

State Finance Committee Meeting Minutes

Olympia, Washington

July 14, 2021

10:00 AM

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

Present: Mike Pellicciotti, State Treasurer, Chair
Jay Inslee, Governor
Denny Heck, Lt. Governor

Also Present Virtually: Jason Richter, Office of the State Treasurer
Scott Merriman, Office of Financial Management
Dallas Roberts, Office of the Lt. Governor
Svein Braseth, Office of the State Treasurer
Matt Schoenfeld, Office of the State Treasurer
Austin Goble, Office of the State Treasurer
Jennifer Merchant, Office of the State Treasurer
Shad Pruitt, Office of the State Treasurer
Brenda Snyder, Office of the State Treasurer
Adam Johnson, Office of the State Treasurer
Danni Colo, Office of the State Treasurer
Rusty Fallis, Office of the Attorney General
Scott Forbes, Office of the Attorney General
Bill Tonkin, Bond Counsel – Foster Garvey PC

Chair Pellicciotti called the meeting to order at 10:04 AM. Chair Pellicciotti stated for the record that all three members of the State Finance Committee were present and a quorum was established. Treasurer Pellicciotti stated that in observance of the Governor's Proclamation 20-28, as amended and extended, the meeting was being conducted virtually via Zoom video conference. Chair Pellicciotti requested approval of the revised agenda for today's meeting, sent to the State Finance Committee members on July 12, 2021. With no objection, the agenda was approved.

Item 1: Approval of the Minutes

Chair Pellicciotti introduced the draft minutes from the December 22, 2020 State Finance Committee meeting for approval. No corrections or amendments were requested. The minutes were approved as presented.

Item 2: Resolution No. 1247

Chair Pellicciotti introduced Jason Richter, State Finance Committee Secretary and Deputy Treasurer of Debt Management for the Office of the State Treasurer, to provide the resolution summary.

Proposed Resolution No. 1247 authorizes the issuance of State of Washington General Obligation Bonds in a principal amount not to exceed \$4,394,000,000 for the purpose of providing funds to pay and reimburse state expenditures for various state projects identified in the Bond Act; providing for certain terms and covenants of the bonds; providing for certain other provisions safeguarding the payment of the principal thereof and interest thereon; and authorizing and directing the sale of said bonds in one or more sales.

The principal amount was calculated based on the conference budget debt model that is a product of work by House and Senate staff. Resolution No. 1247 also authorizes the Deputy State Treasurer to establish the method of sale of the bonds and the State Treasurer to adopt bond sale resolutions. Proceeds of the bonds will be used to fund expected capital budget cash flow needs for the 2021-23 biennium, based upon preliminary issuance projections from the 2021 Legislative Session. Issuance is currently planned on a semi-annual schedule.

Chair Pellicciotti asked if there were any questions regarding Resolution No. 1247.

Hearing no questions, the Chair asked for a motion to approve Resolution No. 1247.

Governor Inslee made a motion to adopt Resolution No. 1247; seconded by Treasurer Pellicciotti. Resolution No. 1247 was approved unanimously.

Item 3: Resolution No. 1248

Chair Pellicciotti asked Mr. Richter to provide the resolution summary.

Proposed Resolution No. 1248 authorizes the issuance of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, in a principal amount not to exceed \$263,339,000 for the purpose of providing funds to pay and reimburse state expenditures for various transportation projects identified in the Bond Act; providing for certain terms and covenants of the bonds; providing for certain other provisions safeguarding the payment of the principal thereof and interest thereon; and authorizing and directing the sale of said bonds in one or more sales. Resolution No. 1248 also authorizes the Deputy State Treasurer to establish the method of sale of the bonds and the State Treasurer to adopt bond sale resolutions.

This resolution authorizes a relatively modest amount of bonds to be issued in comparison to the previous resolution, and is linked to specific appropriations in the 2021-23 biennium transportation budget. The issuance authorized by Resolution No. 1248 is in addition to spending out of the Connecting Washington Bond Authorization from which, in the upcoming biennium, we expect to issue slightly over two billion dollars. In addition, Resolution No. 1248 is different from the Connecting Washington Bond Authorization in that the Connecting Washington Bonds were authorized in full in 2019.

Chair Pellicciotti asked if there were any questions.

Hearing no questions, the Chair asked for a motion to approve Resolution No. 1248.

Governor Inslee made a motion to adopt Resolution No. 1248; seconded by Treasurer Pellicciotti. Resolution No. 1248 was approved unanimously.

Item 4: Resolution No. 1249

Chair Pellicciotti asked Mr. Richter to provide the resolution summary.

