WASHINGTON STATE
FINANCE COMMITTEE

DEBT ISSUANCE POLICY

MAY 1996
AS AMENDED
JANUARY 25, 2011
State Finance Committee

Debt Issuance Policy

Adopted May 24, 1996 (As Amended January 25, 2011)

I.

DELEGAION OF AUTHORITY

The finance committee was created by an act of the Washington State Legislature (Laws of 1921, ch. 7, sec. 4) codified as section 43.17.070 of the Revised Code of Washington (RCW). Bonds, notes or other evidences of indebtedness shall be issued by the state finance committee. RCW 39.42.020.

Three constitutional officers serve as members of the finance committee: The state treasurer, the lieutenant governor, and the governor. RCW 43.33.010.

The state treasurer shall act as chairman of the committee, RCW 43.33.040, and shall provide administrative and clerical assistance as appropriate. RCW 43.33.030.

II.

ROLES AND RESPONSIBILITIES

State Finance Committee

To fulfill its statutory mission, the finance committee will:

- conduct all business in accordance with the Open Public Meetings Act of 1971, chapter 42.30 RCW;
- appoint a fiscal agent (or agents) to provide for the payment of debts incurred by the state and its subdivisions in accordance with chapter 43.80 RCW;
- administer the state lease purchase program in accordance with chapter 39.94 RCW;
- comply with limitations imposed on the issuance of state debt in accordance with Article VIII of the Washington State Constitution and chapter 39.42 RCW;
• “compute annually the amount required to pay principal of and interest on outstanding debt” in accordance with RCW 39.42.060;
• refund state debt when appropriate to reduce costs to the state, in accordance with chapters 39.42 and 39.53 RCW;
• establish the method and manner of sale of state debt in accordance with RCW 39.42.030 and chapter 39.94;
• select the best qualified individuals and firms proposing to conduct business with the finance committee; and,
• apply and promote prudent state financial practices.

State Treasurer

To fulfill his statutory mission, the state treasurer will:

• determine “the current available debt capacity of the state” in accordance with RCW 39.42.070;
• provide for the issuance of state debt at the lowest possible cost and risk;
• provide for the broad distribution of state debt at regular intervals and in reasonable amounts;
• monitor opportunities to refund state debt;
• comply with all Internal Revenue Service, Municipal Securities Rulemaking Board, and Securities and Exchange Commission rules and regulations governing the issuance of state debt;
• comply with all terms, conditions, and disclosure required by the issuance of variable rate debt;
• submit as written resolutions all recommendations to issue debt in accordance with RCW 39.42.030;
• prepare periodic reports identifying the opportunities provided to women, people of color, people with disabilities, and others historically denied equal access to the financial marketplace;
• provide access to all finance committee documents and records in accordance with the Public Disclosure Act of 1973, chapter 42.17 RCW;
• distribute to appropriate repositories information regarding the state’s financial condition and affairs at such times and in the form required by law, regulation, and general practice;
• provide for the frequent distribution of pertinent information to investors and rating agencies; and,
• respond to inquiries and provide assistance to everyone interested in matters pertaining to state debt.

III.

STANDARDS OF CONDUCT

The members of the finance committee will adhere to standards of conduct as stipulated by the following:

• Public Disclosure Act, chapter 42.17 RCW;
• Ethics in Public Service Act, chapter 42.52 RCW; and,
• Standards of Conduct for Executive Branch Employees, Executive Order 93-02.

IV.

PROFESSIONAL SERVICES

The selection of financial and legal professionals to assist the state in carrying out financing programs shall disclose in their proposals:

• names of any persons or firms, including but not limited to, attorneys, lobbyists, and public relations firms that they engaged to promote their selection by the state;
• names of any persons or firms from whom they received or may receive, directly or indirectly, any remuneration arising out of or relating in any way to their relationship with the state, including but not limited to remuneration for promoting such persons or firms for selection by the state; and,
• the existence and nature of any agreements by and between themselves and any other professionals that relate to a particular state financing or to the state’s financing programs in general.
Appointment of Financial Advisor

The state treasurer will select a financial advisor (or advisors) to assist in the issuance and administration of all debt. Assistance to be provided by a financial advisor will include, but not be limited to:

- monitoring market opportunities;
- evaluating proposals submitted to the state treasurer and finance committee;
- analyzing the costs and risks of debt issuances;
- structuring and pricing debt issuances;
- advising on terms and conditions of credit facilities dealing with the issuance of variable rate debt;
- preparing official statements of disclosure; and,
- preparing presentations for rating agencies and investors.

The services of a financial advisor will be obtained through a competitive evaluation of proposals submitted in response to a regularly issued request for proposals. The criteria to be used in evaluating and selecting a financial advisor should include:

- experience in providing formal financial advisory services to major municipal issuers;
- experience with diverse financial structuring requirements of major municipal issuers;
- experience and reputation of assigned personnel; and,
- fees and expenses.

