



State of Washington
STATE FINANCE COMMITTEE

MIKE PELLICCIOTTI, Chair
State Treasurer
JAY R. INSLEE
Governor
DENNY HECK
Lieutenant Governor

- AGENDA -

STATE FINANCE COMMITTEE

February 20, 2024, at 1:00 P.M.

Via Zoom

With public participation via Zoom, telephonically,
and in-person at the Office of the State Treasurer,
Legislative Building, Second Floor, Room 230, Olympia, Washington

STATE FINANCE COMMITTEE

Call to Order.

1. Approval of minutes of the November 14, 2023, State Finance Committee meeting.
2. Informational Item: Underwriting Pool Update, Request for Qualifications for Underwriter Services.
3. Informational Item: Refinancing Update, Build America Bonds ("BABs").
4. Informational Item: 63-20 Financing Update, Fircrest Nursing Facility.
5. Informational Item: HB 1777 Implementation Update; "Energy as a Service" Public Private Partnership ("P3") program.
6. Informational Item: Bond Sales and Market Update.
7. Public Comments.

Adjourn.

Public Zoom Access Information:

To join virtually, please select the following:

<https://us02web.zoom.us/j/88180418902?pwd=NkxGVDFRbUhOQXdvZDk0Y05FbVFGdz09>

Passcode: 448041

Public Dial-in Access Information:

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Dial-in: (253) 215-8782 or 877 853 5257 (Toll Free)

Webinar ID: 881 8041 8902

- BRIEFING BOOK -

State Finance Committee

February 20, 2024, Meeting

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- SECTION 1 -

State Finance Committee

February 20, 2024, Meeting



State of Washington
STATE FINANCE COMMITTEE

MIKE PELLICCIOTTI, Chair
State Treasurer
JAY R. INSLEE
Governor
DENNY HECK
Lieutenant Governor

STATE FINANCE COMMITTEE MINUTES

November 14, 2023, at 1:00 PM

Via Zoom

**With public participation via Zoom, telephonically,
and in-person at the Office of the State Treasurer,
Legislative Building, Second Floor, Room 230, Olympia, WA**

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

Present: State Treasurer Mike Pellicciotti, Chair
Governor Jay Inslee, Member
Lieutenant Governor Denny Heck, Member

Also Present Virtually: Jason Richter, Office of the State Treasurer, Secretary
Nona Snell, Office of Financial Management
Dallas Roberts, Office of the Lieutenant Governor
Sharon James, Office of the Attorney General
Scott Forbes, Office of the Attorney General
Tammie Nuber, Office of the State Treasurer
Anna Borris, Office of the State Treasurer
Svein Braseth, Office of the State Treasurer
Austin Goble, Office of the State Treasurer
Aaron Sherman, Office of the State Treasurer
Danni Colo, Office of the State Treasurer
Megan Farrell, Office of the State Treasurer

Chair Pellicciotti called the meeting to order at 1:00 PM. Chair Pellicciotti stated for the record that all three members of the State Finance Committee were present, and a quorum was established. Chair Pellicciotti stated this meeting was being streamed by TVW.

Item 1: Approval of Minutes

Chair Pellicciotti introduced the draft minutes from the June 8, 2023, State Finance Committee meeting for approval. No corrections or amendments were requested. Motion – Lieutenant Governor Heck; Second – Governor Inslee; the minutes were approved unanimously.

Item 2: Informational Item – Bond Sales and Market Update

Chair Pellicciotti asked Secretary Richter to provide an update on bond and certificate of participation sales since the last State Finance Committee meeting.

Sales Update

Since the last Bond Sales and Market Update provided to the State Finance Committee on June 8, 2023, the state sold five series of bonds and one series of certificates of participation (COPs), totaling over \$1.6 billion.

Refunding Savings

Of the five series of bonds sold since the last meeting, two series were refundings, which are bonds issued to refinance existing debt. The November 7, 2023, refunding sales resulted in around \$59.3 million in total debt services savings, or around \$47.4 million on a present value basis.

