Updates on Local Government Programs
Office of State Treasurer Duane A. Davidson

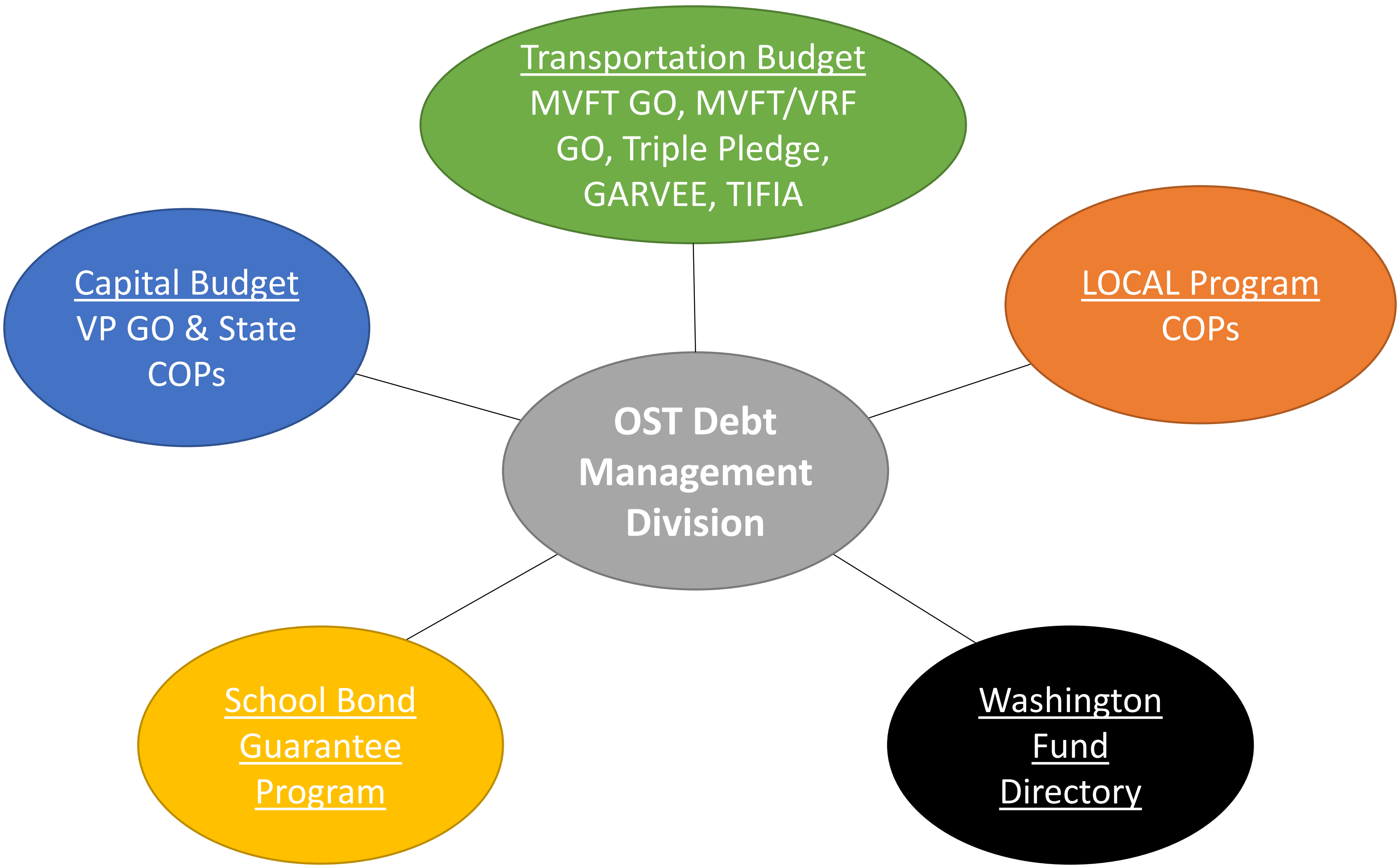
Senate Financial Institutions,

Economic Development & Trade Committee

January 14, 2020

Debt Management

Debt Management Overview



Credit Ratings/Costs of Funds

VPGO Bond Credit Ratings		
Aaa	**AA+**	**AA+**
Moody's	S&P	Fitch

MVFT, MVFT/VRF, Triple Pledge Credit Ratings		
Aaa	**AA+**	**AA+**
Moody's	S&P	Fitch

