

STATE FINANCE COMMITTEE

June 6, 2011
Office of the State Treasurer
Legislative Building, Room 230
Olympia, WA
11:00 AM

AGENDA

1. Action: Approval of Minutes of the January 25, 2011 State Finance Committee meeting
2. Action: Resolution 1108 amends Resolution No. 1084 to increase the maximum principal amount of Various Purpose General Obligation Bonds of the state authorized thereunder
3. Action: Resolution 1109 amends Resolution No. 1085 to increase the maximum principal amount of Motor Vehicle Fuel Tax General Bonds of the state authorized thereunder
4. Motion: The Committee approves and directs the State Treasurer to refinance up to \$18.5 million of financing contracts (including issuance of refunding certificates of participation therein) that meet the savings threshold of the Committee's Debt Issuance Policy

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STATE FINANCE COMMITTEE MEETING

JUNE 6, 2011

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Tab 1

State Finance Committee Meeting Minutes
Olympia, Washington
January 25, 2011
11:00 am

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

Present: James 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
Doug Montague, Montague DeRose and Assoc.
Johnna Skyles Craig, Associate Attorney General

Chair McIntire called the meeting to order at 11:00 am on January 25, 2011.

Item 1: Approval of the Minutes

Treasurer McIntire introduced the motion to approve the minutes from the July 28, 2010 State Finance Committee Meeting. The motion was moved by the Governor, seconded by the Lt. Governor and approved unanimously.

Item 2: Resolution 1107 appointing Bank of New York Mellon as fiscal agent

Treasurer McIntire motioned to adopt Resolution 1107 which appoints the Bank of New York Mellon as a fiscal agent for both state and local debt service for another four years. The motion was moved by Governor, seconded by the Lt. Governor and adopted unanimously.

Item 3: Municipal Market Update

Treasurer McIntire asked Ms. Ellen Evans, Deputy Treasurer for Debt Management, to provide a brief summary of recent bond sales.

Ms. Evans expressed that although the sale on January 19, 2011 was very successful, rates had shot up significantly since the autumn. Ms. Evans compared previous results to the most current sale and explained reasons for such changes in the market. She emphasized that our rates increased as the entire market has moved up. There had been no change in the state's credit rating and no change in the investor appetite for Washington bonds.

Lt. Governor Owen asked about the May 25, 2010 sale of Build America Bonds (BAB) and how the results would compare to a similar sale without the federal program.

Ms. Evans stated that although we don't have a direct comparison in order to value the federal subsidy, in October 2009 Washington had a tax exempt sale followed by a BABs sale the next

day. These two results provide an indication as to how the BABs program benefited Washington State.

Treasurer McIntire referenced marketing efforts directly with institutional investors which benefitted the October 2009 sales.

Ms. Evans turned it over to Mr. Doug Montague, Financial Advisor from Montague DeRose to speak about developments in the municipal market nationwide.

Mr. Montague summarized the recent market activity in historical context. He referenced the BABs program and how it had influenced municipal borrowing over the previous two years.

Mr. Montague commented on recent references in the media concerning municipal markets including concerns about local government solvency as well as suggestions that states be allowed to file for bankruptcy.

Governor Gregoire asked about the perceived benefits for states in the bankruptcy bill.

Mr. Montague replied that some see the bankruptcy bill as an opportunity for states to open labor negotiations and pension reform.

Treasurer McIntire referenced several articles in financial publications that raise concerns about the bankruptcy legislation. Treasurer McIntire and Governor Gregoire discussed possible action on their part to engage with Congress on the issue of state bankruptcy.

Treasurer McIntire explained Washington State's three credit ratings including areas where the rating agencies were impressed and where the state could improve. Governor Gregoire asked about states with higher credit ratings. Treasurer McIntire and Ms. Evans referenced several states that have the highest credit rating. Treasurer McIntire stated that Washington's cash position was strong. He mentioned that the cash management policies implemented in the previous year had resolved the state's cash issues. Treasurer McIntire outlined future bond sales expected in the coming biennium including General Obligation Bonds, Motor Vehicle Fuel Tax Bonds, and financing options for the 520 bridge.

Lt. Governor Owen asked how many dollars worth of bonds on average get paid off each year? Mr. Svein Braseth with the Office of the State Treasurer estimated that \$600 million to \$700 million is paid off each year. Treasurer McIntire stated that in the last few years Washington State's outstanding debt has been increasing.

Item 4: Debt Affordability Study

Treasurer McIntire provided a history and analysis of the Debt Affordability Study. The purpose of the study was to look at all the debt the state is responsible for. Treasurer McIntire stated that Washington is a relatively high debt state, ranked in the top ten for debt by most measures.