Proposed Resolution No. 1249 authorizes the issuance of State of Washington Various Purpose General Obligation Refunding Bonds, in a principal amount not to exceed \$4,154,745,000, and State of Washington Motor Vehicle Fuel Tax General Obligation Refunding Bonds, in a principal amount not to exceed \$2,195,055,000, for the purpose of refunding certain outstanding Various Purpose General Obligation Bonds, Various Purpose General Obligation Refunding Bonds, Motor Vehicle Fuel Tax General Obligation Bonds, and Motor Vehicle Fuel Tax General Obligation Refunding Bonds of the state; making certain other provisions with respect to the payment of the principal of and interest on the bonds; approving the form of a refunding escrow agreement with respect to the bonds to be refunded; and providing for other matters properly related thereto. Resolution No. 1249 also authorizes the Deputy State Treasurer to establish the method of sale of bonds and the State Treasurer to adopt bond sale resolutions.

Proposed Resolution No. 1249 is an omnibus refunding resolution that updates the authority to refund all outstanding refundable bonds. As of July 14, 2021, there are a total of \$14,032,625,000 of callable bonds outstanding, reflecting all callable Various Purpose General Obligation Bonds, Various Purpose General Obligation Refunding Bonds, Motor Vehicle Fuel Tax General Obligation Bonds, and Motor Vehicle Fuel Tax General Obligation Refunding Bonds. Refundings are executed in accordance with the Committee's Debt Issuance Policy which establishes refunding savings thresholds. With several years of very low interest rates, multiple refundings have been executed over the last few years, which have helped reduce the state's borrowing costs. The resolution provides the maximum flexibility to manage outstanding state debt and to execute refundings as call provisions and market conditions permit to save the state what is expected to be a considerable amount of money.

Chair Pellicciotti asked if there were any questions.

Lieutenant Governor Heck asked if there is any way to estimate the amount of potential savings over the next 4 years by refinancing existing debt.

Mr. Richter did not have those calculations in front of him and would send a more detailed response in the next few days.

Lieutenant Governor clarified his request to include the lifecycle savings and reduced biennial debt service.

Chair Pellicciotti added information regarding the last refunding in April, saving the state over \$100 million.

Hearing no further questions, the Chair asked for a motion to approve Resolution No. 1249.

Governor Inslee made a motion to adopt Resolution No. 1249; seconded by Treasurer Pellicciotti. Resolution No. 1249 was approved unanimously.

Item 5: Resolution No. 1250

Chair Pellicciotti asked Mr. Richter to provide the resolution summary.

Proposed Resolution No. 1250 approves and establishes the maximum aggregate principal amount of financing contracts and certificates of participation (COP) of the state to be outstanding in the 2021-23 Biennium at \$1,639,329,000. This total includes (as of July 14, 2021):

- \$894,930,000 in currently outstanding financing contracts (certificates of participation);
- \$239,315,000 in currently outstanding 63-20 financing contracts; and
- an estimated \$505,084,000 in new financing contracts to be entered into and certificates of participation to be issued during the 2021-23 Biennium

Of the financing contracts expected to be entered into over the 2021-23 Biennium, \$255,084,000 represent real estate financing contracts authorized by the Legislature for state agencies, and \$250,000,000 represents the estimated state and local agency equipment and local agency real estate financing contracts for the biennium. Resolution No. 1250 also approves any refinancing contract (including issuance of refunding certificates of participation) to be entered into for the purpose of achieving interest cost savings in accordance with the Committee's Debt Issuance Policy savings threshold.

Mr. Richter provided additional information regarding the LOCAL equipment and real estate projects. The state's LOCAL Program is a companion of the state's COP Program allowing local government entities to partner with the state to borrow for essential government needs, such as: school busses, fire trucks, police cars, fire stations, city halls, and other equipment for our local government partners across the State.

Chair Pellicciotti asked if there were any questions.

Lieutenant Governor Heck asked for a brief summary of a 63-20 financing contract.

Mr. Richter explained that a 63-20 financing contract is an IRS tax code that allows a non-profit partner to issue lease revenue bonds to construct a facility on behalf of the state and in turn the state is obligated to make annual lease payments in connection with the financing. It is a structure and a credit similar to our Certificates of Participation (COP) Program. The arrangement could also be referred to it as a P3 light, where the state coordinates with a non-profit entity who is solely formed to construct and manage the facility, and then by doing so, the state makes semi-annual lease payments that cover the debt service costs and the ongoing maintenance and management of the facility. We will likely see a 63-20 financing proposal come before this committee on behalf of DSHS in connection with the Fircrest nursing facility that they are in the process of developing. The Jefferson Building in Olympia and the Edna Goodrich building in Tumwater are the only two state projects that have been constructed through the 63-20 financing process.

Lieutenant Governor Heck asked if the bulk of the \$239,315,000 is for the Jefferson Building

Mr. Richter confirmed that yes, the majority of the balance is related to the Jefferson Building.

Governor Inslee asked about what systems do we have in place to provide assurance against any conflicts of interest for counsel and advisors to the State Finance Committee in relation to 63-20 financing recommendations.

William Tonkin, Foster Garvey and bond counsel to the state and certificate counsel of certificates of participation, added that the state has a contract in place through the Attorney General's Office, and it

has several provisions against conflict of interest that we might have in representing another party that may directly or indirectly adverse to the State Treasurer or the State Finance Committee.

Governor Inslee clarified that he is not aware of any specific concern, rather wanted to provide an opportunity to clarify the systems in place to prevent such.