COP Credit Rating		
Aa1		
Moody's		

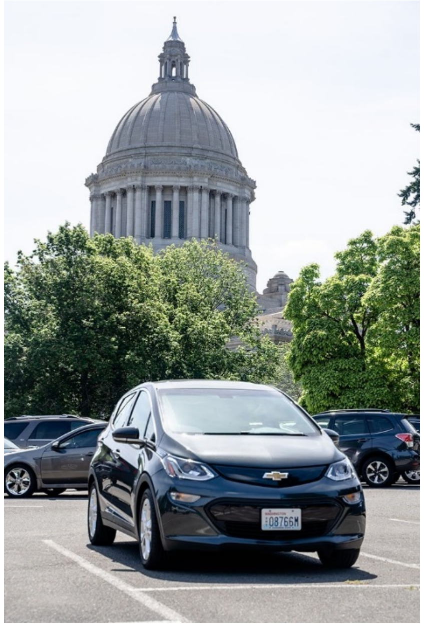
Series & Sale Date	Borrowing Cost	Average Life (years)
VP GO September 10, 2019	**2.88%**	15.289
MVFT VRF GO September 10, 2019	**2.89%**	15.173
COP September 24, 2019	**2.07%**	7.169

Certificates of Participation - Financing Contracts

- Issued to finance equipment and real estate on behalf of the State and Local Governments
  - The State Lease-Purchase Program
  - Local Option Capital Asset Lending (LOCAL) Program

- COPs are issued three times per year (June, October, February)

- Property financed through the State Lease-Purchase Program
  - Helen Summers building
  - Community College facilities
  - State vehicle fleet



LOCAL Program Overview

- Financing program offered by OST to help Local Governments finance essential real estate and equipment

- Pools the local financing with the State Lease-Purchase Program

LOCAL Program Benefits

- The LOCAL Program helps Local Governments by providing:
  - Low interest rates
  - Low issuance costs
  - No out of pocket expenses
  - Ease of administration
  - Economies of scale

- These benefits are achieved by pooling the Local Government and State lease-purchases together in a single COP financing

School Bond Guarantee Program

- The School Bond Guarantee (SBG) Program pledges the State's Aaa/AA+/AA+ credit to guarantee the repayment of voter approved school district GO bonds
  - Provides extra security for school bonds, strengthening their rating and reducing interest costs
  - The program saves taxpayers around $21 million annually

- The State has never been called upon to pay debt service on guaranteed school debt

- $24.6 billion guaranteed since program inception (1999)

- As of September 1, 2019:
  - 178 districts participated in the program
  - 488 separate issuances totaling $14.8 billion guaranteed

Photo Credit: Bellingham School District

Washington Fund Directory (wafunddirectory.wa.gov)

