

# The Local Program

Real Estate and Equipment  
Financing for Local Governments  
IACC  
October 20, 2021



Office of the State Treasurer

Mike Pellicciotti  
Washington State Treasurer

Contact Information

**Matt Schoenfeld**

COP Program Administrator  
(360) 902-9022

[Matthew.Schoenfeld@tre.wa.gov](mailto:Matthew.Schoenfeld@tre.wa.gov)

**Brianna May**

COP Program Analyst  
(360) 902-9019

[Brianna.May@tre.wa.gov](mailto:Brianna.May@tre.wa.gov)

**Shelly Sweeney**

COP Financial Analyst  
(360) 902-9005

[Shelly.Sweeney@tre.wa.gov](mailto:Shelly.Sweeney@tre.wa.gov)

NEW ISSUE, BOOK-ENTRY ONLY

Moody's Rating: Aa1

(See "OTHER CERTIFICATE INFORMATION—Rating")



STATE OF WASHINGTON  
CERTIFICATES OF PARTICIPATION

\$75,190,000

Series 2020D

(State and Local Agency Real and Personal Property)

Dated: Date of Initial Delivery

Due: See page ii

The State of Washington Certificates of Participation, Series 2020D (State and Local Agency Real and Personal Property) (the "Certificates"), are being executed and delivered by the Trustee (currently U.S. Bank National Association) pursuant to a Trust Agreement among the Trustee, the State of Washington (the "State"), and the Washington Finance Officers Association (the "Corporation"), a Washington nonprofit corporation. The Certificates evidence and represent undivided proportionate interests in payments to be made by the State under Master Financing Agreements between the Corporation and the State (the "State Payments").

The interest represented by the Certificates is payable semiannually on each January 1 and July 1, beginning January 1, 2021. The principal represented by the Certificates is payable in the stated maturity amounts on each July 1 beginning July 1, 2021, as shown on page ii.

The Certificates are subject to optional prepayment prior to their Principal Payment Dates. The Certificates are subject to extraordinary mandatory prepayment upon the occurrence of certain events. In addition, the Certificates will be subject to mandatory sinking fund prepayment prior to their respective Principal Payment Dates if Term Certificates are specified by the successful bidder. See "DESCRIPTION OF THE CERTIFICATES—Prepayment."

The Certificates are issuable in fully registered form under a book-entry only system, initially registered in the name of Cede & Co. as nominee for The Depository Trust Company ("DTC"), New York, New York, which will serve as securities depository for the Certificates. The Certificates will be issued in denominations of \$5,000 or any integral multiple thereof within a single maturity. Principal and interest represented by the Certificates are payable to DTC by the Trustee, for subsequent disbursement by DTC to Beneficial Owners of the Certificates, as described under "DESCRIPTION OF THE CERTIFICATES—Book-Entry System" and Appendix E—DTC AND ITS BOOK-ENTRY SYSTEM.

The Certificates are being executed and delivered to finance and/or refinance the costs of acquisition, construction, and/or remodeling of certain real and personal property for the benefit of certain State Agencies and Local Agencies (together, the "Agencies"), and to pay issuance costs with respect to the Certificates.

State Payments are made from amounts received by the State under Agency Financing Agreements between the State and the applicable Agency ("Agency Payments"). The Master Financing Agreements and the State Agency Agreements constitute limited obligations of the State payable solely from the sources and subject to the limitations therein and do not constitute a debt or a general obligation of the State or a pledge of the full faith and credit or taxing power of the State. The obligation of any State Agency to make its Agency Payments and the obligation of the State to make State Payments are subject to appropriation by the Legislature and to Executive Order emergency reduction by the Governor. A determination by the Legislature not to appropriate or an Executive Order reduction would not constitute an Event of Default under the Trust Agreement, the Master Financing Agreements, or any State Agency Financing Agreement. The obligation of each Local Agency to make its Agency Payments is a general obligation of that Local Agency secured by a pledge of its full faith and credit.

In the opinion of Certificate Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied after the issue date of the Certificates, interest represented by the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. Interest represented by the Certificates received by certain S corporations may be subject to tax, and interest represented by the Certificates received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest represented by the Certificates may have other federal tax consequences for certain taxpayers. See "TAX MATTERS."

