



Department of Commerce

# Bond Basics and Beyond

Bond User’s Clearinghouse and Bond Cap Allocation Programs

RCW 39.44 and RCW 39.86

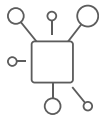
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BOND CAP ALLOCATION  
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10/23/2019

## We strengthen communities



**HOUSING  
HOMELESSNESS**



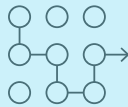
**INFRASTRUCTURE**



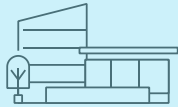
**BUSINESS  
ASSISTANCE**



**ENERGY**



**PLANNING**



**COMMUNITY FACILITIES**



**CRIME VICTIMS  
SAFETY**



**COMMUNITY  
SERVICE**

## Session Outline

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- Basics of bond financing
- Reporting requirements
- Exploring bond data
- Bond Cap Allocation and Public/Private Partnerships
- Where to go for more information

## What is bond financing?

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- Agreement between an investor (lender) and a government bond issuer (borrower)
- The “bond” itself is a contract that states:
  - Amount of the loan (par value)
  - Interest rate (coupon)
  - Length of the loan (maturity)
  - Security on the loan (collateral)
  - Team members (attorney, underwriter, etc.)
  - Borrower’s promise to repay the loan

## Bond vs. Conventional Loans

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- **Bond Advantages**

- Lower interest rate saves money
- Longer pay-off term
- Tax-exempt interest attracts investors (lenders)
- Best option for large purchases, especially capital purchases
- Can pledge future revenue

## Bond vs. Conventional Loans

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- **Bond Disadvantages**

- Higher up-front costs: counsel, insurance, rating agency, etc.
- Requires legal and tax expertise
- Requires good credit rating
- Less appropriate for small purchases
- May take more time to arrange
- More rules and regulations to comply with

## Debt Limitations

- **Governments are limited in how much debt they can acquire, whether bonds or other types.**
  - **Constitutional limitations:**
    - Non-voted debt not >1.5% of assessed value (AV) of all **taxable** properties within the jurisdiction
    - Voter-approved (and total) debt not >5% of AV
    - Cities and school districts can have additional 5% voter-approved debt for capital projects only

## Debt Limitations, Continued

- **Statutory limitations:**
  - Varies by jurisdiction types
  - Less than constitutional limitations
  - Counties: 1.5% non-voted, 2.5% voted (and total)
  - Cities: 1.5% non-voted, 7.5% voted (and total, depending on purpose)
  - For Special Districts and more information:
    - <https://www.commerce.wa.gov/about-us/research-services/bond-users-clearinghouse/local-debt-limitations-primer/>

## Types of Bonds

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- General Obligation Bonds
- Revenue Bonds
- Special Assessment Bonds
- Certificates of Participation
- Private Activity Bonds (PABs)

## Types of Bonds

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- General Obligation (GO) Bonds
  - Secured by full faith and credit of issuer
  - Payable from any and all issuer funds (mostly taxes)
  - Count against both statutory and constitutional debt limitations

## Types of Bonds

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- **Revenue Bonds**

- Payable from specific system (e.g. water, sewer) revenue
- Count against constitutional debt limitations
- Do not count against statutory limitations

## Types of Bonds

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- **Special Assessment Bonds**

- Payable from assessments on specific properties
- Examples: sidewalks or street lights in a specific neighborhood
- Count against constitutional debt limitations
- Do not count against statutory limitations

## Types of Bonds

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- **Certificates of Participation**

- Issued by the Office of the State Treasurer
- LOCAL Program: [www.tre.wa.gov/LOCAL](http://www.tre.wa.gov/LOCAL)
- Can be used for equipment, real estate (e.g. school buses, computers, HVAC equipment, construction projects, etc.)
- Payable from general funds
- Count against both constitutional and statutory debt limitations

## Definitions: Taxable or Tax-Exempt

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- “Taxable” = investor (lender) must pay income taxes on the interest earned on the bond
- “Tax-exempt” = investor pays no taxes on interest income
- Tax-exempt bond = lower interest rate (usually)

## Definitions: Public or Private Activity

- **Government (public) activity bond = tax-exempt**
  - Examples: school district bonds, most infrastructure bonds, etc.
- **Private activity bonds (PABs) = taxable unless issued under the "bond cap" or applicable IRS provisions**
  - Private loan test: >5% used for private loans (such as student loans for higher education); OR
  - Private business test: >10% used for private business purpose; AND >10% of payments secured by private property
  - Examples: bonds for infrastructure meeting the 10% criteria, affordable housing, industrial development, exempt facilities (recycling, solid waste)
  - More on the bond cap in a bit....

