

Washington State Department of Commerce

## Advance Your Community's Goals with a Bond Cap Allocation

IACC Conference – October 23, 2013



### Who is this session for?

- Local governments & special purpose districts
  - Financing public projects
    - Infrastructure
    - Energy conservation
    - Workforce development
  - Supporting economic and business development
- Businesses seeking financing
  - Expansion and construction
  - Energy conservation



### Session Goals

- Participants will
  - Understand the basics of bond financing
    - Costs and benefits
    - How to get started
  - Understand the basics of tax-exempt private activity bonds
    - Eligible projects
    - Conduit issuers
    - How to apply for an allocation
  - Know where to go for assistance and answers



### Outline – Part 1: Bond Basics

- Definition of bond financing
- Debt limitations
- Types of Bonds
  - GO bonds
  - Revenue bonds
  - Certificates of participation
  - Special assessment bonds
- Bond financing team
- Conduit issuers
- First steps



### Outline – Part 2: Bond Cap Allocations

- Benefits
- Definitions
- Eligibility
- Annual Bond Cap Categories
- Qualified Energy Conservation Bonds
- How to apply



### What Is Bond Financing?

- An agreement between an investor (the lender) and an issuer (the borrower)
- The bond itself is the document that describes:
  - The par value (the amount of the loan)
  - The coupon (the interest rate)
  - The maturity (the term of the loan)
  - The borrower's promise to repay the loan
  - Any collateral or security on the loan
- It's like your mortgage promissory note and deed



### Debt Limitations

Governments are limited in how much debt they can acquire – whether bonds or other types of debt.

- Constitutional
  - Non-voted debt not > 1.5% of AV
  - Voted debt not > 5% of AV
  - Cities and school districts – additional 5% voted debt (total of 10%)
- Statutory
  - Varies by jurisdiction type
  - Less than constitutional limitations
  - Counties: 1.5% non-voted, 2.5% voted
  - Cities: 1.5% non-voted, 7.5% voted (depending on purpose)



### Types of Bonds

- GO bonds
  - Full faith and credit of the issuer
  - Payable from any and all issuer funds
  - Primarily payable from taxes
  - Count against statutory debt limitations
- Revenue bonds
  - Payable from specific system revenues
  - Examples: water or sewer system bonds
  - Do not count against statutory limitations



### Types of Bonds

- Certificates of participation (COPs)
  - Issued by the Office of the State Treasurer
  - LOCAL program, [www.tre.wa.gov/LOCAL](http://www.tre.wa.gov/LOCAL)
  - Aggregates many local jurisdictions' smaller debt issues
  - Payable from jurisdictions' general funds
  - Count against statutory debt limitations
- Special assessment bonds
  - Payable from tax assessments on specific properties
  - Examples: sidewalks or street lights in a certain neighborhood
  - Do not count against statutory limitations
- All types count against constitutional debt limitations



### Creating a Finance Team

- Team members
  - Bond counsel
  - Underwriter
  - Financial advisor
  - Insurer
  - Trustee
  - Registrar
- Complexities of state and federal law, tax regulations
- Paperwork/documentation requirements
- Ways to create cost savings



### Using a Conduit Issuer

- Established expertise and contacts
  - Especially for private activity bonds
  - Bond counsel and underwriter relationships
- Removed from jurisdiction's debt limits
- Layer of risk protection
- Types of conduit issuers
  - Economic Development Corporations
  - Industrial Development Corporations
  - Certain types of special purpose districts
  - State issuer



### Local Conduit Issuers

- Some active local issuers – there are many others:
  - EDC of Pierce County [www.pcedc.com](http://www.pcedc.com)
  - IDC Port of Bellingham [www.portofbellingham.com](http://www.portofbellingham.com)
  - IDC Port of Grays Harbor [www.portgrays.org](http://www.portgrays.org)
  - IDC of Spokane County contact Debbi Haskins  
601 W. Riverside Dr. Suite 840, Spokane 99201  
509-343-4471
  - Yakima County Public Corporation [www.ydca.com](http://www.ydca.com)
  - Local Housing Authorities [www.awha.org](http://www.awha.org)



### State Conduit Issuers

- Housing, Energy, RZEDBs  
Washington State Housing Finance Commission  
[www.wshfc.org](http://www.wshfc.org)
- Small Issue, Exempt Facilities, QECBs, RZFBs  
Washington Economic Development Finance Authority (WEDFA)  
[www.wedfa.wa.gov](http://www.wedfa.wa.gov)

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### Part 2: Bond Cap Allocations

#### Benefits

- Leverage public/private partnerships
  - Connecting the infrastructure dots
- Create jobs
- Support community businesses
- Use a conduit issuer to
  - Reduce risk
  - Eliminate debt capacity impacts

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### A Tale of Four Cities

Once upon a time, in a land not-so-very-far away . . .



