The Local Program

Real Estate and Equipment
Financing for Local Governments

Office of the State Treasurer

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NEW ISSUE, BOOK-ENTRY ONLY

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

$103,130,000

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

Dated: Date of Initial Delivery **Due: July 1, as shown on page i hereof**

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

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

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

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

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

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

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

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

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

What is the LOCAL Program?

- A cost-effective way for Washington municipalities to finance equipment and/or real estate projects, including property acquisition and construction of new facilities

- LOCAL financing is structured as a financing contract (lease) offered through the Office of the State Treasurer (OST)

City Hall Building for the City of Brier

Program Participants and Leases Since 1999

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

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

Lease/Purchase Structure – Certificates of Participation

- Participants enter into a financing contract (lease) with the Office of the State Treasurer (OST)

- OST pools the various lease agreements across all LOCAL participants and packages them as a security called a Certificate of Participation (COP)
  - COP's are similar to municipal bonds in that they are structured with regular principal and interest payments and sold to investors
  - Investors that purchase the COP are guaranteed an income stream from the lease payments to be made by the agencies for the life of the loan

- After the individual lease expires, ownership of the financed piece of property is retained by the LOCAL agency

LOCAL Program Details

- The LOCAL Program requires participants to have a general obligation pledge and the ability to levy property taxes

- Minimum borrowing threshold of $10,000 for each lease

- Maximum borrowing amount is decided on a case-by-case basis, based on the borrower's non-voted debt capacity and ability to repay the lease

- The length of each financing contract is based upon the useful life of the asset:
  - For real estate transactions, the maximum term is 25-years
  - For equipment, the maximum term is determined by the Office of Financial Management guide:

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

LOCAL Program Details Cont.

- Property financed on a tax-exempt basis is subject to IRS tax law restrictions regarding private business use
  - When necessary, a taxable sale can be done

- Funds are generally available three times per year, in February, June and October
  - Some leases may qualify for a special issuance that could fall outside the regular schedule
  - A local agency may also choose to participate in multiple issuances if needed

Benefits – Low Interest Rates

- The LOCAL Program allows participants access to the national tax-exempt market through a competitive bid process, regardless of the size of their financing contract
- By pooling with the State's Aa2 rated COP issuances, LOCAL participants are able to take advantage of the State's very low tax-exempt interest rates
  - (see Appendix A for most recent rating report)

LOCAL

Actual Interest Rates for Most Recent Sale

as of: 8/14/2018

Term	Equipment*	Real Estate*
5 Years	2.05%	--
10 Years	2.48%	2.53%
13 Years	2.83%	--
25 Years	--	3.67%

**Interest rates shown above include all financing costs. Past interest rates do not predict future interest rates. Actual interest rates are determined by the competitive bids received on the date of sale.*

Benefits – Economies of Scale

- Local Agencies participating in the LOCAL Program receive significantly reduced issuance costs
- State agencies pay the basic fixed costs of the pooled financing program, including:
  - Legal fees (bond and disclosure counsel)
  - Municipal advisor fees (for equipment)
  - Credit rating fee
- Because of the pooled approach, Local Agencies are only required to cover the incremental cost of their participation
  - Escrow fees (if applicable)
  - Title insurance & municipal advisor fees (for real estate transactions)
  - Local Agency Counsel

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

Benefits – Administration

- The LOCAL Program is user friendly, as OST manages all technical aspects of the program, including:
  - General administration
  - IRS tax law compliance
  - Continuing disclosure

- To reduce costs and increase efficiency, the LOCAL Program uses standardized documents and a set repayment schedule
  - Lease payments are due on June 1 and December 1

- Once funds are available, proceeds can be sent directly to a participant's vendor or as a reimbursement to the local agency