Future New Money Issuances

The state plans to sell new money bonds in January or February 2024 and anticipates an additional new money issuance in the summer of 2024 to finance Capital Budget and Transportation Budget projects. The size and timing of these issuances will be primarily dependent upon the state's capital budget and transportation budget cash-flow needs.

Future Refinancings

In addition to new money financings, the Office of the State Treasurer actively monitors the state's debt portfolio for refinancing opportunities.

Market Update

The Bond Buyer 20-Bond Index (BBI) was reported at 4.17% (as of November 2, 2023), which is 0.50% higher than it was at the time of the last SFC meeting (3.67% as of June 8, 2023). In October, the BBI rose to its highest point over the last three years (4.19% as of October 19, 2023). Over the same period, the lowest rate was 2.03% in July 2021.

Lieutenant Governor Heck asked for a quick overview of the CPI data that was released today. Secretary Richter mentioned that the data indicated reduced inflation, which in turn has reduced expectations for additional interest rate increases by the Fed. Chair Pellicciotti commented that the CPI data released today probably surprised people in its decrease and in doing so, makes it less likely that we will see another rate increase.

Chair Pellicciotti thanked the Bond Team and the Committee for their good work over the past three years which, through refinancings of outstanding bonds, has produced \$532.2 million dollars in net present value savings for the state.

Item 7: Public Comment

Chair Pellicciotti opened the meeting up for public comment.

Rob Shelley of Piper Sandler congratulated the state on the results of its recent refundings and for being fortuitous with market timing.

Having no further business before the State Finance Committee, Chair Pellicciotti adjourned the meeting at 1:12 PM.

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,
State Finance Committee Secretary

- SECTION 2 -

State Finance Committee

February 20, 2024, Meeting



State of Washington
STATE FINANCE COMMITTEE

MIKE PELLICCIOTTI, Chair
State Treasurer
JAY R. INSLEE
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Lieutenant Governor

February 20, 2024

MEMORANDUM

TO: The Honorable Mike Pellicciotti
The Honorable Jay R. Inslee
The Honorable Denny Heck

FROM: Jason P. Richter, Deputy State Treasurer and Secretary, State Finance Committee

RE: **Underwriter RFQ/RFP**

Background

The SFC Debt Issuance Policy directs OST to maintain a pool of pre-selected underwriters (underwriter pool) that is to be periodically refreshed via RFQ and competitive evaluation by OST. The firms in the underwriter pool serve as candidates to participate in underwriting syndicates for the negotiated issuance of various types of bond transactions, on an as needed basis.

- On February 16, 2024, OST finalized the RFQ process to update the state's underwriter pool, composed of twelve firms, with an effective date of March 1, 2024 – June 30, 2028.
- Firms selected for the underwriter pool will be invited to submit RFPs for specific negotiated bond sales, on an as needed basis, to provide underwriting services.
- Two examples of opportunities for members of the state's underwriter pool are:
 - The upcoming BABs refunding, for which an RFP was issued concurrently with the RFQ; and,
 - The 63-20 financing for the Fircrest Nursing Facility in Shoreline.

Review and Selection Process

- January 24, 2024 – OST posted the RFQ/RFP
- February 7, 2024 – Deadline for application, received 21 submissions
- February 16, 2024 – Announcement of RFQ underwriter pool participants
- February 21, 2024 – Expected announcement of RFP apparent successful bidders

- Selection criteria for inclusion in the State's underwriter pool, in connection with the RFQ included:
 - a) Commitment to the municipal bond market
 - b) Relevant quantitative and analytical capabilities
 - c) Relevant sales and marketing capabilities
 - d) Ability to manage a number of firms in a complex financial transaction
 - e) Experience and reputation of assigned personnel
 - f) Willingness to put capital at risk by competitively bidding or previously underwriting prior sales of Washington State debt and other financial obligations
 - g) Ability to sell Washington State debt to institutional and retail investors
 - h) Quality and applicability of financing ideas
- The following weighting will be used to score responses to the state's RFQ.
 - Firm qualifications, sales and marketing capabilities 25%
 - Team qualifications 25%
 - Washington State experience 30%
 - Financing strategies 20%

Firms Selected for Underwriter Pool:

Academy Securities, Inc.
Bancroft Capital. LLC
Barclays Capital Inc.
BofA Securities, Inc.
Hilltop Securities Inc.
Jefferies LLC

J.P. Morgan Securities LLC
Loop Capital Markets LLC
Morgan Stanley & Co. LLC
Samuel A. Ramirez & Co., Inc.
Siebert Williams Shank & Co., LLC
Wells Fargo Bank, N.A.

