

STATE FINANCE COMMITTEE

September 29, 2011
Office of the State Treasurer
Legislative Building, Room 230
Olympia, WA
11:45 AM

AGENDA

1. Approval of minutes of the September 7, 2011 State Finance Committee meeting.
2. Resolution 1117 authorizes the issuance of bonds of the state for the purpose of providing funds to pay and reimburse state expenditures for eligible toll facilities identified in the bond act; providing for certain terms and covenants of the bonds; providing for certain other provisions safeguarding the payment of principal of and interest on the bonds; and authorizing and directing the sale of the bonds in one or more sales.

State Finance Committee Meeting Minutes
Olympia, Washington
September 7, 2011
2:05 pm

The State Finance Committee met in a special meeting after notice duly given to the public.

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
Johnna Skyles Craig, Assistant Attorney General
Bill Tonkin, Foster Pepper PLLC
Hugh Spitzer, Foster Pepper PLLC
Rob Shelley, Seattle Northwest Securities
Bill Starkey, Seattle Northwest Securities
Jenny Poreé, Montague DeRose and Assoc.
Wolfgang Opitz, Office of the State Treasurer
Shelly Sweeney, Office of the State Treasurer
Pam Johnson, Office of the State Treasurer
Kate O'Looney, Office of the State Treasurer
Noah Crocker, Office of the State Treasurer
Sandi Triggs, Office of Financial Management
Erik Hansen, Office of Financial Management
Amanda Cecil, Washington State Senate
Susan Musselman, SDM Advisors
Wendy Kancianich, Office of the State Treasurer
Katherine Chapman-See, Office of the Lieutenant Governor
David Dye, Washington State Department of Transportation
Paula Hammond, Washington State Department of Transportation
Amy Arnis, Washington State Department of Transportation
Jeff Caldwell, Washington State Department of Transportation
Jordan Schrader, The Tacoma News Tribune

Chair McIntire called the meeting to order at 2:05 pm on September 7, 2011.

Item 1: Approval of the Minutes

Treasurer James McIntire introduced the motion to approve the minutes from the June 6, 2011 State Finance Committee Meeting. The motion was moved by Governor Christine Gregoire, seconded by Lt. Governor Brad Owen and approved unanimously.

Item 2: Results of the July 2011 bond sales

Treasurer McIntire asked Ellen Evans to review the July 2011 bond sales. Ms. Evans stated that the four series of various purpose general obligation bonds and motor vehicle fuel tax general obligation bonds totaled approximately \$746 million. Ms. Evans noted that the sale was unique in that it opened with a two-day period for retail investors to purchase bonds (Series 2012B-2) prior to the competitive institutional sales (Series 2012A, 2012B-1, and 2012T). Washington residents were given priority and made up 70 percent of the retail sale. The par amount of the retail Series 2012B-2 bonds totaled \$89,350,000. The results from the competitive institutional sales were as follows: Series 2012A was awarded to Citigroup Global Markets with a true interest cost (TIC) of 4.0525958%, Series 2012B-1 was awarded to Banc of America Merrill Lynch with a TIC of 4.2612370% and Series 2012T (Taxable) was awarded to JP Morgan Securities LLC with a TIC of 0.6817500%.

Treasurer McIntire noted that over ten percent of all bonds sold in July were sold in the retail sale.

Governor Gregoire asked why such a method hadn't been used before.

Ms. Evans answered that the demand by retail investors was uncertain due to the absence of a state tax advantage for investors without a state income tax.

Item 3: Recap of 2009-11 Biennium bond sales

Treasurer McIntire asked Ms. Evans to provide a summary of the previous biennium's bond sales. Ms. Evans stated that during 2009-11 Biennium there were eight various purpose general obligation bond series sold on five separate dates totaling just under \$2 billion. Furthermore, there were three motor vehicle fuel tax bond series sold totaling just over \$2 billion dollars. Finally, six refunding series for a total of \$1.9 billion in bonds were sold achieving a savings of \$183 million on a net present value basis.

Treasurer McIntire emphasized that since 2009 Washington's borrowing costs have continually beaten the Bond Buyer Index.

Item 4: Resolution 1114

Treasurer McIntire asked Ms. Evans to introduce Resolution 1114. Ms. Evans explained that Resolution 1114 would authorize the issuance and sale of State of Washington Various Purpose General Obligation Bonds for capital projects authorized for the 2011-13 Biennium. The bonds

would not exceed the maximum principal amount of \$1,356,364,000 as determined by input from the legislature, state agency surveys, and guidance from the Office of Financial Management. This resolution also authorizes the State Treasurer to establish the method of sale and adopt bond sale resolutions. The office anticipates the bonds will be sold on semiannual basis, primarily in competitive sales to institutions. The resolution was moved by Governor Gregoire, seconded by Lt. Governor Owen and adopted unanimously.