Example of Funding Programs Listed In Fund Directory

Washington State
Public Works Board
Infrastructure is Fundamental

Washington State Department of Health

Washington State
Housing Finance Commission
Opening doors to a better life

Department of Ecology
State of Washington

Public Deposit Protection Commission

PDPC – Protecting Public Deposits

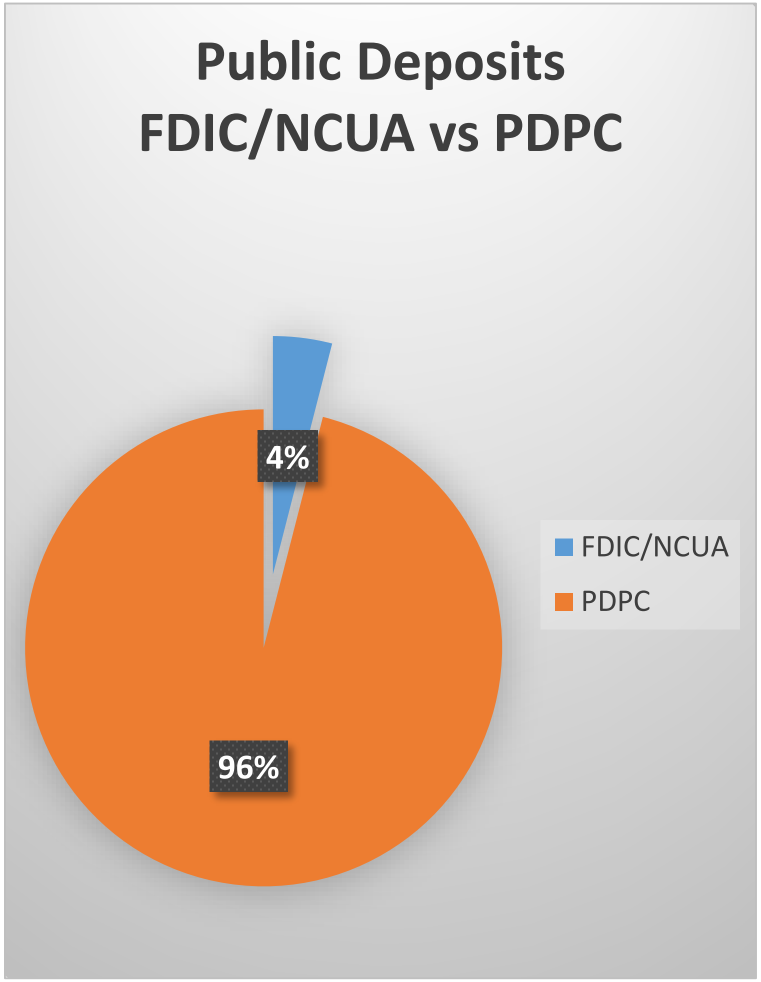
- Public Deposit Protection Commission (PDPC)

- Protecting Public Funds on Deposit at Financial Institutions
  - Makes and enforces regulations
  - Safeguards against loss if financial institution becomes insolvent
  - Safeguards against loss if financial institution becomes insolvent
  - Monitor public depositaries & identify financial condition concerns
  - Administer collateral program to secure federally uninsured public deposits

PDPC – Protecting Public Deposits

- PDPC Oversight

  - 8.9 Billion public deposits in 60 banks & 20 credit unions
  - Up to $250,000 of public deposits are insured by FDIC & NCUA
  - Public deposits exceeding federal limits are protected by PDPC