- SECTION 3 -

State Finance Committee

February 20, 2024, Meeting



State of Washington
STATE FINANCE COMMITTEE

MIKE PELLICCIOTTI, Chair
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February 20, 2024

MEMORANDUM

TO: The Honorable Mike Pellicciotti
The Honorable Jay R. Inslee
The Honorable Denny Heck

FROM: Jason P. Richter, Deputy State Treasurer and Secretary, State Finance Committee

RE: **Refinancing Update, Build America Bonds ("BABs")**

Background

In 2009, the U.S. Congress passed the American Recovery of and Reinvestment Act (ARRA), which included a provision for Build America Bonds (BABs), a form of subsidized taxable municipal bonds. Washington issued two series of BABs to take advantage of the direct federal subsidy equal to 35% of the interest due on the bonds. In total, the state issued \$1.659 billion of taxable Motor Vehicle Fuel Tax General Obligation (MVFT GO) BABs, of which, \$1.223 billion remain outstanding.

Series	Sale Date	Final Maturity	Original Par	Current Par Outstanding	Total Interest	Total Expected BABs Subsidy
MVFT GO Bonds, Series 2010D	10/15/2009	8/1/2039	\$503,365,000	\$428,165,000	\$578,975,528	\$202,641,435
MVFT GO Bonds, Series 2010F	5/25/2010	8/1/2040	1,156,045,000	794,380,000	1,058,624,976	370,518,742
			\$1,659,410,000	\$1,222,545,000	\$1,637,600,504	\$573,160,176

Federal Sequestration and Risk of Full Subsidy Loss

Starting in 2013, the 35% subsidy was reduced due to federal sequestration and has continued to be reduced every year since by various rates. The sequestration rate is scheduled to be 5.7% through 2031. To date, sequestration has cost the state \$18,745,537. Assuming the 5.7% reduction through the final maturity of the bonds, sequestration will cost the state an additional \$11,657,211.

Series	Sequestration Reduction to Date	Remaining Sequestration Reduction @5.7%	Total Anticipated Sequestration Reduction	Total Remaining Interest Payments, Net Sequestration ¹
2010D	\$6,512,055	\$4,089,310	\$10,601,366	\$67,652,973
2010F	12,233,481	7,567,901	19,801,382	125,202,290
	\$18,745,537	\$11,657,211	\$30,402,747	\$192,855,263

¹ As of February 20, 2024. Assumes all future interest payment subsidies are sequestered by 5.7% through final maturity.

In addition to sequestration, the entire BABs program is at risk of being eliminated. In 2022, the federal government was required to pass a continuing resolution to temporarily fund the program through March of 2024. In the event that the federal government fails to pass a budget, or a budget advances that eliminates the BABs subsidy, the state projects an estimated loss of \$192,855,263 through the 2040 final maturity of the bonds.

As a result of reduced subsidy as well as the risk of the full elimination of the BABs program, the Treasurer's office is analyzing a potential refunding of the state's BABs.

Refunding Opportunity

Preliminary analyses indicate that the state may be able to exercise an extraordinary redemption provision to refund the remaining BABs, achieving refunding results that are break-even to slightly positive. Considering the continued risk of sequestration and the ongoing risk of the subsidy being eliminated, refunding the two series of BABs will remove up to \$192 million that is at risk to further reduced or eliminated subsidy payments.