Item 5: Resolution 1115

Treasurer McIntire asked Ms. Evans to introduce Resolution 1115. Ms. Evans explained that Resolution 1115 would authorize the issuance and sale of Motor Vehicle Fuel Tax General Obligation Bonds for the 2011-13 Biennium. The bonds would not exceed the maximum principle amount of \$1,716,303,000 and does not include the issuance of the SR-520 toll backed bonds. This resolution also authorizes the State Treasurer to establish the method of sale and adopt bond sale resolutions. The office anticipates the bonds will be sold on semiannual basis, primarily in competitive sales to institutions. The resolution was moved by Governor Gregoire, seconded by Lt. Governor Owen and adopted unanimously.

Ms. Evans compared the 2011-13 biennial authorizations to the total 2009-11 biennial authorization by highlighting that the 2011-13 authorizations don't include the SR-520 issuance. Together, all estimates total approximately \$5.1 billion for the 2011-13 Biennium compared to \$4.0 billion for the 2009-11 Biennium.

Item 6: Resolution 1116

Treasurer McIntire asked Ms. Evans to introduce Resolution 1116. Ms. Evans explained that Resolution 1116 authorizes the issuance and sale of Various Purpose General Obligation Refunding Bonds in the maximum principle amount of \$9,400,000,000 and Motor Vehicle Fuel Tax General Obligation Refunding Bonds in the maximum principle amount of \$6,700,000,000. The resolution was moved by Governor Gregoire, seconded by Lt. Governor Owen and adopted unanimously.

Item 7: Proposed Motion – Plan for Financing Contracts

Ms. Evans introduced the proposed motion to establish the maximum aggregate principle amount of \$1.425 billion in state and local financing contracts for real estate and equipment purchases to be outstanding in the 2011-13 Biennium:

"That the Committee pursuant to RCW 39.94.040 approve and direct the State Treasurer to implement the 2011-13 Biennium finance plan for state financing contracts and issuance of certificates of participation therein as presented to the Committee and on file with the State Treasurer."

Ms Evans emphasized that state agencies and local governments anticipate approximately \$235 million new financing contracts for the biennium, a 25 percent decline over the previous biennium. The motion was moved by Governor Gregoire, seconded by Lt. Governor Owen and approved unanimously.

Item 8: Discussion of SR-520 Financing Plan

Treasurer McIntire introduced the discussion of the SR-520 financing plan. Ms. Evans began by recognizing and thanking the numerous staff and advisors who contributed to the SR-520 financing plan. Ms. Evans stated that the traffic estimates, cost estimates, interest rates estimates and the debt structuring estimates that make up the assumptions in the financing plan are very conservative.

Governor Gregoire asked for clarification regarding the estimate in traffic reduction across the bridge with the implementation of tolls.

Treasurer McIntire reiterated that the numbers were very conservative and that the forty-eight percent assumed reduction in traffic might likely be closer to fifteen percent at peak times.

Ms. Evans highlighted the fact that the project financing plan shows a funding excess of \$5.5 million allowing the project to be described as fully funded.

Ms. Evans explained that there are three sources of funding for the SR-520 project: gas tax proceeds at 23%, toll revenues at 39%, and federal funds at 38%. An initial bond sale in October of 2011 would be a triple pledged series backed by toll revenue, gas tax proceeds, and the full faith and credit of the state and would provide approximately \$500 million in funding.

GARVEE bond sales in the spring of 2012 and the spring of 2013 would raise an additional \$500 million and \$419 million respectively.

Treasurer McIntire noted that this will be the first time GARVEE bonds are issued by Washington and again emphasized the conservative estimates for the federal revenues and that a reduction in these funds would not threaten the project.

Ms. Evans stated that the final issuance for the project is expected to be stand-alone toll revenue bonds in the spring of 2014. The sale of the revenue bonds will be supported by the two-years experience of toll collection.

Treasurer McIntire noted that finance plan is structured around toll rates that increase on an annual basis until completion of the project, after which it is assumed that tolls will not need to be increased to cover the repayment of debt.

Lt. Governor Owen asked what happens if toll revenue exceeds the conservative underlying assumptions.

Ms. Evans stated that the Master Bond Resolution has established covenanted ratios between net toll revenues and debt service on the various tiers of bonds. Moreover, toll rates must be adjusted to produce revenues necessary to meet those covenanted ratios. It is a closed system so all the funds from the toll revenues will stay in the system. Ms. Evans further stated that the Master Bond Resolution does not prohibit a reduction in toll rates as long as the covenants are met.

Governor Gregoire asked if the finance plan used to fund the SR-520 project could be duplicated for the Columbia River Crossing.

Treasurer McIntire indicated that the tolling policy is intended to serve as a template which could be used for other tolling projects in the future.

Ms. Evans provided a timeline for the financing plan including site visits by the rating agencies.

Governor Gregoire asked if staff had reviewed similar projects in other states.

Treasurer McIntire indicated that the finance plan included best practices that had been modeled after other projects from around the country.

Treasurer McIntire adjourned the meeting at 2:54 pm.