A financial advisor will provide the state with objective advice and analysis, maintain the confidentiality of state financial plans, and be free from any conflict of interest as defined by:

- Ethics in Public Service Act, chapter 42.52 RCW; and,
- any other appropriate federal statute or regulation governing financial advisors.

A financial advisor under contract with the state treasurer will not purchase or sell any state debt until underwriting accounts are closed or debt is freed from underwriter pricing restrictions, whichever occurs first.
**Appointment of Legal Counsel**

All debt issued by the finance committee will include a written opinion by legal counsel affirming that the state is authorized to issue the proposed debt, that the state has met all state constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt’s federal income tax status. This approving opinion and other documents relating to the issuance of debt will be prepared by nationally recognized private counsel with extensive experience in public finance and tax issues. The counsel will be appointed by the attorney general to serve as special assistant attorneys general pursuant to chapter 43.10 RCW.

The attorney general will maintain a current roster of Washington State lawyers with extensive experience in municipal finance. The appointment of special assistant attorneys general for a particular sale of debt generally will be rotated among lawyers listed on the roster maintained by the attorney general. Compensation will be based on a fixed fee schedule and will vary based on the size of the debt issuance.

For any negotiated sale of state debt in which legal counsel is required to represent an underwriter, the appointment will be made by the lead underwriter. Unless otherwise justified, the appointment will be made from among nationally recognized law firms with significant local ownership or operations in Washington State.

**Appointment of Fiscal Agent**

In accordance with chapter 43.80 RCW, the finance committee will appoint a fiscal agent (or agents) to provide for the payment of debts incurred by the state and its subdivisions. The selection of a fiscal agent will be based on a competitive evaluation of proposals submitted in response to a regularly issued request for proposals.

Selection criteria will include, but not be limited to:

- demonstrated ability to support bank operations as prescribed by appropriate federal or state bank regulators;
- demonstrated ability to provide accurate and timely securities processing;
- demonstrated ability to make timely payments to bondholders;
- demonstrated ability to respond promptly and appropriately to bondholders and issuers;
- demonstrated ability to provide services convenient to Washington bondholders; and,
- fees and expenses.
The state treasurer will submit to the finance committee a recommendation for the appointment of a fiscal agent (or agents). The recommendation will be accompanied by an evaluation of options and a justification for the recommended course of action. Appointment of the fiscal agents will be made by a resolution duly adopted by the finance committee.

The state treasurer will monitor the services rendered by the state’s fiscal agent (or agents) to ensure prompt, efficient service to bond issuers and bondholders.

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 debt will be in approximately equal dollar amounts from one year to the next;
- the payment of principal and interest on debt back 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.

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.
**Methods of Sale**

**Presumption of Competitive Sale**

Unless otherwise necessary to minimize the costs and risks of state borrowing, all fixed rate state debt will be sold by sealed competitive bid. Any competitive sale of state debt will require approval by the finance committee of two written resolutions. The first, “authorizing”, resolution will provide for the issuance and sale of the debt, set forth the terms and conditions of the sale, and direct the state treasurer to make the necessary preparations for receiving competitive bids.

State debt issued by sealed competitive bid will be sold to the bidder proposing the lowest true interest cost to the state, provided the bid conforms to the official notice of sale issued in accordance with the authorizing resolution. The second, “performance”, resolution will accept the winning bid and direct the state treasurer to take whatever actions are necessary to complete the issuance and delivery of the duly authorized debt.

**Conditions of Negotiated Sale**

When necessary to minimize the costs and risks of state borrowing, the finance committee will provide for the sale of state debt by negotiating the terms and conditions of sale, including prices, interest rates, credit facilities, underwriting or remarketing fees, and commissions. Examples of such sales include:

- variable rate demand obligations;
- an issue of debt so large that the number of potential bidders would be too limited to provide the state with truly competitive bids;
- an issue of debt requiring the ability to react quickly to sudden changes in interest rates (e.g., refunding bonds);
- an issue of debt requiring intensive marketing efforts to establish investor acceptance (e.g.: lease/purchase certificates of participation, proprietary or innovative financial products, certificates of indebtedness); and,
- an issue of debt with specialized distribution requirements (e.g., bonds sold only to Washington residents).

Any negotiated sale of state debt will require approval by the finance committee of two written resolutions, except for variable rate financings which only require an authorizing resolution. The authorizing resolution will provide for the issuance and sale of the debt and permit the state treasurer to conduct negotiations. Documentation supporting the authorizing resolution will be provided to the finance committee and will include the goals and limitations of the proposed sale, as well as an explanation of the reasons why a negotiated sale is justified. The performance
resolution will be a recommendation to approve a negotiated sale of state debt and will include the terms and conditions of the sale. Accompanying documentation will be provided by the state treasurer setting forth a justification of the recommended course of action consistent with the enabling resolution. If approved, the state treasurer will execute a purchase contract in accordance with the performance resolution.