Resolution No. 1273, adopted by the Committee on June 8, 2023, authorizes the issuance of up to \$2,947,310,000 of MVFT/VRF GO Refunding Bonds, which included Series 2010D and Series 2010F along with all callable MVFT GO Bonds and MVFT GO Refunding Bonds over four fiscal years (through the end of FY 2027). Resolution No. 1273 also authorizes the Deputy State Treasurer to establish the method of sale of the bonds and the State Treasurer to adopt bond sale resolutions.

Next Steps

The Treasurer's office will continue monitoring projected refunding savings. The Treasurer's office is finalizing a Request for Proposals to select an underwriting syndicate for a potential negotiated sale. With the support of the state's municipal advisors, bond counsel, and the underwriting syndicate, the Treasurer's office may execute the sale in the spring of 2024.

- SECTION 4 -

State Finance Committee

February 20, 2024, Meeting



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February 20, 2024

MEMORANDUM

TO: The Honorable Mike Pellicciotti
The Honorable Jay R. Inslee
The Honorable Denny Heck

FROM: Jason P. Richter, Deputy State Treasurer and Secretary, State Finance Committee

RE: **63-20 Financing Update, Fircrest Nursing Facility**

Project Authorization

- The 2023-25 Capital Budget authorized a financing contract for DSHS to construct a nursing facility on their Fircrest campus in Shoreline, in an amount not to exceed \$175,888,000 in total project costs.
- The project was previously authorized in 2021-23 Capital Budget for \$115,700,000.

63-20 as a Financing Tool

- Named after IRS Revenue Ruling 63-20, the structure allows a nonprofit corporation to issue tax-exempt bonds "on behalf" of a municipal entity.
 - This allows certain capital projects to maintain the benefits of a tax-exempt financing, while shifting certain risks to a private development team through a guaranteed maximum price while also better incentivizing time and cost savings.
- The approach also provides a built-in budget for operating and maintenance costs by including those expenses in the annual lease amount.
 - For this transaction, legal analysis performed by DSHS indicates that the larger annual 63-20 lease payment (because it includes O&M costs) will result in increased Medicaid reimbursements.

History of 63-20 Use in the State

- The state previously approved two 63-20 authorizations, the 1500 Jefferson building in 2009 and the Edna Goodrich building in Tumwater in 2004.

Future Issuance Planned

- DSHS plans to close the financing by July 31, 2024, in order to lock in construction costs.
- Construction is projected to last 30 months, during which time interest will be capitalized.
- Prior to issuing bonds, the financing documents will come to the State Finance Committee for approval.

- SECTION 5 -

State Finance Committee

February 20, 2024, Meeting



State of Washington
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February 20, 2024

MEMORANDUM

TO: The Honorable Mike Pellicciotti
The Honorable Jay R. Inslee
The Honorable Denny Heck

FROM: Jason P. Richter, Deputy State Treasurer and Secretary, State Finance Committee

RE: HB 1777 Implementation Update; “Energy as a Service” Public Private Partnership

Details of HB 1777 and Requirements

HB 1777, which was enacted during the 2023 legislative session and had an effective date of July 23, 2023, authorized the use of energy as a service (EaaS) performance-based contracting for state agencies, public school districts, public universities, and municipalities.

- Authorized entities can use this mechanism to make service payments to a third party for energy services, which may include the provision of energy equipment that is owned and operated by the third party.
- At the end of the financing term of the contract, equipment ownership may be transferred back to the state agency, school district, university, or municipality.
- Performance-based contracts that include the purchase of real or personal property are expected to be subject to the requirements of financing contracts.

Current Status

To comply with requirements regarding the use of financing contracts under RCW 39.94, it is expected that the EaaS contracts will need to be reviewed and approved in form by the State Finance Committee (SFC).

- HB 1777 required the Department of Enterprise Services (DES) to complete a form of an EaaS contract, or a model contract by December 31, 2023.
- To date, OST has not yet received the model contract.
- OST is in regular contact with DES to provide guidance on the process with the SFC.
- Once a form of contract is received, OST will work with the Attorney General’s Office to determine whether it requires SFC approval.
- If SFC approval is required, it will be included as an agenda item in a future scheduled SFC meeting.