## The Bond Finance Team

- **Team members may include:**
  - Bond counsel (attorney)
  - Underwriter (often an investment bank)
  - Financial advisor
  - Insurer
  - Trustee
  - Registrar
- **Team helps with:**
  - Complexities of state and federal law and tax regulations
  - Paperwork/documentation requirements
  - Creating cost savings



## Using a Conduit Issuer

- **Established expertise and contacts**
  - Already has relationships with bond counsels and underwriters
- **Creates a layer of risk protection**
  - Especially appropriate for PABs
- **Types of conduit issuers**
  - State authorities
  - Local economic or industrial development corporations
  - Certain types of special purpose districts (e.g. public facility districts)

## Conduit Issuer Contacts - State

- **Washington State Housing Finance Commission**  
[www.wshfc.org](http://www.wshfc.org)
  - Low-income housing
  - Energy projects
  - Non-profit organizations (501c3s)
  - Beginning Farmers and Ranchers
- **Washington Economic Development Finance Authority**  
[www.wedfa.org](http://www.wedfa.org)
  - Manufacturing facility (small issue) PABs
  - Exempt facility bonds (recycling, solid waste, water, sewer, energy)
- **Other specialized state issuing authorities**
  - [WHEFA](#), [WHCFA](#), etc.

## Conduit Issuer Contacts - Local

- **A few active local issuers; there are others:**
  - EDC of Tacoma/Pierce County: [www.pcedc.com](http://www.pcedc.com)
  - IDC Port of Bellingham/Whatcom County: [www.portofbellingham.com](http://www.portofbellingham.com)
  - IDC Port of Grays Harbor: [www.portofgraysharbor.com](http://www.portofgraysharbor.com)
  - Port of Centralia; [www.portofcentralia.com](http://www.portofcentralia.com)
  - Association of Local Housing Authorities: [www.awha.org](http://www.awha.org)

## Bond Reporting Requirements

- **Federal reporting:**
  - Municipal Securities Rulemaking Board (<https://emma.msrb.org>) and others. Your bond and tax attorneys will assist you with federal reporting requirements.
- **State reporting:**
  - Report within 20 days of issuance to the **Bond Users Clearinghouse (BUC)** at the Department of Commerce ([RCW 39.44.210](http://RCW 39.44.210)), <https://www.commerce.wa.gov/about-us/research-services/bond-users-clearinghouse/>. Your bond attorney or financial advisor will usually do this for you, but it is your responsibility to ensure that it is done.

## Reporting to BUC

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- **Step 1 – Register an account with BUC at <https://buc.com.wa.lcl/NewUser.aspx>**
  - The BUC program manger will review and approve your registration (might take a day or two)
  - Once approved, you will receive a “Registration Code” via email. Hang onto that code.
- **Step 2 – Set up a SAWS (Secure Access Washington State) account at [www.secureaccess.wa.gov](http://www.secureaccess.wa.gov) (or log in if you already have one)**

## Reporting to BUC

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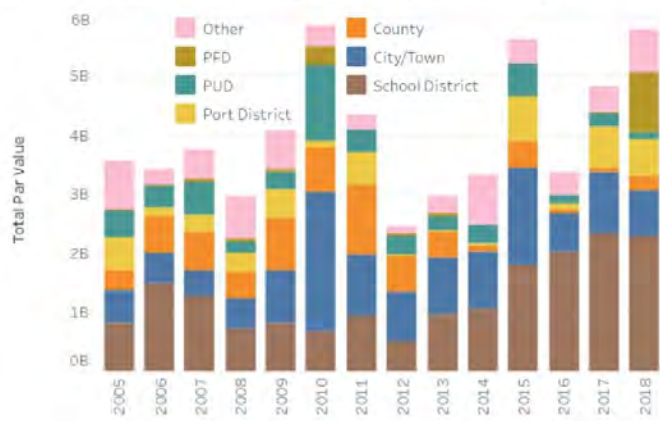
- **Step 3 – Add Bond Users Clearinghouse to your services in SAWS**
  - From your SAWS account click on “Add a New Service”
  - Click on “I would like to browse a list of services”
  - Click on “Department of Commerce”
  - Click on “Bond Users Clearinghouse”
  - Click on “Apply”
  - Click on “OK”
  - Click “Access” in the Bond Users Clearinghouse box
  - Click “Continue”

# Reporting to BUC

- Step 4 – Insert the code you received from BUC into the box, then click “Finish Registration”
- Step 5 – Click on “Complete New Bond Report Form 101”
- Step 6 – Fill out the online Bond 101 forms within 20 days of bond issuance
- Step 7 – Questions or Problems? Contact the BUC Program Manager at:
  - [buc@commerce.wa.gov](mailto:buc@commerce.wa.gov)
  - 360-725-4000