Mr. Tonkin further explained that there are more entities involved with a 63-20 financing. There is a private nonprofit corporation which is involved as the issuer and that leases the financed property back to the state of Washington. The nonprofit corporation typically contracts with an architectural design firm that, with the construction firm, builds the project technically for the nonprofit corporation. The state is paying for everything through the 63-20 financing contract. There are more outside parties involved than there would be for a typical competitive bond offering where it is put out for public bid and the state is the only active party.

Hearing no further questions, the Chair asked for a motion to approve Resolution No. 1250.

Governor Inslee made a motion to adopt Resolution No. 1250; seconded by Treasurer Pellicciotti. Resolution No. 1250 was approved unanimously.

Item 6: Informational Item

Chair Pellicciotti asked Mr. Richter to provide the informational item summary.

Since the last State Finance Committee meeting on December 22, 2020, the state has sold six series of bonds and two series of Certificates of Participation (COPs). The state has done its best to capitalize on historically low interest rates, as summarized in the tables provided on page 139 of the briefing booklet. For the February bond sale, the average borrowing cost for our standard bond structure, which is 25-year level debt service structure, was in the range of 2.30% – 2.40%. For the April bond sale, interest rates bumped up ever so slightly to 2.50%, which remains close to record low interest rates for the state, allowing the state to borrow at a cost that is less than inflation. In February and June the state issued Certificates of Participation, which have a shorter life than the state's standard bond financing, reflecting the generally shorter average life of the asset being purchased. Those two financings came in with average interest costs of less than 1% and 1.9% respectively.

Future New Money Issuances. The state plans to sell bonds on July 29, 2021, and anticipates additional issuances in the fall of 2021 and in the beginning of 2022 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 table on page 140 of the briefing booklet shows the outstanding bonds that are callable over the next three years.

Market Update. The current Bond Buyer 20-Bond Index (BBI) now stands at 2.09% (as of June 17, 2021), which is 2.28% lower than the recent high of 4.37% on October 11, 2018. Chart 1 on page 140 of the briefing booklet shows the BBI over the last three years. The state has a significant amount of projected future borrowing, and the interest rates are projected to be very low. Chart 2 on page 141 shows the BBI since 1900. This is 121 years of data. Our current rate is 2.09% which is less than half of the 121 year average of 4.46%. The only time the rates have been lower was in the 1940s and 1950s. In looking at the

upside/downside risks, there is not a lot of upside anticipated for rates to go lower, and the downside risk is we could experience inflation causing the interest rates to go higher.

Lieutenant Governor Heck asked if the Federal Reserve has indicated they intend to hold steady the interest rate until 2023 and how does that forecast of holding steady with only minor tweaking inform or influence what we have in the pipeline for issuance, if at all.

Mr. Richter explained that there is an accumulative impact from the benefit of lower rates. When we prepare our long-term financing plans, we generally prepare them using assumptions that are more conservative than the unusually low interest rates we see today. So, the ability to issue bonds today at lower interest rates than originally contemplated by our bond model results in either lower debt service costs, or the creation of additional capacity. Alternatively, our bond model and our future issuance plans have room to accommodate higher interest rates, and we true up the model on an annual and semi-annual basis. We do not anticipate that slight to moderate increases in the interest rates will have near term impacts. In the long term, we will continue to monitor and adjust as needed.

Lieutenant Governor Heck summarized by saying, stay the course, and stay flexible.

Chair Pellicciotti concurred and added that the flexibility of this committee to conduct refinancings in between full meetings of the State Finance Committee has allowed the state to take advantage of the record low interest rates and realize savings.

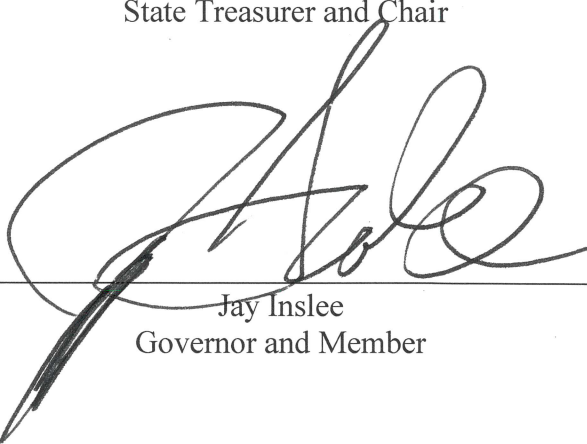
Chair Pellicciotti asked if there were any questions. Hearing no further questions, the Chair opened the meeting up for public comment. There was no public comment provided.

Having no further business before the State Finance Committee, Chair Pellicciotti adjourned the meeting at 10:38 AM.

STATE FINANCE COMMITTEE
STATE OF WASHINGTON

By 

Mike Pellicciotti
State Treasurer and Chair

By 

Jay Inslee
Governor and Member

By 

Denny Heck
Lieutenant Governor and Member

ATTEST:



Jason P. Richter,
Deputy State Treasurer and Secretary