- SECTION 6 -

State Finance Committee

February 20, 2024, Meeting



State of Washington
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February 20, 2024

MEMORANDUM

TO: The Honorable Mike Pellicciotti
The Honorable Jay R. Inslee
The Honorable Denny Heck

FROM: Jason P. Richter, Deputy State Treasurer and Secretary, State Finance Committee

RE: **Bond Sales and Market Update**

Sales Update

Since the last Bond Sales and Market Update provided to the State Finance Committee on November 14, 2023, the state has sold two series of bonds and one series of certificates of participation (COPs), totaling approximately \$964.7 million, as summarized below.

Bond issuance since November 14, 2023

January 23, 2024 -- Bond Sale

Series Name	Series	Par Amount	Delivery Date	Final Maturity	Avg. Life (yrs)	TIC*
VP GO Bonds, Series 2024C	2024C	\$ 663,845,000	2/7/2024	2/1/2049	15.448	3.87%
MVFT & VRF GO Bonds, Series 2024D	2024D	265,995,000	2/7/2024	6/1/2049	15.792	3.86%
		\$ 929,840,000				

COP issuance since November 14, 2023

February 6, 2024 -- Certificates of Participation Sale

Series Name	Series	Par Amount	Delivery Date	Final Maturity	Avg. Life (yrs)	TIC*
State of WA COP, LP_2024A	LP_2024A	\$ 34,810,000	2/27/2024	1/1/2034	3.507	2.68%

*True Interest Cost (TIC)

Refunding Savings

The state did not issue any refunding bonds since the November Bond Sales and Market Update.

Future New Money Issuances

The state plans to sell new money COPs and bonds in the summer of 2024. The size and timing of these issuances will be primarily dependent upon the number and size of state and local financing contracts, and the state's capital budget and transportation budget cash-flow needs.

Future Refinancings

In addition to new money financings, the Office of the State Treasurer actively monitors the state's debt portfolio for refinancing opportunities. The following table shows the outstanding bonds that are callable over the 2023-25 and 2025-27 Biennia.

Fiscal Year	Refundable Par
2024	\$ 437,405,000 *
2025	2,142,500,000
2026	1,765,060,000
2027	1,462,050,000
	\$ 5,807,015,000

*Does not include the Build America Bonds (BABs).

Market Update

The Bond Buyer 20-Bond Index (BBI) stands at 3.54%, as of February 15, 2024, which is 0.63% lower than it was at the time of the last SFC meeting (4.17% as of November 2, 2023). Starting in November, the BBI steadily declined, reaching a recent low of 3.26% at the end of December. The current rate of 3.54% is still below the 30-, 50-, and 100-year averages.

- Chart 1 below shows the BBI over the last three years.
- Chart 2 shows the MMD curve as of February 16, 2024, one month ago, one year ago, and five years ago.
- Chart 3 shows the BBI since 1900.
- Table 1 shows the TIC for all new money tax-exempt bond issues over the last three years.

