



**State of Washington**  
**STATE FINANCE COMMITTEE**

**DUANE A. DAVIDSON**, Chairman  
State Treasurer  
**JAY R. INSLEE**  
Governor  
**CYRUS HABIB**  
Lieutenant Governor

State Finance Committee  
and  
Public Deposit Protection Commission  
December 22, 2020 - 11:00 AM

Agenda

The State Finance Committee (SFC) and the Public Deposit Protection Commission (PDPC) will each hold Special Meetings, online via Zoom, and by telephone to consider the items listed below. The PDPC meeting will start immediately following adjournment of the SFC meeting.

**I. STATE FINANCE COMMITTEE**

1. Approval of minutes of the July 31, 2020 State Finance Committee meeting.
2. Informational Item: Bond sales update.
3. Public comment.

**II. PUBLIC DEPOSIT PROTECTION COMMISSION**

1. Approval of minutes of the November 13, 2018 Public Deposit Protection Commission meeting.
2. Informational Item – Public Depositories Update: Letters of authorization issued by the Chair authorizing approval or termination requests of financial institutions for public depository status in accordance with Resolution 2018–3 dated November 13, 2018.
3. Informational Item – Out-of-State/Alien Bank Accounts Update: Letters of resolution issued by the Chair authorizing requests to approve, rescind, or extend out-of-state and alien bank accounts in accordance with Resolution 2018–2 dated November 13, 2018.
4. Public comment.

The SFC and PDPC Chair will provide an opportunity for members of the public to comment as indicated on the agenda. Public comments may be made telephonically or through Zoom only using the access information provided in the meeting notice.

State Finance Committee Meeting Minutes

Olympia, Washington

July 31, 2020

2:00 PM

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

Present: Duane A. Davidson, State Treasurer, Chair  
Cyrus Habib, Lt. Governor (via phone)

Excused: Jay Inslee, Governor

Also Present: Jason Richter, Office of the State Treasurer  
Scott Merriman, Office of Financial Management (via phone)  
Libby Hollingshead, Office of the Lt. Governor (via phone)  
Svein Braseth, Office of the State Treasurer (via WebEx)  
Matthew Schoenfeld, Office of the State Treasurer (via WebEx)  
Austin Goble, Office of the State Treasurer (via WebEx)  
Brianna May, Office of the State Treasurer (via WebEx)  
Leslie Yonkers, Office of the State Treasurer (via WebEx)  
Danni Colo, Office of the State Treasurer  
Jennifer Merchant, Office of the State Treasurer (via phone)  
Brenda Snyder, Office of the State Treasurer (via phone)  
William Tonkin, Foster Garvey PC (via WebEx)  
Robert Shelly, Piper Sandler & Co (via phone)  
Rusty Fallis, Office of the Attorney General (via WebEx)

Chair Davidson called the meeting to order at 2:05 PM. Chair Davidson stated for the record that two members of the State Finance Committee members were present and that a quorum was established. Treasurer Davidson stated that in observance of the Governor's Proclamation 20-28, as amended and extended, we are meeting virtually by telephone and video conference, and that this meeting is being recorded.

**Item 1: Approval of the Minutes**

Chair Davidson introduced minutes from the August 8, 2019 State Finance Committee meeting for approval. No corrections or amendments were requested. The minutes were approved as presented.

**Item 2: Resolution No. 1239** – Approves and establishes a revised finance plan and maximum principal amount of financing contracts and certificates of participation of the State for the 2019-21 biennium.

Chair Davidson introduced Resolution No. 1239 and asked Jason Richter, Deputy Treasurer of Debt Management for the Office of the State Treasurer, to provide background on the resolution.

Mr. Richter explained that Resolution No. 1239 expands the State's COP Program to include two new real estate projects that were authorized by the legislature as part of the 2020 Supplemental Capital Budget. Specifically, the two new projects are:

- A student wellness and fitness center at South Seattle College, with a not to exceed amount of \$10 million; and,
- A set of roof replacements on the Eastern Washington University Campus, with a not to exceed amount of \$3 million.

Resolution No. 1239 will amend Resolution No. 1226 which was approved by the State Finance Committee on August 8, 2019, and was the original resolution establishing the finance plan and maximum principal amount of the COP Program for the 2019-2021 biennium.

Lt. Governor Habib asked why two relatively small projects would require an amendment by the State Finance Committee of the COP Program's current approved finance plan.

Mr. Richter explained that, per state law, all state real estate transactions to be financed through the COP Program require both legislative and State Finance Committee approval. As the legislature approved these two additional state real estate transactions as part of the 2020 Supplemental Capital Budget, we are required to amend Resolution 1226 to increase the maximum authorized principal amount and allow for the inclusion of these two specific projects to be financed through the COP Program.