The Certificates are offered when, as and if executed and delivered, subject to receipt of an approving opinion from Foster Garvey P.C., Seattle, Washington, Certificate Counsel to the State, and certain other conditions. Certain legal matters in connection with the preparation of this Official Statement will be passed upon for the State by Stradling Yocca Carlson & Rauth, a Professional Corporation, Seattle, Washington, as Disclosure Counsel to the State.

It is anticipated that the Certificates will be available for delivery through the facilities of DTC in New York, New York, or to the Trustee on behalf of DTC by Fast Automated Securities Transfer, on or about October 29, 2020.



## What is the LOCAL Program?

- A cost-effective way for Washington municipalities to finance equipment and/or real estate projects, including property acquisition and construction of new facilities
- LOCAL financing is structured as a financing contract (lease) offered through the Office of the State Treasurer (OST)



*City Hall Building for the City of Brier*



# Program Participants and Leases Since 1999

Government Partners	Number of Leases
School District	260
Fire District	251
City	231
County	42
Hospital District	17
Park and Recreation District	16
Metropolitan Park District	13
Port District	8
Mosquito Control District	3
Public Utility District	3
Housing Authority	2
Irrigation or Reclamation District	1
Library District	1
<b>Grand Total</b>	<b>848</b>

Type of Equipment/Real Estate	Number of Leases
Commercial Vehicles - Buses, Fire Trucks	341
Vehicles - Cars & Trucks	123
Real Estate Buildings/Land	111
Energy Updates & HVAC	94
Road/Warehouse Vehicles	48
Other	45
Machinery	26
Computers & Peripherals	17
Communication Systems	16
Office Equipment & Furniture	12
Boats, Aircraft, Recreational Equipment	8
Portable Buildings	7
<b>Grand Total</b>	<b>848</b>



## Lease/Purchase Structure – Certificates of Participation

---

- Participants enter into a financing contract (lease) with the Office of the State Treasurer (OST)
- OST pools the various lease agreements across all LOCAL participants and packages them as a security called a Certificate of Participation (COP)
  - COP's are similar to municipal bonds in that they are structured with regular principal and interest payments and sold to investors
  - Investors that purchase the COP are guaranteed a fixed income stream from the lease payments throughout the life of the financing contract
- The local agency retains ownership of the property throughout the term of the lease



## LOCAL Program Details

---

- The LOCAL Program requires participants to have a general obligation pledge and the ability to levy property taxes
- Minimum borrowing threshold of \$10,000 per lease/contract
- Maximum borrowing amount is decided on a case-by-case basis, based on the borrower's non-voted debt capacity and ability to repay the lease
- The length of each financing contract is based upon the useful life of the asset:
  - For real estate transactions, the maximum term is 25-years
  - For equipment, the maximum term is determined by the Office of Financial Management Capital Asset useful life schedule:  
<https://www.ofm.wa.gov/sites/default/files/public/legacy/policy/30.50.htm>



## LOCAL Program Details Cont.

---

- Property financed on a tax-exempt basis is subject to IRS tax law restrictions regarding private business use
  - When necessary, a taxable sale can be done
- Funds are generally available three times per year, in February, June and October
  - Some leases may qualify for a special issuance that could fall outside the regular schedule
  - A local agency may also choose to participate in multiple issuances if needed



# Energy Savings Projects

- Energy savings projects completed by Energy Service Companies (ESCO) are eligible for financing through the LOCAL Program
- Recent examples include HVAC upgrades for Wahkiakum County and energy efficiency lighting for Yakima County

LOCAL ESCO Projects		
Par	Agency	Property
<b>Largest</b> \$ 3,750,000	Tacoma Metropolitan Park District	Energy Savings Project: Infrastructure equipment such as pumps, furnaces, boilers, lighting, data cabling
<b>Smallest</b> \$ 15,000	Southside School District 42	Two Carrier Heat Pumps W/Installation





## ESCO Requirements

---

- The project must have reached 60% completion prior to our financing date
- The maximum financing term is 15-years, but is limited to a term equal to the useful life of the property, whichever is shorter
- M&V generally cannot be included in the financing amount
- If term is an issue, we can finance under our real estate contract, which pledges the entire property as collateral
  - Utilizing a real estate financing lease also removes the 60% completion requirement, however an executed contract does need to be in place