Chart 1

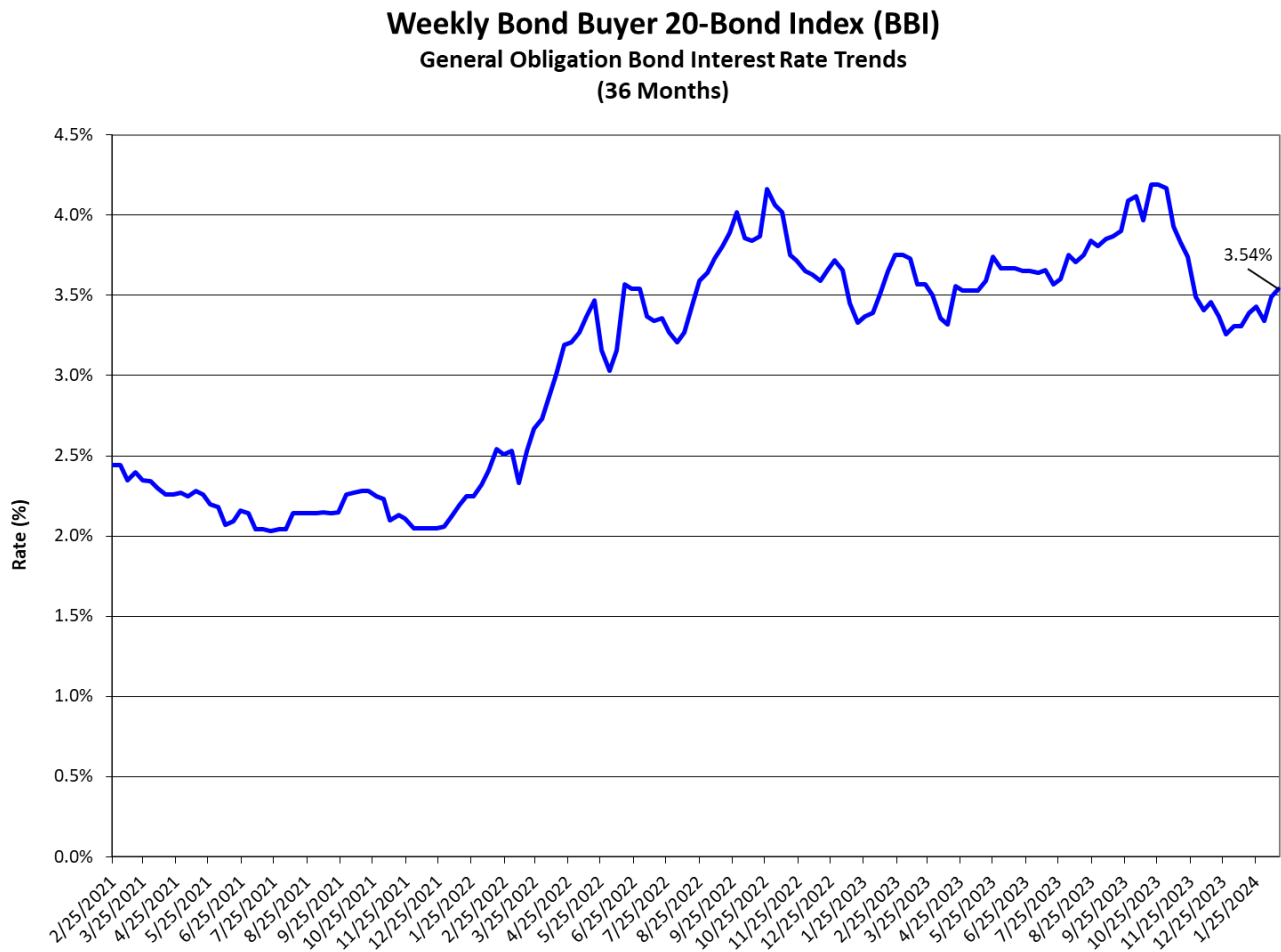