Lt. Governor Habib clarified that it is not the dollar amount of these two projects that is the cause for amending the original finance plan, rather the fact that these two projects are real estate projects. Mr. Richter confirmed that it is the existence of these two projects, no matter how large or small, that requires the amendment.

Chair Davidson asked if there were any other questions from either those in attendance at the meeting or by email. Hearing none, the Chair asked for a motion to approve Resolution No. 1239.

Lt. Governor Habib made a motion to adopt Resolution No. 1239; seconded by Treasurer Davidson. Resolution No. 1239 was approved unanimously.

### **Item 3: Informational Item – Market and bond sales update**

Mr. Richter provided a brief update on the municipal bond market, and developments from January 2020 to present. He stated that there has been great volatility in interest rates and financial markets over the last 6 to 7 months. Speaking to a historical graph of the 10-year MMD, which is an important tax-exempt benchmark, Mr. Richter described it being in the shape of a very severe mountain range. Interest rates in the beginning of the year were relatively low, with the 10-year MMD starting the year at a rate of 1.44%. From January to early March, rates gradually trended down. Then, between March 9<sup>th</sup> and the 23<sup>rd</sup>, which is a relatively short period of time, interest rates more than tripled. They went from a low of 0.80% to 2.80%. Mr. Richter stated that he has been working in this sector for over 20 years and has never seen any type of movement like this. It is unprecedented.

The municipal market was essentially shut down for a period of about three weeks. This had a direct impact on the State as the severe market volatility and shut-down resulted in the state postponing a refinancing by about a month. After March 23<sup>rd</sup> when MMD hit a high point of 2.80%, the market began to stabilize and rates began to move back down in response to actions by the Federal Reserve and Federal Government. The 10-year MMD fell back to around 1.50% by the end of March. Interest rates jumped up temporarily in early April. Since then there has been a pretty steady decrease in interest rates, and today, tax-exempt interest rates for bonds that mature in five to thirty years are at all-time lows.

Mr. Richter mentioned that the State priced \$645 million of GO backed bonds on July 14<sup>th</sup>. Mr. Richter indicated, not only are we in a very low interest rate environment today, but supply of high quality credits is somewhat limited, which resulted in incredible demand for the sale on the 14<sup>th</sup>. The State saw more bids for its bonds that we have seen on any transaction in recent memory. We had 11 bids on our largest series of Various Purpose GO bonds, we had 8 bids on our transportation bonds, and we received 17 bids on our small taxable transaction. Normally we would expect to see somewhere around five to seven bids, so getting 11 to 17 was certainly a very favorable showing. In terms of cost of capital, when we look at our 25 year VPGO bonds, the true interest cost to the state, which is probably the best metric, is a little over 2.50%. The take away is that there has been some pretty wild volatility in 2020. We cannot predict what is going to happen down the road, but at this current point in time, the State is fortunate in that we are able to borrow at historical or near historically low interest rates.

Lt. Governor Habib inquired about how the market views the State's stability, noting that from a policy perspective, the Governor has taken some very important steps to help with the state's projected deficit, without a commitment from the legislators that there will be a special session. Lt. Governor Habib asked Mr. Richter if there are other policy considerations he would put on the table

Mr. Richter confirmed that we have been able to maintain our ratings, and that the credit agencies and market are eagerly awaiting news of how the State will be navigating this current situation. He thinks once we are able to put pencil to paper and formulate our plan for not just fiscal years 2020 and 2021, but also for 2022 and 2023, that's where the rating agencies are going to give us a thumbs up or a thumbs down. We are in a bit of a grace period today, where we have some time to formulate a response. Mr. Richter does think the credit agencies are eager to receive that plan.

Lt. Governor Habib encouraged Mr. Richter, Treasurer Davidson and the Treasurer's team to have direct conversations with legislators about that topic, especially if the Treasurer's team thinks for some reason that we are exiting a grace period or that there are warning signs in the market. Lt. Governor Habib thinks legislators would want to hear that directly from Treasurer Davidson's office if there is a need to come back before January, and what are the costs and benefits of doing so.

Treasurer Davidson appreciated the comments shared by Lt. Governor Habib and agreed that the credit rating agencies are eagerly awaiting to see what we do, and a special session could provide that needed insight.

Lt. Governor Habib thanked Mr. Richter for the information.

Having no further business before the State Finance Committee, Chair Davidson adjourned the meeting at 2:23 PM.