Timeline

Preliminary LOCAL Program Timeline

Funds Available In	Project Type	NOI & Credit Application Cut-Off	All-Documents Cut Off	Sale Date	Funds Available	First Payment Due
February	Real Estate	October 30, 2018	January 4, 2019	January 23, 2019	February 13, 2019	June 1, 2019
	Equipment	November 13, 2018				
June	Real Estate	March 15, 2019	May 3, 2019	June 4, 2019	June 25, 2019	December 1, 2019
	Equipment	April 4, 2019				
October	Real Estate	July 15, 2019	August 30, 2019	October 1, 2019	October 22, 2019	December 1, 2019
	Equipment	August 1, 2019				

All dates are tentative and subject to change

- OST plans to go market three times in 2019, with funds expected to be available in February, June and October
  - OST has the ability to issue additional series if the need arises
- Funds are available approximately two weeks after the sale date

Application Process

1. Notice of Intent and Credit Form

2. Form of Reimbursement Resolution

3. Financing Documents

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

Application Process

1. Notice of Intent and Credit Form

- The Notice of Intent (NOI) is a standardized, non-binding agreement that notifies OST of the local agency's intent to participate in the next financing
  - It should be completed by the local agency's primary point of contact
- The credit form allows OST to analyze a participant’s fiscal health and determine compliance with credit guidelines
  - The process is similar to applying for a bank loan
  - The credit form and NOI are typically submitted to OST together
- OST will respond to request within 2-3 weeks
- Participation is dependent on OST credit approval

Application Process

2. Form of Reimbursement Resolution

- A Reimbursement Resolution allows a local agency to purchase equipment or property in advance of being reimbursed by a financing
  - OST provides a template for the local agency's governing body to enact a reimbursement resolution
  - This provides the participant with flexibility to purchase equipment or property independent of the financing schedule

- The reimbursement resolution must be passed by the participant's governing body <u>either</u> before purchasing the equipment or property <u>or</u> no later than 60 days after the purchase date

- The reimbursement resolution due date depends on the timing of the equipment or property purchase

Application Process

3. Financing Documents

- This portion of the process is the most document intensive with the major financing documents including:
  - Authorizing Resolution (prepared by OST, completed and passed by governing body)
  - Financing Contract & Site Lease (prepared by OST, completed and signed by authorized local agency representatives)
  - Tax Certificate (prepared by OST, completed and signed by authorized local agency representative)
- See Appendix B for full list of documents
- OST requires **two** original copies of each document prior to document due date

Appendix A

MOODY'S
INVESTORS SERVICE

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

06 Aug 2018

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

RATINGS RATIONALE

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

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

RATING OUTLOOK

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

FACTORS THAT COULD LEAD TO AN UPGRADE

- Improved industry diversification

- Reduction of debt ratios to levels closer to Moody's 50-state medians

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Economic or employment weakening

- Protracted structural budget imbalance and/or increased reliance on one-time budget solutions

- Deterioration of the state's cash position

LEGAL SECURITY

The Series 2018C COPs are secured by and expected to be paid from payments made by participating agencies including: (1) lease payments made by participating state and local agencies for real property projects, and (2) installment purchase payments made by participating state and local agencies for personal property.

Payments made by the state agencies are subject to appropriation by the legislature and executive order reduction by the governor. The state has never failed to make needed appropriations to meet the payment obligations related to its COPs.

Appendix B

Appendix B – Financing Documents

Note: OST prepares all documents, to be filled out and completed by Local Agency

- Financing Documents
  1. Form of Reimbursement Resolution
  2. Authorizing Resolution/Ordinance
  3. Local Agency Financing Contract and Financing Memo
  4. Local Agency Site Lease and Site Lease Memo (Real Estate Only)
  5. Tax Certificate
  6. Opinion of Local Agency Counsel
  7. Escrow Letter
- Certificates
  - Certificate of Authorizing Resolution/Ordinance
  - Certificate Designating Authorized Agency Representatives
  - Certificate of Incumbency
- Other
  - Construction Contract (Real Estate Only)
  - Evidence of Property Insurance (due after purchase of property)
  - Title Insurance Policy (Real Estate Only)