Appointment of Underwriters

To provide for the negotiated issuance of state debt, the finance committee directs the state treasurer to appoint a pool of qualified underwriters. The appointments will be based on a competitive evaluation of objective criteria submitted in response to a regularly issued request for qualifications. Appointments to the pool will be effective for a specified period of time. Among underwriters appointed to the pool, the best qualified firms will be designated as lead underwriters.

Criteria to be used in the appointment of qualified underwriters will include:

- demonstrated ability to manage a number of firms in a complex financial transaction;
- demonstrated ability to structure an issue of debt efficiently and effectively;
- demonstrated ability to sell state debt to institutional and retail investors;
- demonstrated willingness to put capital at risk by bidding competitively or previously underwriting prior sales of Washington State debt;
- quality and applicability of financing ideas;
- experience and reputation of assigned personnel; and,
- fees and expenses.

The state treasurer will monitor the performance of members of the pool and recommend changes in the membership of the pool as appropriate. Evaluations of firms will be available for review.

Following approval of an enabling resolution, the state treasurer will appoint a lead underwriter (or remarketer(s) for variable rate obligations). Criteria to be used in the appointment will include:

- experience and qualifications necessary for the specific issuance of state debt approved by the finance committee;
- quality and applicability of the most recent financing proposals and advice submitted to the state treasurer; and,
• competitiveness of bids submitted in response to the most recent competitive sale of state debt.

Additional underwriters will be appointed from the pool of qualified underwriters as appropriate, but no underwriter will be assured participation in any specific sale. The appointment of underwriters will be based on the size of the sale and the need to achieve a broad distribution of state debt among potential investors.

If a selling group is appropriate to a negotiated sale of state debt, preference will be given to selling group members with significant ownership or operations in Washington State.

**Liquidity Facilities**

In order to provide for the negotiated issuance of variable rate debt, the finance committee directs the state treasurer to appoint a bank(s) to provide a liquidity facility through a letter or line of credit. The credit enhancement is to ensure liquidity for variable rate bonds that are tendered for purchase and are not remarketed by the remarketing agent.

Criteria to be used in the appointment of a bank(s) to provide a liquidity facility include:

- an objective evaluation of responses to a request for qualifications;
- the short- and long-term credit ratings of the bank;
- experience with providing liquidity facilities to municipal bond issuers;
- competitiveness of fees submitted, interest charged on liquidity draws, maximum legal and administrative fees;
- ability to agree to Washington State legal requirements; and,
- number and amount of liquidity facilities currently outstanding in the market.

**Pricing and Allocation of Negotiated Sales**

The negotiation of terms and conditions will include, but not be limited to, prices, interest rates, underwriting or remarketing fees and commissions. Guidelines will be based on prevailing terms and conditions in the marketplace for comparable issuers, including yields from secondary market trading of previously issued Washington State debt.

If more than one underwriter is included in a negotiated sale of state debt, the state treasurer will determine general guidelines of the allocation of fees and underwriting responsibility among the
underwriters, consistent with the objectives of the sale established by the authorizing resolution. Criteria to be used in determining the allocation of state debt will include, but not be limited to:

- demonstrated performance in the sale of previous issues of state debt;
- demonstrated commitment to the inclusion of underwriters who are women, people of color, people with disabilities, and others historically denied equal access to the financial marketplace; and,
- demonstrated commitment to the inclusion of selling group members who have significant ownership or operations in Washington State.

Following the execution of a purchase contract for fixed rate obligations, the lead underwriter will:

- provide for the fair allocation of state debt to underwriters and selling group members, consistent with the previously negotiated terms and conditions of allocation;
- comply with all Municipal Securities Rulemaking Board regulations governing order priorities and allocations; and,
- submit to the state treasurer a complete and timely account of all orders, allocations, and underwriting activities related to the sale of state debt under its management.

Refunding Savings Thresholds

In accordance with the Refunding Bond Act, chapter 39.53 RCW, the finance committee will refinance state debt to achieve true savings for the state as market opportunities arise.

Unless otherwise justified, an “advance refunding” transaction will require a present value savings of five percent of the principal amount of the refunding debt being issued.

Unless otherwise justified, a “current refunding” transaction will require graduated present value savings as follows:
## Years Between Call & Final Redemption vs. Present Value Standard

<table>
<thead>
<tr>
<th>Years Between Call &amp; Final Redemption</th>
<th>Present Value Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2 Years</td>
<td>1%</td>
</tr>
<tr>
<td>3-4</td>
<td>2%</td>
</tr>
<tr>
<td>5-6</td>
<td>3%</td>
</tr>
<tr>
<td>7-8</td>
<td>4%</td>
</tr>
<tr>
<td>9+</td>
<td>5%</td>
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