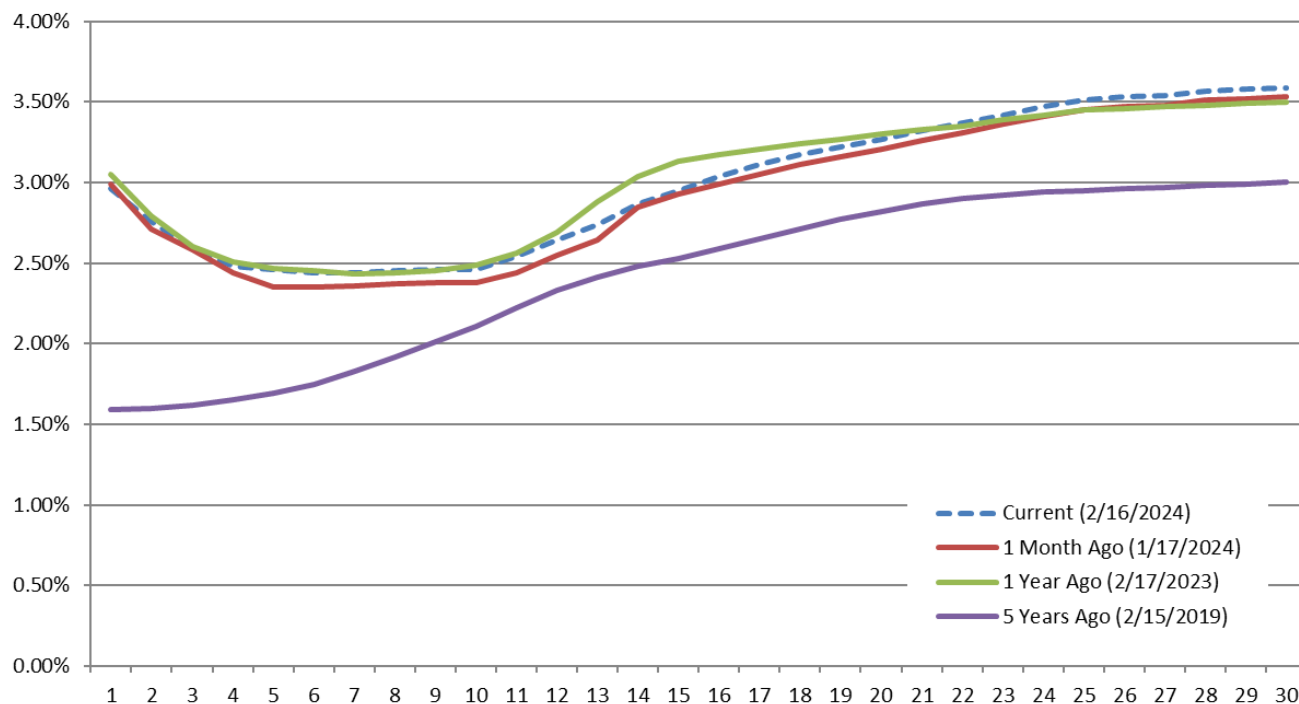


