing 63-20 financing, an analysis using the Life Cycle Cost Model should demonstrate the advantages of the 63-20 approach versus other construction and financing alternatives. This cost-benefit analysis must establish that project benefits and operational efficiencies offset the increased credit risks, higher issuance costs and more expensive cost of funds typically associated with 63-20 financings.

2. Legal, Federal Tax and Operational Differences. Before choosing 63-20 financing, OST and the pertinent state agency should have a clear understanding of the legal, federal tax and operational advantages and disadvantages and other implications of 63-20 financing versus direct state financing, such as COP financing, as well as private developer project development versus the state's use of alternative contracting methods such as design-build or GCCM for project development.

3. Prior Legislative authorization should specify the financing amount. The successful use of appropriation-backed 63-20 financing requires legislative authorization that establishes clear legislative intent. That legislative authorization should describe the project purpose and scope and specify a not-to-exceed financing amount.

4. The Office of the State Treasurer has a key role in financial management. The successful outcome in a 63-20 financing depends on the efficiency, expertise, and coordination of the project management and finance management functions. Acting on behalf of the State Finance Committee, the Office of the State Treasurer should play a key role in financial management functions. Project management - including selection of the developer, development of the project design, scope price and schedule – is more appropriately handled by the state agency seeking the financing.

   Financial management includes the selection of the non-profit corporation, assembly of the financing team (financial advisor, legal team and the banking team) and management of the bond sale. Documents, legal provisions and disclosure materials should conform to the standards that are used for the State's COP and general obligation bonds to provide consistency and accuracy of information. All communication with rating agencies and investors must be centralized and coordinated by OST and disclosure standards must be consistent with those the State observes for all State related transactions. Similarly, OST will oversee the investment of all bond proceeds.

5. Minimize Conflicts of Interest. In most municipal transactions, the issuer is the obligor or the issuer is an authority of the actual governmental body responsible for paying debt service. In a 63-20 transaction, the issuer (a non-profit corporation without assets) has no organizational relationship with or fiduciary responsibility to the State and does not have ultimate, economic responsibility for the debt. It should be recognized that non-state parties in a 63-20 transaction may face conflicts of interest as they may only be compensated if the transaction is completed and they do not bear the ultimate responsibility for the debt. OST and the State Agency together should strongly represent the State's interests as distinct from the developer and non-profit conduit's interests

Tab 6

State Finance Committee – Informational Item

January 25, 2011 Meeting

Agenda Item: 6 Upcoming Committee Meetings

Next State Finance Committee Meeting - Post-Legislative Session

Discussion of Financing Plan for SR-520 Bridge Replacement and HOV Program

Authorization of Debt Issuance for the 2011-13 Biennium