## Benefits – Low Interest Rates

- The LOCAL Program allows participants access to the national tax-exempt market through a competitive bid process, regardless of the size of their financing contract
- By pooling with the State's Aa1 rated COP issuances, LOCAL participants are able to take advantage of the State's very low tax-exempt interest rates
  - (see Appendix A for most recent rating report)

### LOCAL

#### *Actual Interest Rates for Most Recent Sale as of 6/2/2021*

<u>Term</u>	<u>Equipment*</u>	<u>Real Estate*</u>
5 Years	0.48%	
7 Years	0.68%	
10 Years	0.94%	
20 Years		2.11%

*\* Interest rates shown above include all financing costs. Past interest rates do not predict future interest rates. Actual interest rates are determined by the competitive bids received on the date of sale.*



## Benefits – Economies of Scale

- Local agencies participating in the LOCAL Program receive significantly reduced issuance costs
- State agencies pay the basic fixed costs of the pooled financing program, including:
  - Legal fees (bond and disclosure counsel)
  - Municipal advisor fees (for equipment)
  - Credit rating fee
- Because of the pooled approach, the cost of issuance for local agencies is limited to the incremental cost of their participation:
  - Escrow fees (if applicable)
  - Title insurance & municipal advisor fees (for real estate transactions)
  - Local agency counsel

<b>Sources:</b>	<b>Sample School District - School Buses</b>
<i>Bond Proceeds:</i>	
Par Amount	\$1,085,897
Premium	80,560
	<b>\$1,166,457</b>
<b>Uses:</b>	
<i>Project Fund Deposits</i>	
Project Fund	\$1,163,752
<i>Delivery Date Expenses</i>	
Cost of Issuance	2,158
Underwriter's Discount	547
	2,705
	<b>\$1,166,457</b>
Fees as % of Proceeds	0.23%



## Benefits – Administration

---

- The LOCAL Program is user friendly, as OST manages all technical aspects of the program, including:
  - General administration
  - Structuring
  - COP Issuance
  - IRS tax law compliance
  - Continuing disclosure
- To reduce costs and increase efficiency, the LOCAL Program uses standardized documents and a set repayment schedule
  - Lease payments are due on June 1 and December 1
- Once funds are available, proceeds can be sent directly to a participant's vendor or as a reimbursement to the local agency



# Timeline

## Preliminary LOCAL Program Timeline \*

Funds Available In	Project Type	NOI & Credit Application Cut-Off	All-Documents Cut Off	Sale Date	Funds Available	First Payment Due
February '22*	Real Estate	November 2, 2021	Early January 2022	February 2022	February 2022	June 1, 2022
	Equipment	November 15, 2021				
June '22	Real Estate	March 1, 2022	Late April 2022	June 2022	June 2022	December 1, 2022
	Equipment	March 18, 2022				
October '22	Real Estate	July 7, 2022	Mid-August 2022	September 2022	October 2022	December 1, 2022
	Equipment	July 22, 2022				

*\*All dates are tentative and subject to change; dates for future sales will be established after the current sale is completed*

- OST plans to go market three times in 2022, with funds expected to be available in February, June and October
  - OST has the ability to issue additional series if the need arises
- Funds are available approximately two weeks after the sale date



# Application Process

---

1. Notice of Intent and Credit Form

2. Form of Reimbursement Resolution

3. Financing Documents

The application process takes approximately two months from the NOI/credit application deadline to the financing documents deadline



# Application Process

---

## 1. Notice of Intent and Credit Form

- The Notice of Intent (NOI) is a standardized, non-binding agreement that notifies OST of the local agency's intent to participate in the next financing
  - It should be completed by the local agency's primary point of contact
- The credit form allows OST to analyze a participant's fiscal health and determine compliance with credit guidelines
  - The process is similar to applying for a bank loan
  - The credit form and NOI are typically submitted to OST together
- OST will respond to request within 2-3 weeks
- Participation is dependent on OST credit approval