Chart 2

Tax-exempt Yield Curve*

Current Yield Curve and Past Yield Curves



*"AAA" GO MMD (Municipal Market Data).

Chart 3

Weekly Bond Buyer 20-Bond Index (BBI)
Annual Averages: 1900 - 2024, as of 2/15/2024

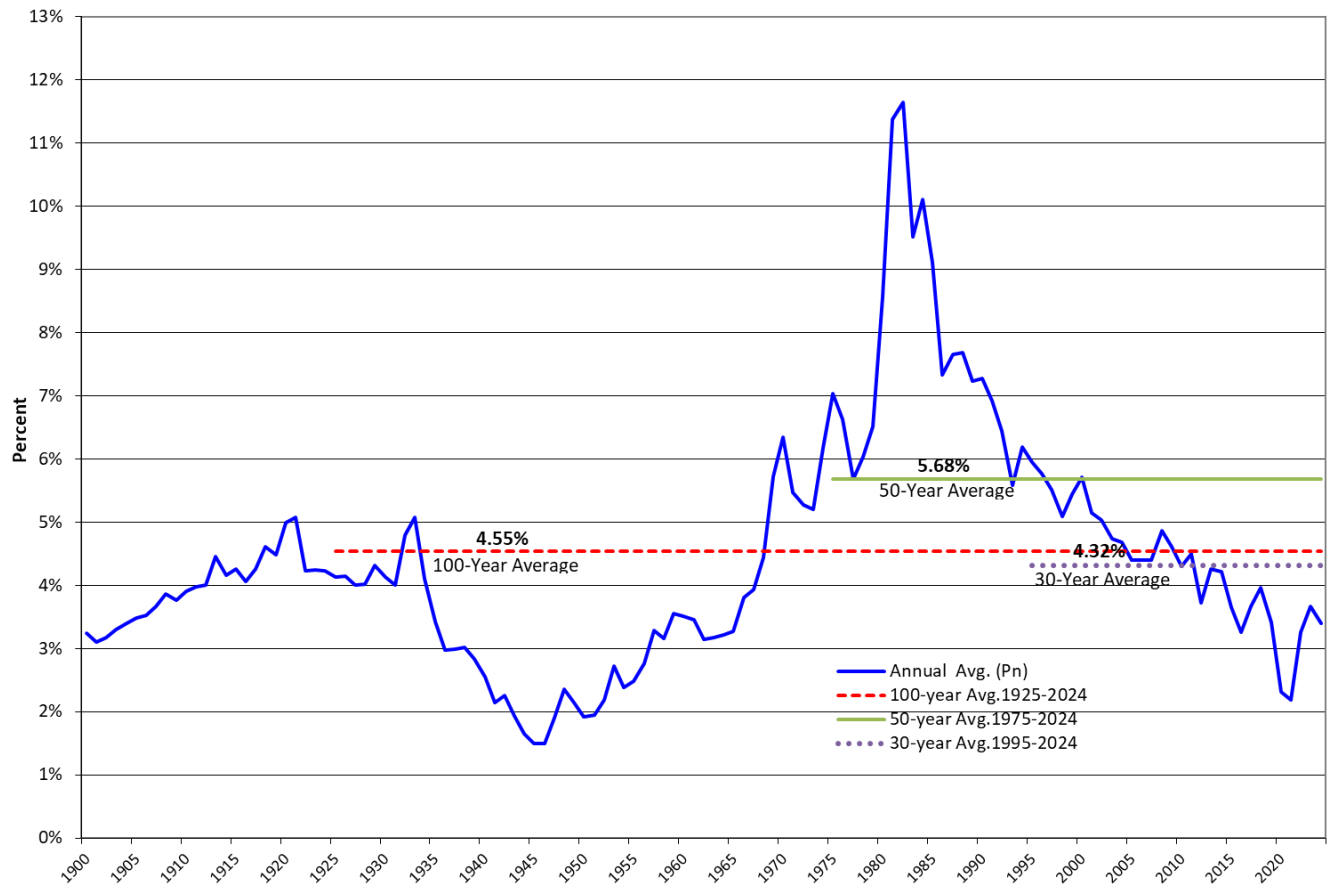


Table 1

New Money Tax-Exempt Bonds Over Previous Three Years

Series Name	Series	Sale Date	Par Amount	Final Maturity	TIC*
VP GO Bonds, Series 2021C	2021C	2/9/2021	\$ 512,675,000	2/1/2046	2.39%
MVFT GO Bonds, Series 2021D	2021D	2/9/2021	107,675,000	6/1/2046	2.07%
MVFT & VRF GO Bonds, Series 2021E	2021E	2/9/2021	232,100,000	6/1/2046	2.35%
MVFT & VRF GO Bonds, Series 2021F	2021F	4/20/2021	240,410,000	6/1/2046	2.50%
VP GO Bonds, Series 2022A	2022A	7/29/2021	599,490,000	8/1/2046	2.49%
MVFT GO Bonds, Series 2022B	2022B	7/29/2021	42,325,000	6/1/2046	2.45%
VP GO Bonds, Series 2022C	2022C	2/8/2022	749,490,000	2/1/2047	2.84%
VP GO Bonds, Series 2023A	2023A	7/19/2022	693,905,000	8/1/2047	3.75%
VP GO Bonds, Series 2023B	2023B	1/18/2023	603,020,000	2/1/2048	3.57%
MVFT & VRF GO Bonds, Series 2023C	2023C	1/18/2023	90,165,000	6/1/2048	3.57%
VP GO Bonds, Series 2024A	2024A	7/25/2023	682,590,000	8/1/2048	3.83%
MVFT & VRF GO Bonds, Series 2024B	2024B	7/25/2023	376,615,000	6/1/2048	3.82%
VP GO Bonds, Series 2024C	2024C	1/23/2024	663,845,000	2/1/2049	3.87%
MVFT & VRF GO Bonds, Series 2024D	2024D	1/23/2024	265,995,000	6/1/2049	3.86%

*True Interest Cost (TIC)