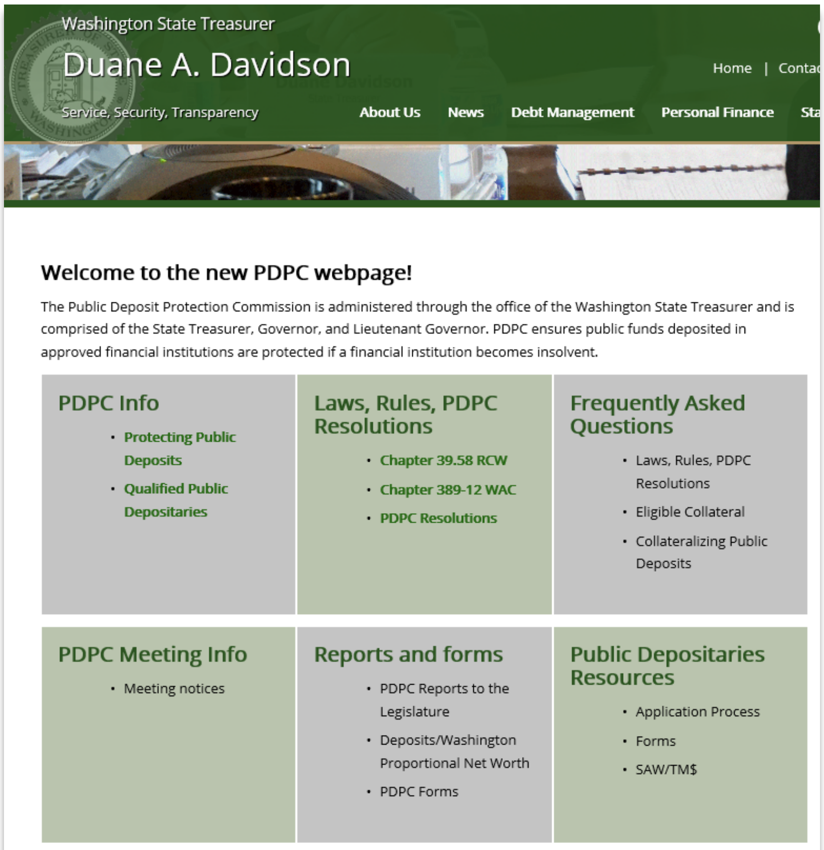


PDPC – Protecting Public Deposits

- **Overview, Intent, and updates**
  - PDPC Secures/Protects Public Funds
  - Collateralization Requirements
  - PDPC is a Safety Net for Deposit Protection
  - The PDPC Protected and Modernized Public Fund Protection from Loss During Bank Failures
  - SHB 1209 (2018)--Credit Unions as Public Depositaries

PDPC – Protecting Public Deposits

- Overhaul of PDPC Website



- Greater transparency through additional reporting data

- Features include:
  - Historical Information
  - Listing of Qualified Public Depositaries
  - PDPC RCWs, WACs, and Resolutions
  - Reports

Investment Management

Investments Mission

- Efficient management of all state funds:
  - Ensuring cash needs of state agencies are met
  - Optimal investing of temporary surplus balances
  - All to achieve, in priority order: safety, liquidity and return
- Make OST investment expertise available to local governments through the Local Government Investment Pool portfolio (LGIP) and Separately Managed Account (SMA) program
- Promote prudent investment practices for all governmental entities in Washington State

Local Government Investment Pool

- Objective: Provide a safe, liquid, short-term investment vehicle for local governments
  - Patterned after private sector 2a-7 money market funds
  - Benchmark - net and gross yields of the iMoneyNet Government & Agency group of funds
  - 100% liquidity daily and NO maturity date
  - Safely invest while achieving a competitive rate of return
  - Voluntary

- By statute can only charge what it costs to run the LGIP
  - Fee includes all direct and indirect costs
  - FY 2019 Administrative Fee – 0.7 basis point (0.007%)
  - 13th consecutive year in a row the fee has been less than one basis point

- Liquidity
  - Participant Deposits - $57,605,541,228
  - Participant Withdrawals - $57,754,668,474