Treasurer McIntire summarized the findings of the study and suggested the State Finance Committee engage in future discussions about the long-term management of state debt.

Governor Gregoire raised concerns about changes to Washington's debt management and its impact on the economic recovery. Lt. Governor Owen stated that he also had concerns about the potential impact for changes to debt management to develop apprehension and fear in the bond market. Treasurer McIntire agreed that future policy changes should enhance Washington's financial standing rather than restrict it.

Governor Gregoire exited the meeting.

Item 5: Debt Issuance Policies

Treasurer McIntire introduced the Amendment to the Debt Management Policy, Conditions of Sale. Treasurer McIntire asked Ms. Evans to describe the policy.

Ms. Evans explained that the intent is to reinforce the expectation that when the state issues revenue bonds it is structured using the same principles that apply to our general obligation bonds.

Lt. Governor Owen moved to adopt the proposed amendment, Treasurer McIntire seconded, and the amendment was adopted unanimously.

Treasurer McIntire introduced the guidelines for the use of financing contracts for Certificate of Participation (COP) and asked Ms. Evans to describe these guidelines. Ms. Evans explained that the policy organizes principles that have been utilized by the COP program into one set of principles.

Lt. Governor Owen asked for clarification as to what new procedures a developer would be required to comply with. Ms. Evans stated that the policy would not make it more difficult as the guidelines would not be changing but rather would be clarified.

Ms. Evans introduced the Guidelines for Use of 63-20 Financing Contracts. These guidelines clarify the state's roll in issuing 63-20 financing so all parties understand what they are agreeing to.

Lt. Governor Owen expressed reservations about it, but he will go ahead and move them both.

Lt. Governor Owen moved to adopt both the Guidelines for Use of Financing Contracts as well as the Guidelines for Use of 63-20 Financing Contracts, Treasurer McIntire seconded, and the guidelines were adopted unanimously.

Treasurer McIntire adjourned the meeting at 12:02 pm.

Tab 2



State of Washington
STATE FINANCE COMMITTEE

JAMES L. McINTIRE, *Chairman*
State Treasurer

CHRISTINE O. GREGOIRE
Governor

BRAD OWEN
Lieutenant Governor

June 6, 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. 1108** amending Resolution No. 1084's authorized amount

Proposed Resolution No. 1108 amends Resolution No. 1084. The purpose and the background of the resolution are summarized below:

- **Resolution Purpose.** Proposed Resolution No. 1108 amends Resolution No. 1084 to increase the maximum principal amount of Various Purpose General Obligation Bonds of the state authorized thereunder.
- **Background.** On June 9, 2009, the State Finance Committee adopted Resolution No. 1084 authorizing the issuance of State of Washington Various Purpose General Obligation Bonds, in the maximum principal amount of \$2,408,510,000 pursuant to various bond acts for the purpose of providing funds to pay and reimburse state expenditures for various state projects.

On July 28, 2010, the SFC adopted Resolution No. 1102, amending Resolution No. 1084 to authorize the State Treasurer, on behalf of the SFC, to adopt Bond Sale Resolutions to approve the sale of any Series of Bonds within the aggregate total principal amount of Bonds authorized by the SFC to be issued under Resolution No. 1084.

As of June 1, 2011, \$1,999,460,000 has been issued under Resolution No. 1084. Proposed Resolution No. 1108 amends the authorized amount in Resolution No. 1084 by \$47,165,000 to provide for the sale expected for the July 2011, as shown below:

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Resolution 1084, 6/9/2009:	\$ 2,408,510,000
Issued to date (5/31/2011):	<u>1,999,460,000</u>
Authorized Unissued:	\$ 409,050,000
July 2011 Sale Estimated:	<u>456,215,000</u>
Proposed Resolution 1108:	\$ 47,165,000
Authorized amount after proposed Resolution 1108:	<u><u>\$ 2,455,675,000</u></u>

- **Counsel and Advisors.**

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

Financial Advisor: Jenny Poreé, Montague DeRose and Associates LLC

Tab 3



State of Washington
STATE FINANCE COMMITTEE

JAMES L. McINTIRE, *Chairman*
State Treasurer

CHRISTINE O. GREGOIRE
Governor

BRAD OWEN
Lieutenant Governor

June 6, 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. 1109** amending Resolution No. 1085's authorized amount

Proposed Resolution No. 1109 amends Resolution No. 1085. The purpose and the background of the resolution are summarized below:

- **Resolution Purpose.** Proposed Resolution No. 1109 amends Resolution No. 1085 to increase the maximum principal amount of Motor Vehicle Fuel Tax General Bonds of the state authorized thereunder and to authorize bonds in \$1,000 denominations or any integral multiple thereof.
- **Background.** On June 9, 2009, the State Finance Committee adopted Resolution No. 1085 authorizing the issuance of State of Washington Motor Vehicle Fuel Tax General Obligation Bonds, in the maximum principal amount of \$2,294,298,000 pursuant to various bond acts for the purpose of providing funds to pay and reimburse state expenditures for various transportation projects.

