

Department of Commerce


# Bond Basics and Beyond

*Tom Gilmore and Liz Green-Taylor*  
*Bond Users Clearinghouse and Bond Cap Allocation Programs*

October 23, 2018 – 9:30 AM

## We strengthen communities


The Department of Commerce touches every aspect of community and economic development. We work with local governments, businesses and civic leaders to strengthen communities so all residents may thrive and prosper.




Planning




Infrastructure




Community Facilities



Housing



Safety / Crime Victims



Business Assistance



Department of Commerce

2

## Session Outline

- Basics of bond financing
- Reporting requirements
- Exploring bond data
- Bond Cap Allocation and Public/Private Partnerships
- Impacts of federal legislation on municipal bonds
- Where to go for more information

## What is bond financing?

- 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

## Bonds vs Conventional Loans

### 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 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



Department of Commerce

5

## 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 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



Department of Commerce

6

## 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/>



Department of Commerce

7

## Types of Bonds

- **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
- **Revenue Bonds**
  - Payable from specific system (e.g., water, sewer) revenues
  - Count against constitutional limitations
  - Do not count against statutory limitations



Department of Commerce

8

## Types of Bonds, Continued

- **Special Assessment Bonds**
  - Payable from assessments on specific properties
  - Examples: sidewalks or street lights in a specific neighborhood
  - Count against constitutional limitations
  - Do not count against statutory limitations
- **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
  - Counts against both constitutional and statutory debt limitations



Department of Commerce

9

## Definitions: Taxable or Tax-Exempt

- “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)



Department of Commerce

10

## Definitions: Public or Private Activity

- Government (public) activity bond = tax-exempt
  - Examples: school district bonds, most infrastructure bonds, etc.
- Private activity bond (PAB) = taxable unless issued under the “bond cap”
  - **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 . . .



Department of Commerce

11

## 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



Department of Commerce

12

## 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 facilities district)



Department of Commerce

13

## 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.



Department of Commerce

14

## 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)



Department of Commerce

15

## 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's your responsibility to ensure that it is done.



Department of Commerce

16



## Reporting to BUC

- Step 1 – Register an account with BUC at <https://buc.com.wa.lcl/NewUser.aspx>
  - The Bond Cap manager 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).



Department of Commerce

17

## Reporting to BUC

- 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 “OK”
  - Click “Access” in the Bond Users Clearinghouse box
  - Click “Continue”



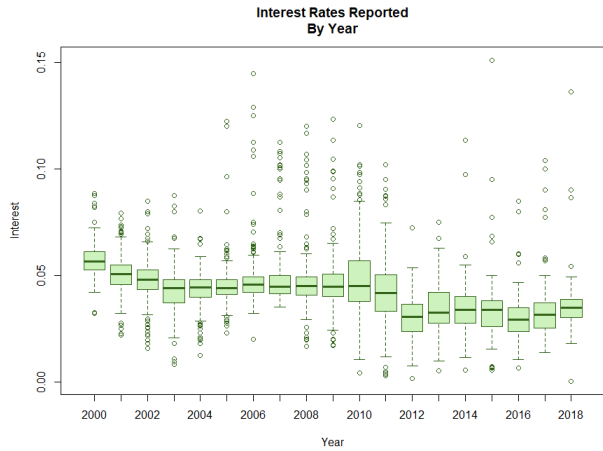
Department of Commerce

18

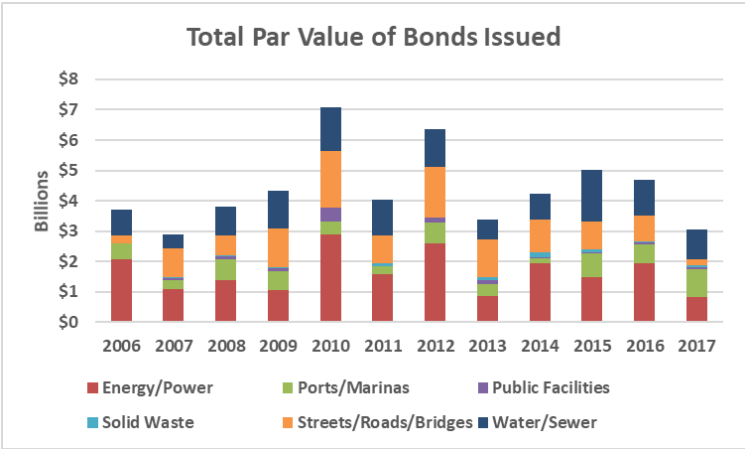
## Reporting to BUC

4. Insert the code you received from BUC into the box, then click “Finish Registration”
5. Click on “Complete New Bond Report Form 101”
6. Fill out the online Bond 101 forms within 20 days of bond issuance
7. Questions or Problems? Contact Tom Gilmore at
  - [tom.gilmore@commerce.wa.gov](mailto:tom.gilmore@commerce.wa.gov)
  - 360-725-5038