Local Government Investment Pool

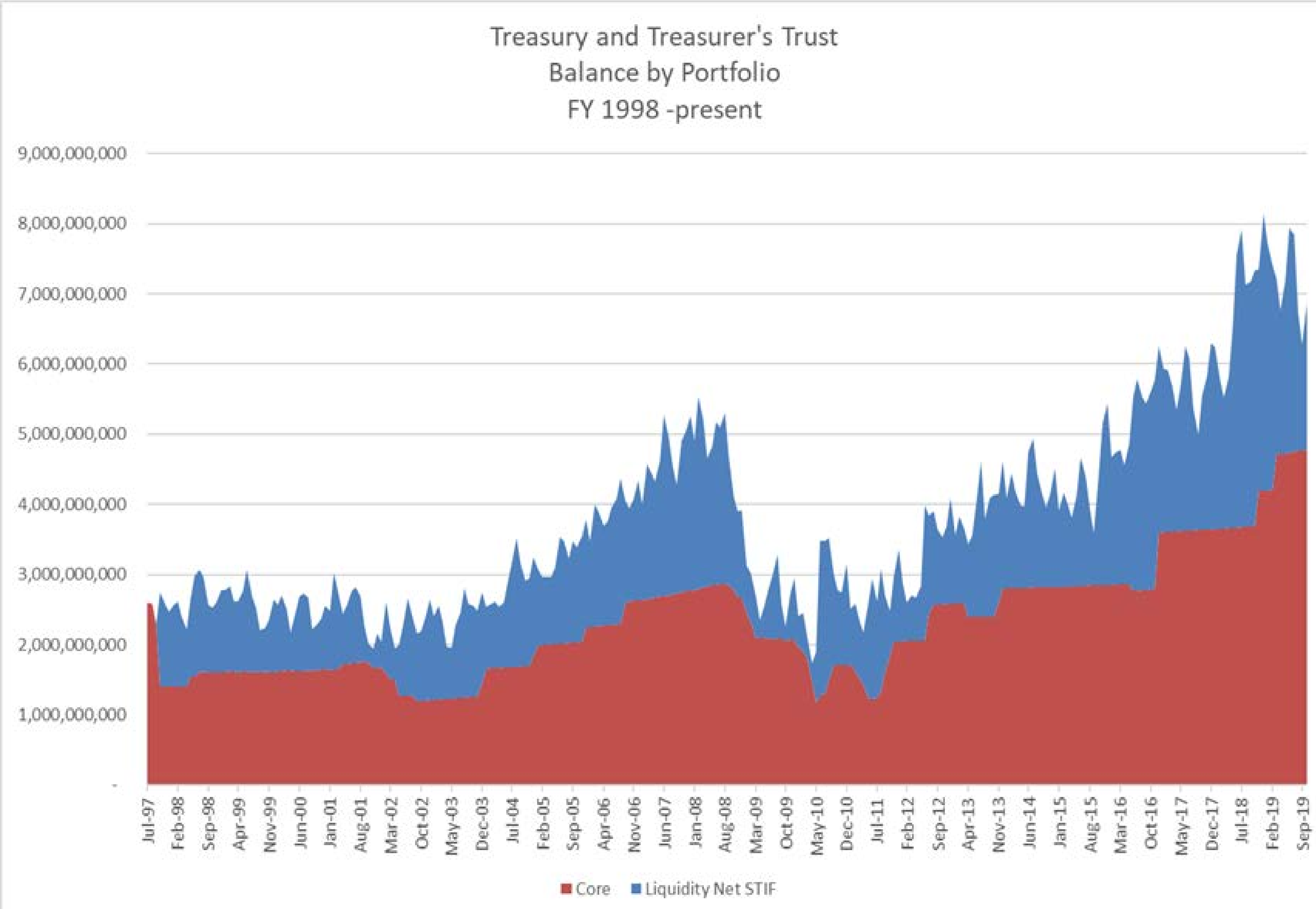
- Currently has 633 participants and 982 accounts

- Financial Highlights for FY 2019:
  - Net position of $17.4 billion
  - Average balance of $15.4 billion
  - Increase in net position of $210 million
  - Earned $359.2 million, net of expenses for pool participants, which was an increase of $172.1 million from the previous fiscal year
  - Participants earned $59 million over what the average comparable money market fund would have generated
  - Average annualized monthly yield was 39 basis points greater than that of its benchmark