On July 28, 2010, the SFC adopted Resolution No. 1102, amending Resolution No. 1085 to authorize the State Treasurer, on behalf of the SFC, to adopt Bond Sale Resolutions to approve the sale of any Series of Bonds within the aggregate total principal amount of Bonds authorized by the SFC to be issued under Resolution No. 1085.

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As of June 1, 2011, \$2,060,820,000 has been issued under Resolution No. 1085. Proposed Resolution No. 1109 amends the authorized amount in Resolution No. 1085 by \$113,597,000 to provide for the sale expected for the July 2011, as shown below:

Resolution 1085, 6/9/2009:	\$ 2,294,298,000
Issued to date (5/31/2011):	<u>2,060,820,000</u>
Authorized Unissued:	\$ 233,478,000
July 2011 Sale Estimated:	<u>347,075,000</u>
Proposed Resolution 1109:	\$ 113,597,000
Authorized amount after proposed Resolution 1109:	<u>\$ 2,407,895,000</u>

The sale expected for July 2011 may include a Series of Bonds to be sold as retail bonds in \$1,000 or \$5,000 denominations.

- **Counsel and Advisors.**

Bond Counsel: William Tonkin, Foster Pepper PLLC
Hugh Spitzer, Foster Pepper PLLC
Financial Advisor: Jenny Poreé, Montague DeRose and Associates LLC

Tab 4



State of Washington
STATE FINANCE COMMITTEE

JAMES L. McINTIRE, *Chairman*
State Treasurer

CHRISTINE O. GREGOIRE
Governor

BRAD OWEN
Lieutenant Governor

June 6, 2011

MEMORANDUM

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

FROM: Ellen Evans
Deputy Treasurer - Debt Management

RE: Refinancing Existing Financing Leases

A. INTRODUCTION

The Office of the State Treasurer proposes to refinance a selected group of financing leases by issuing refunding certificates of participation (COPs) in July or August 2011. In the current market, approximately \$18.5 million outstanding COPs meet or exceed the saving thresholds established in the Debt Issuance Policy of the State Finance Committee. At current rates, estimated savings would total approximately \$1,709,000 on a present value basis.

The State Finance Committee is charged with oversight of financing contracts entered into by the state (RCW 39.94.040). The Committee is asked to approve a motion to refinance up to \$18.5 million financing contracts.

A full discussion of the approval of financing contracts for the full 2011-13 Biennium is planned for the next Committee meeting tentatively scheduled for August. At this meeting, the Office of the State Treasurer will report on prior usage of financing contracts and propose a complete financing plan for the 2011-13 Biennium.

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<u>Issuer Name</u>	<u>Call Date</u>	<u>Par to Refund</u>	<u>Final Maturity</u>	<u>Est. Annual Savings</u>	<u>Est. NPV %</u>
Edmonds & Shoreline CC's	7/1/2011	745,000	7/1/2015	10,036	6.84%
Dept. of Corrections, 2001	7/1/2011	1,860,000	7/1/2021	21,428	11.48%
UW, Husky Den 2001B	7/1/2011	3,985,000	7/1/2022	47,405	12.27%
UW, Sandpoint 2B, 2001D	7/1/2011	2,330,000	7/1/2022	24,696	11.04%
Dept of Veterans Affairs, 2001	7/1/2011	1,680,000	7/1/2016	23,206	8.25%
Sub-Total		\$10,600,000		\$126,771	
UW Sandpoint Bldg 29, 2002A	1/1/2012	3,185,000	7/1/2022	29,068	9.47%
UW Sandpoint Bldg 5, 2002E	1/1/2012	1,870,000	1/1/2023	15,318	7.71%
GA, Isabella Bush Center 2002C	7/1/2012	2,690,000	7/1/2023	15,565	6.26%
Sub-Total		\$ 7,745,000		\$59,951	
TOTAL		\$18,345,000			9.59%

B. PROPOSED ACTION ITEM

That the Committee pursuant to RCW 39.94.040 approve and direct the State Treasurer to refinance up to \$18.5 million of financing contracts (including issuance of refunding certificates of participation therein) that meet the savings threshold of the Committee's Debt Issuance Policy. This approval constitutes a portion of the finance plan or program for the issuance of certificates of participation during the 2011-2013 biennium.