# BUC Data Trends

Local Issues Over Time By Jurisdiction Type



# BUC Data Trends

	2014	2015	2016	2017	2018
Energy	\$1,539,535,000	\$1,173,015,000	\$1,115,309,015	\$510,860,000	\$544.355,000
Ports	\$18,650,000	\$765,654,466	\$196,770,000	\$615,250,000	\$33,710,600
Public Facilities	\$7,485,000	\$14,637,000	\$26,640,000	\$52,825,266	\$1,043,330,000
Solid Waste	\$171,450,000	\$107,520,000	\$17,265,000	\$49,846,000	\$12,010,000
Roads	\$341,976,399	\$563,229,000	\$429,758,373	\$145,227,000	\$227,765,000
Water/Sewer	\$867,910,000	\$1,712,978,426	\$1,185,313,232	\$964,929,108	\$434,292,131

# Accessing BUC Data – Quick Search

- Go to <https://fortress.wa.gov/com/buc/BondFormSearch.aspx>
  - Enter search terms for Issuer Name, User Name (on whose behalf the bond was issued), and/or a date range, or use the drop menus for issuer type or project type
  - Try partial or abbreviated names if you don't find what you're looking for (e.g. for Washington State Housing Finance Commission, you might try "Housing" or "Commission" or "WSHFC")

## Accessing BUC Data – Comprehensive Search

- Download Excel spreadsheets of all BUC data here:  
<https://www.commerce.wa.gov/about-us/research-services/bond-users-clearinghouse/reports-articles-databases/>
- Need a customized data search? Contact the BUC program manager at [buc@commerce.wa.gov](mailto:buc@commerce.wa.gov) Enter search terms for Issuer Name, User Name (on whose behalf the bond was issued), and/or a date range, or use the drop menus for issuer type or project type
- Database covers bonds from 2000 to present

## Bond Cap Allocation Program

- Federal limit (“Cap”) on some types of tax-exempt PABs
- Cap = state population x annual multiplier
- Washington 2019 cap:
  - 7,535,686 (population)
  - x \$105 (per capita)
  - \$791,247,055 in total par value
- “Allocation” = authority to issue a bond under the cap

## Bond Cap Project Types

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- **Affordable Housing – 42% initial allocation**
  - Multifamily rental housing
  - Low-income to moderate-income homeownership help
- **Small Issue Manufacturing – 25% initial allocation**
- **Exempt Facilities -20% initial allocation**
- **Student Loans – 5% initial allocation, re-allocated to housing on Feb. 1 if no applications**
- **Remainder – 8% flexible category**

## Bond Cap and Infrastructure

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- **Infrastructure-related private activities are mostly in the Exempt Facilities category**
- **Includes: solid waste, recycling, water, sewer, electricity, other environmental projects**
- **Meet >10% private activity threshold**
- **Facilitate Public-Private Partnerships (P3)**
- **Bonds can be tax-exempt**

# Exempt Facilities Infrastructure Examples

- **Generic examples:**
  - New electrical line, >10% of electricity goes to a specific business
  - Sewer system upgrades, >10% of capacity serves a specific business
  - Wind-generating facility that sells .10% of electricity to a for-profit power provider (e.g. Puget Sound Energy)
  - Water line extension from the city or water district to a neighborhood served by a private water system
  - New trucks for a city's garbage-collection contractor (private company)

# Recent Issuances

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• <b>WSHFC</b></li><li>• <b>WEDFA</b></li><li>• <b>Lakewood Water District</b></li><li>• <b>Tacoma Pierce EDC</b></li></ul> | <ul style="list-style-type: none"><li>• <b>Multi-family housing development</b></li><li>• <b>Beginning Farmer Rancher</b></li><li>• <b>Pipeline connection</b></li><li>• <b>Manufacturing facility</b></li></ul> |
|---|--|



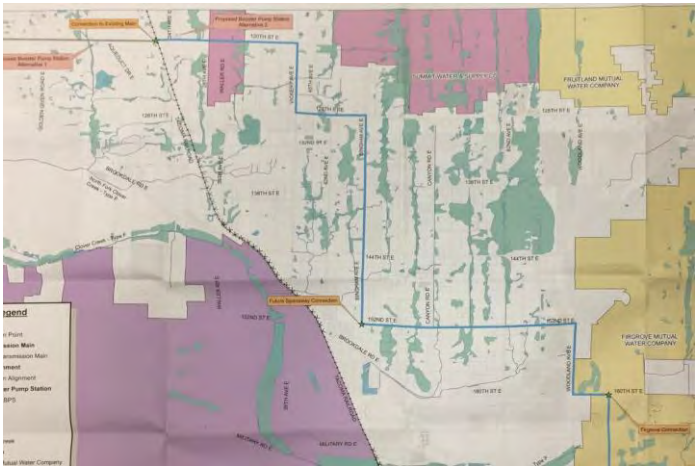
# Example

- New turbines for the Box Canyon Dam, a PUD-owned hydroelectric facility; 70% of power generated goes to the Ponderay Newsprint Company



# Example

- Connects the Lakewood Water District to 2 private water companies
- \$19 million





# Thank you!

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