# Application Process

## 2. Form of Reimbursement Resolution

- A Reimbursement Resolution allows a local agency to purchase equipment or property in advance of being reimbursed by a financing
  - OST provides a template for the local agency's governing body to enact a reimbursement resolution
  - This provides the participant with flexibility to purchase equipment or property independent of the financing schedule
- The reimbursement resolution must be passed by the participant's governing body either before purchasing the equipment or property or no later than 60 days after the purchase date
- The reimbursement resolution due date depends on the timing of the equipment or property purchase





# Application Process

## 3. Financing Documents

- This portion of the process is the most document intensive with the major financing documents including:
  - Authorizing Resolution (prepared by OST, completed and passed by governing body)
  - Financing Contract & Site Lease (prepared by OST, completed and signed by authorized local agency representatives)
  - Tax Certificate (prepared by OST, completed and signed by authorized local agency representative)
- See Appendix B for full list of documents
- OST requires **two** original copies of each document prior to document due date
- Financing documents can be signed electronically. OST Drafted Documents that don't require notarization may be signed electronically if they originate through OST's DocuSign account.

# Appendix A

**Rating Action: Moody's assigns Aa1 to Washington State COPs 2021A; outlook stable**

---

22 Jan 2021

New York, January 22, 2021 – Moody's Investors Service has assigned a Aa1 rating to the State of Washington's \$14,935,000 Certificates of Participation, Series 2021A (State and Local Agency Real and Personal Property). Following the issuance of the Series 2021A COPs, the state will have approximately \$934 million similarly-secured COPs outstanding, all rated Aa1. The outlook is stable.

**RATINGS RATIONALE**

The Aa1 rating on the COPs, one notch below the Aaa rating on the state's general obligation bonds, reflects the essential nature of the property being financed and/or refinanced, the moderate legal structure and subject-to-appropriation nature of the state's payment obligations, active administration of the financing program by the state treasurer's office, and the state's established track record of making appropriation-backed payments under a variety of financing programs.

The Aaa rating on the state's general obligation bonds reflects its sizable financial reserves entering the current downturn, the exceptional growth of the state's economy in recent years driven largely by the technology sector in the Seattle (Aaa stable) metro area, and the consequent economic diversification lessening dependence on aircraft manufacturing by The Boeing Company (Baa2 negative). Additional strengths include above-average wealth and income levels, and strong fiscal governance practices. While the state's debt levels are above average, they have been declining relative to the 50-state medians and the state's debt and pension liabilities combined, as well as its fixed costs, are comparable to medians. Frequent voter initiative activity adds budget challenges, but the legislature has broad authority to suspend voter-enacted statutes and a history of responding effectively to maintain budget balance.

Like all US states, Washington has faced a significant shortfall in tax revenues in fiscal 2020 and 2021 as a result of the coronavirus pandemic. Moody's expects that the shortfall will be addressed by a combination of spending cuts, measured drawdowns of reserves, and federal assistance.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the State of Washington at this time.

**RATING OUTLOOK**

Washington's outlook is stable, reflecting the positive underlying fundamentals of its economy, sizable reserves entering the current downturn, strong governance practices and manageable long-term liabilities. We expect that the state will continue to address budget gaps that emerge, as it has in the past.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING**

- Not applicable.

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING**

- A sustained or structural weakening of the state's economy.
- Protracted structural budget imbalance and/or a shift to reliance on one-time budget solutions.
- A significant deterioration of the state's cash position.

**LEGAL SECURITY**

# Appendix B

# Appendix B – Financing Documents

*Note: OST prepares all documents, to be filled out and completed by Local Agency*

- Financing Documents
  1. Form of Reimbursement Resolution
  2. Authorizing Resolution/Ordinance
  3. Local Agency Financing Contract/Lease
  4. Local Agency Financing Lease Memo
  5. Local Agency Site Lease and Site Lease Memo (Real Estate Only)
  6. Tax Certificate
  7. Opinion of Local Agency Counsel
  8. Escrow Letter
- Certificates
  - Certificate of Authorizing Resolution/Ordinance
  - Certificate Designating Authorized Agency Representatives
  - Certificate of Incumbency
- Other
  - Construction Contract (Real Estate Only)
  - Evidence of Property Insurance (due after purchase of property)
  - Title Insurance Policy (Real Estate Only)