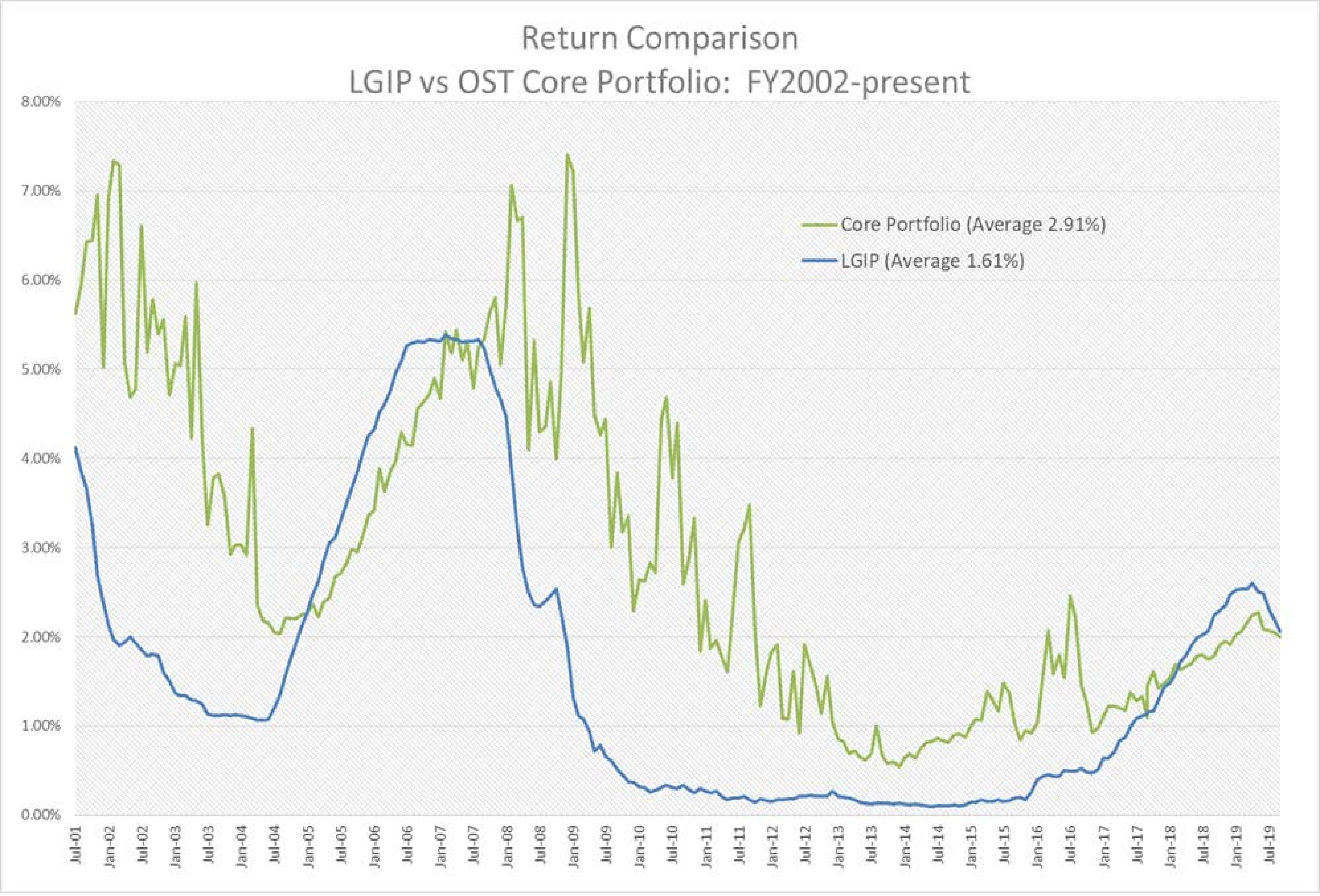
State Portfolio

- The Investments Division is responsible for investing balances in the State Treasury and the custody of the State Treasurer that are not need for current expenditures
- Funds are invested to ensure safety and availability of cash to meet day-to-day requirements of state agencies, while maximizing returns
- By statute, OST holds and invests the funds of most Washington state agencies. These captive funds are pooled, which allows a portion of the total portfolio to be invested in securities with longer maturities
- Investments are divided into two portfolios:
  - Liquidity
  - Core

State Portfolio



State Portfolio



Separately Managed Accounts

- OST's 2019 request legislation, HB 1284, authorized OST to provide separately managed investment portfolios to eligible governmental entities
- Investment management of longer term balances for LGIP-eligible entities
- Leverages OST investment expertise as an additional resource for local governments
- Pierce County was OST's pilot SMA portfolio, which started in June 2018
- Governed by interagency agreement
- Each participant has its own portfolio; all portfolios share the same investment policy and benchmark
- Separate custody account that is not commingled with state funds
- Designed for stable balances; unanticipated withdrawals will affect duration and could result in losses
- Eligible investments include Treasury, agency and supranational notes
- The City of Redmond joined the program January 2, 2020

Investment Involvement in Education

- OST strives to provide and promote investment training to local governments
- We have been actively involved for more than 20 years with different conferences and associations
- Every year people from our investment team attend the following:
  - Washington Public Treasurers Association (WPTA)
  - Washington State Association of County Treasurers (WSACT)
  - Washington Finance Officers Association (WFOA)
  - Government Investment Officers Association (GIOA)
  - National Association of State Treasurers (NAST)
- Our staff also participates on boards and committees

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Questions?

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Service, Security, Transparency