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### Bond Cap Infrastructure Story



Grand Fir Lodge at Suncadia, Roslyn/Cle Elum

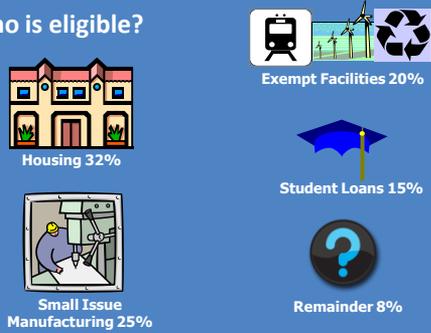
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### The Annual Bond Cap – Tax-Exempt Private Activity Bonds

- Cap = limit on the total value of specific types of bonds issued in the state during a defined period of time
- Tax-exempt = the bond investor (the lender) does not pay federal income taxes on the interest they earn on the bond
- Private Activity =
  - 10% for private business purpose
  - >10% of payments secured by property used for private purposes
  - >5% used for loans to individuals or non-governmental entities
- WA allocation of \$95 per capita – \$655 million in 2013

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### Who is eligible?



 Housing 32%	 Exempt Facilities 20%
 Small Issue Manufacturing 25%	 Student Loans 15%
	 Remainder 8%

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### Categories Defined



**Exempt Facilities 20%**

- Capital Facilities
- Issuers
  - WEDFA
  - Ports
  - PUDs
  - EDCs
  - IDCs
- Solid & hazardous waste
- Water facilities
- Wastewater & sewage treatment
- Mass commuting facilities
- Local
  - Electricity
  - Gas
  - Heating or cooling
- Recycling



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### Exempt Facilities Stories



Van Der Haak Dairy,  
Lynden



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### Exempt Facilities Stories



Cedar Grove Composting, Maple Valley



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### Categories Defined



**Housing 32%**

- Multi-family
  - Issuers:
    - HFC
    - LHA
  - Eligible for 4% Low-Income Housing Tax Credits
- Single Family
  - Issuer: HFC
  - Homeownership
  - Low and moderate income first-time homebuyers



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### Housing Stories



Esther Short Commons, Vancouver



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### Housing Stories



Plum Meadows, Vancouver



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### Housing Stories



Holly Apartments, Seattle – Before



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### Housing Stories



Holly Apartments, Seattle – After



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### Categories Defined

Small Issue Manufacturing 25%



- Industrial development/manufacturing
- First-time farmer/rancher
- Issuers: WEDFA, Ports, EDCs, IDCs, WSHFC
- \$20 million capital expenditure limit
- \$10 million bond limit



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### Small Issue Stories



SCAFECO CORPORATION  
Grain Systems Division  
Spokane, WA



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### Small Issue Stories



Absorption Corporation, Ferndale



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### Categories Defined



Student Loans 1.5%

- WHEFA is state issuer
- Not used since 2004



Remainder 8%

- Flexible category
- Used for any eligible project type
- Available for use at any time during the year



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### Qualified Energy Conservation Bonds

- Taxable bonds
- Tax credits or direct subsidy
- \$67.9 million total statewide
- At least 70% for government projects
- Not more than 30% for private activities
- Any authorized issuer with an allocation may use



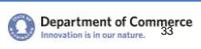
### QECB Eligible Projects

- Capital expenditures
  - Energy efficiency in public buildings
  - Green communities programs
  - Renewable energy production
- Grants for research
  - Energy efficiency (EE)
  - Renewable energy (RE)
- Mass commuting facilities – clean and energy efficient
- Demonstration projects, EE or RE
- Public education campaigns to increase EE



### QECB Examples

- Wind farm in Kittitas County (private activity)
- Blaine – street lights, city building retrofits
- Centralia – street lights, HVAC in city buildings
- Longview – green communities program
- Mason County – energy upgrades to jail building
- Okanogan County – replace courthouse boiler, lighting, and windows
- Renton – LED street lights



### QECB Allocations and Reallocations

- Unused allocations being aggregated by Washington State Housing Finance Commission
- Contact Avi Jacobson
  - 206-254-5359
  - [avi.jacobson@wshfc.org](mailto:avi.jacobson@wshfc.org)
  - [www.wshfc.org/energy](http://www.wshfc.org/energy)



### Bond Cap Application Basics

- Annual tax-exempt private activity bond cap
  - Download forms from [www.commerce.wa.gov/bondcap](http://www.commerce.wa.gov/bondcap)
    - Application form – category specific
    - Bond counsel statement
    - Underwriter statement
  - Include budget, project and underwriting schedules, list of permits required, environmental review status, fee
- First come, first served until cap used up
- Issue by September 1 or December 15 each year



### Competitive Application Criteria

- Jobs, jobs, jobs
- Estimated energy savings or innovation
- Environment protected; solid waste diverted
- Readiness to issue bonds
- Other financing leveraged
- Amount of community support
- Number of individuals benefitting from project
- Geographic and demographic diversity



## Questions?

- Contact Liz Green-Taylor
  - (360) 725-5036
  - [Elizabeth.Green-Taylor@commerce.wa.gov](mailto:Elizabeth.Green-Taylor@commerce.wa.gov)
  - [www.commerce.wa.gov/bondcap](http://www.commerce.wa.gov/bondcap)