## BUC Data Trends – Interest Rate



### BUC Data Trends – Infrastructure Bonds



Department of Commerce

### BUC Data – Infrastructure Bonds Par Value

	2013	2014	2015	2016	2017
Energy/Power	\$855,260,000	\$1,960,834,360	\$1,485,249,852	\$1,935,555,754	\$847,865,000
Ports/Marinas	\$387,267,000	\$154,540,276	\$789,795,816	\$642,738,617	\$916,875,000
Public Facilities	\$148,025,000	\$21,058,314	\$28,312,900	\$42,807,449	\$57,173,872
Solid Waste	\$109,000,000	\$171,450,000	\$107,520,000	\$35,335,000	\$57,856,000
Streets/Roads/Bridges	\$1,242,203,812	\$1,064,626,399	\$891,604,000	\$850,068,373	\$201,197,000
Water/Sewer	\$639,831,045	\$867,910,000	\$1,712,978,426	\$1,185,313,232	\$964,929,108



Department of Commerce

## 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")



Department of Commerce

23

## 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 Tom Gilmore: [tom.gilmore@commerce.wa.gov](mailto:tom.gilmore@commerce.wa.gov) or 360-725-5038
- Database covers bonds from 2000 to present



Department of Commerce

24

## Bond Cap Allocation Program

- Federal limit (“cap”) on some types of tax-exempt PABs
- Cap = state population x annual multiplier
- Washington’s 2018 cap:  
7,405,743 (population)  
x \$105 (per capita)  
\$777,603,015 in total par value
- “Allocation” = authority to issue a bond under the cap

## Bond Cap Project Types

- Affordable Housing – 42% initial allocation
  - Multifamily rental housing
  - Low- to moderate-income homeownership help
- Small Issue Manufacturing – 25% initial allocation
- Exempt Facilities – 20% initial allocation
- Student Loans – 5% initial allocation
- Remainder – 8% flexible category

## Bond Cap and Infrastructure

- 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



Department of Commerce

27

## 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 to a neighborhood served by a private water system
- New trucks for a city's garbage-collection contractor

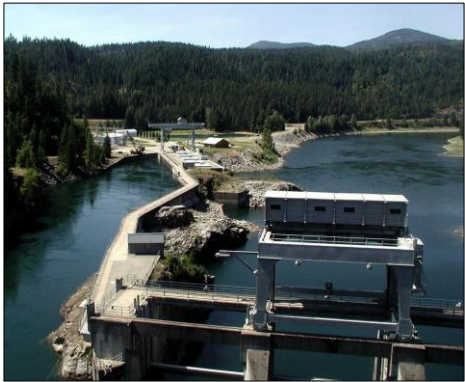


Department of Commerce

28

### Example – Pend Oreille PUD

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



### P3 Example – Four Cities and a Resort

Roslyn, Ronald, Cle Elum and South Cle Elum



# The Resort

## Grand Fir Lodge at Suncadia Resort



Department of Commerce

31

# Impacts of Passed Legislation

## Tax Cuts and Jobs Act of 2017

- Impacts are mixed, but potentially affect all local government bonds, whether for public or private activities.
- The cuts to corporate income tax rates tend to make tax-exempt bonds less attractive to the banks and insurance companies that typically purchase municipal bonds.
- The \$10,000 limit on deductions of state and local taxes tends to make tax-exempt bonds more attractive in areas of the country where local taxes are high.



Department of Commerce

32



## Impacts of Proposed Legislation

### Sustainable Water Infrastructure Investment Act of 2018

- Removes the bond volume cap on water and wastewater system private activity bonds (PABs)
- All water and wastewater bonds, including PABs, will be tax-exempt by definition, without limits and without requiring a Bond Cap allocation (as are docks & wharves, airports)
- Eliminates a step and potential limitations on public-private partnerships (P3) for water and wastewater bonds
- Bill link: <https://www.congress.gov/bill/115th-congress/senate-bill/3358/text>
- Article: <https://waterfm.com/new-private-activity-bond-legislation-introduced/>



Department of Commerce

33

## Impacts of Possible Legislation

Other pending or suggested federal changes with mixed or unpredictable impacts, include:

- Creation of national infrastructure program
- Budget negotiations
- Elimination of all tax-exempt PABs
- Possible new “green energy” category of tax-exempt PABs
- Interest rate increases



Department of Commerce

34

## More Bond Cap Information

- Website:  
<https://www.commerce.wa.gov/about-us/research-services/bond-cap-allocation-program/>
- Program Manager Allan Johnson:
  - [Allan.Johnson@commerce.wa.gov](mailto:Allan.Johnson@commerce.wa.gov)
  - 360-725-5033



Department of Commerce

Presented by:

**Tom Gilmore**  
Bond Users Clearinghouse  
(360) 725-5038  
[Tom.Gilmore@commerce.wa.gov](mailto:Tom.Gilmore@commerce.wa.gov)

**Liz Green-Taylor**  
Research Services  
(360) 725-5042  
[Elizabeth.Green-Taylor@commerce.wa.gov](mailto:Elizabeth.Green-Taylor@commerce.wa.gov)

[www.commerce.wa.gov](http://www.commerce.wa.gov)

[facebook](#) [twitter](#)