STATE FINANCE COMMITTEE  
STATE OF WASHINGTON

By

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Duane A. Davidson  
State Treasurer and Chairman

By

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Jay Inslee  
Governor and Member

By

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Cyrus Habib  
Lieutenant Governor and  
Member

ATTEST:

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Jason P. Richter,

Deputy State Treasurer and Secretary



**State of Washington**  
**STATE FINANCE COMMITTEE**

**DUANE A. DAVIDSON**, Chairman  
State Treasurer  
**JAY R. INSLEE**  
Governor  
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December 22, 2020

**MEMORANDUM**

**TO:** The Honorable Duane A. Davidson  
The Honorable Jay R. Inslee  
The Honorable Cyrus Habib

**FROM:** Jason P. Richter, Deputy State Treasurer

**RE: Bond Sales and Market Update**

**Sale Update.** Since the last State Finance Committee meeting on July 31, 2020, the State has sold one series of certificates of participation (COPs), and one series of refunding bonds as summarized below.

*COP issuance since July 31, 2020*

*October 14, 2020 -- Certificates of Participation Sale*

Series Name	Series	Par Amount	Delivery Date	Final Maturity	Avg. Life (yrs)	TIC
State of WA COP, LP_2020D	LP_2020D	\$75,190,000	10/29/2020	7/1/2045	8.962	2.12%

*Refunding bond issuance since July 31, 2020*

*October 20, 2020 -- Bond Sale*

Series Name	Series	Par Amount	Delivery Date	Final Maturity	Avg. Life (yrs)	TIC
VP GO Refunding Bonds, Series R-2021B	R-2021B	\$104,980,000	11/3/2020	1/1/2025	2.250	0.28%

**Future New Money Issuances.** OST anticipates that the State will issue bonds and COPs in the beginning of 2021 to finance Capital Budget and Transportation Budget projects. The size and timing of these issuances will be primarily dependent upon the State’s cash-flow needs.

**Future Refundings.** In addition to new money financings, OST actively monitors the State’s debt portfolio for refunding opportunities. The following table shows the outstanding bonds that are callable over the next three years.

Calendar Year	Refundable Par
2021	\$578,250,000
2022	1,818,200,000
2023	1,629,055,000
	<u>\$4,025,505,000</u>

**Market Update.** The current Bond Buyer 20-Bond Index (BBI) now stands at 2.13% (as of December 10, 2020), which is 2.23% lower than the recent high of 4.37% on October 11, 2018. Chart 1 below shows the BBI over the last three years, while Chart 2 shows the BBI since 1900.

Chart 1

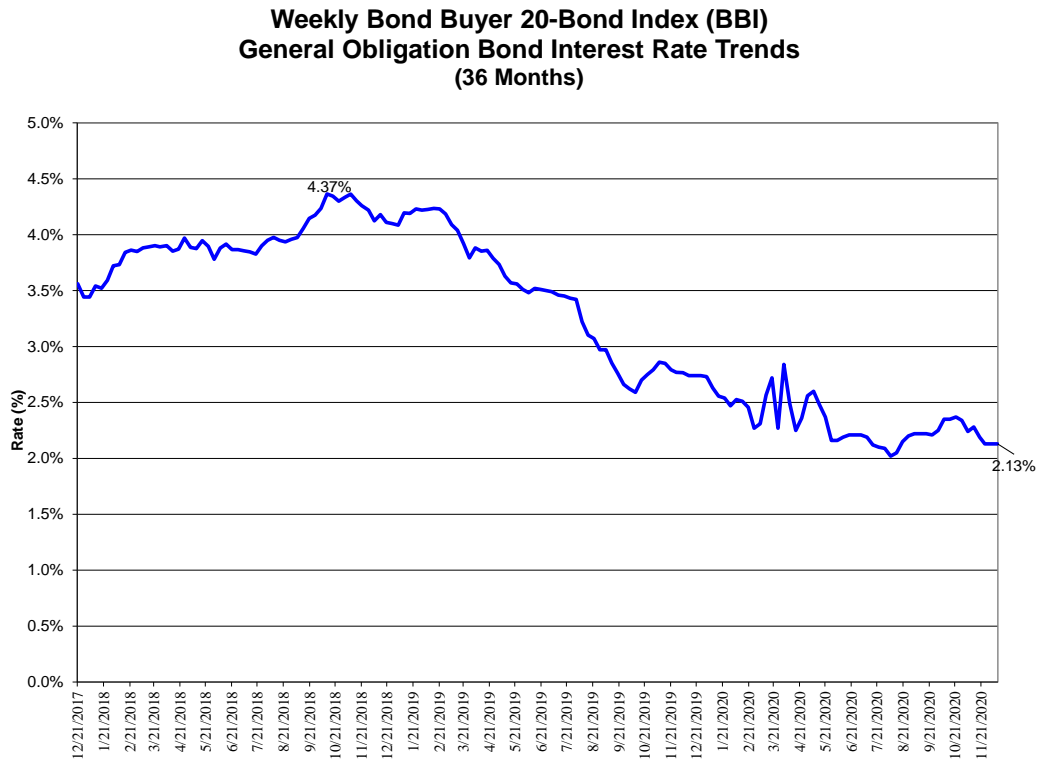


Chart 2