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:

Ellen Evans, Deputy State Treasurer
and Secretary



State of Washington
STATE FINANCE COMMITTEE

JAMES L. McINTIRE, *Chairman*
State Treasurer

CHRISTINE O. GREGOIRE
Governor

BRAD OWEN
Lieutenant Governor

September 27, 2011

MEMORANDUM

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

FROM: Ellen Evans
Deputy State Treasurer

RE: **Proposed Resolution No. 1117** to authorize issuance of bonds for eligible toll facilities

Proposed Resolution No. 1117 authorizes issuance of bonds of the state to pay for and reimburse state expenditures for eligible toll facilities identified in the bond act; provides for certain terms and covenants of the bonds; provides for certain other provisions safeguarding the payment of principal of and interest on the bonds; and authorizes and directs the sale of the bonds in one or more sales.

- **Background.** During the 2009 regular legislative session, the Legislature authorized tolling on the State Route 520 ("SR 520") corridor, and authorized bonds to finance construction of corridor projects.

As was discussed at the State Finance Committee meeting on September 7, 2011 Chapter 498, Laws of 2009, as amended by Chapter 377, Laws of 2011 (RCW 47.10.879-.888 – the "Bond Act"), authorizes the Committee to issue, at the request of WSDOT, \$1,950,000,000 of general obligation bonds of the state, to which the state's full faith and credit are pledged but are first payable from toll revenue and then from excise taxes on motor vehicle and special fuels to the extent toll revenue is not available for that purpose, to provide funds necessary for the location, design, right-of-way, and construction of the SR 520 Corridor Program.

As was also discussed with the Committee, this Bond Act lets the Committee issue these authorized bonds as toll revenue bonds payable solely from and secured solely by toll revenue rather than as general obligation bonds. Specifically, RCW 47.10.887 provides that:

Office of the State Treasurer

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“the state finance committee may determine and include in any **resolution** authorizing the issuance of any bonds under chapter 498, Laws of 2009, such terms, provisions, covenants, and conditions as it may deem appropriate in order to assist with the marketing and sale of the bonds, confer rights upon the owners of bonds, and safeguard rights of the owners of bonds...”

- **Toll Setting Framework.** Pursuant to Chapter 122, Laws of 2008; Chapter 472, Laws of 2009; Chapter 248, Laws of 2010; and Chapter 377, Laws of 2011, of the State (“Toll Facilities Act”), the Legislature authorized the State Transportation Commission to be the tolling authority for the State (the “Tolling Authority”) with the legal power to set, review and adjust toll rates on eligible toll facilities identified by the Legislature and on which the Legislature has authorized the imposition of tolls.

Pursuant to the Toll Facilities Act, the Legislature designated that portion of State Route 520 between its junctions with Interstate 5 and State Route 202 (the “SR 520 Corridor”) as an eligible toll facility and has authorized the imposition of tolls for travel on the floating bridge portion of the SR 520 Corridor.

The Tolling Authority has set tolls on the SR 520 Corridor as authorized by the Legislature and by administrative rule making, the Tolling Authority has adopted rules for the SR 520 Corridor that specify: a) the purposes of the toll rates, b) the increases in toll rates, and c) the initial toll rate tables.

As provided in the Toll Facilities Act, when the Legislature has specifically identified and designated an eligible toll facility and authorized the issuance of bonds for the financing of the eligible toll facility payable from and secured by a pledge of toll revenue, the Legislature agreed – for the benefit of the owners of outstanding bonds issued by the State for eligible toll facilities:

- to continue in effect and not to impair or withdraw the authorization of the Tolling Authority to fix and adjust tolls as provided in the Toll Facilities Act, and
 - directed the State Finance Committee to pledge the State’s obligation to impose and maintain tolls, together with the application of toll revenue as described in the Toll Facilities Act, to owners of those bonds.
- **Description of initial bonds for SR 520 Corridor Program.** The first series of bonds for the SR 520 Corridor Program, the Series 2012C Bonds, are to be issued as “Triple Pledge Bonds,” with the pledge of toll revenue, excise taxes on motor vehicle and special fuels and the state’s full faith and credit. The Series 2012C Bonds are to be issued to provide funds to pay and reimburse state expenditures for a portion of the costs of a portion of the SR 520 Corridor Program consisting of the SR 520 Floating Bridge and Eastside Project, to fund capitalized interest and to pay costs of issuing the Series 2012C Bonds.

- **Pledge by the State Finance Committee.** Proposed Resolution No. 1117 pledges the state's obligation to impose and maintain tolls, together with the application of toll revenue to the owners of any bonds. Proposed Resolution No. 1117 establishes protective covenants for the benefit of owners of Bonds and provides the financial framework required for the payment of and security for all Bonds issued and sold under proposed Resolution No. 1117 as authorized in the Toll Facilities Act and the Bond Act.
- **Delegation of the Bond Sale.** Proposed Resolution No. 1117 authorizes the State Treasurer to establish the method of sale of bonds and adopt bond sale resolutions.

Counsel and Advisors

Bond Counsel: William Tonkin, Foster Pepper PLLC
Hugh Spitzer, Foster Pepper PLLC

Financial Advisor: Robert Shelley, Seattle-Northwest Securities Corporation
Jenny Poreé, Montague DeRose and Associates LLC