A State-Created, Public Cooperative Bank for Washington State: Design Framework, Business Plan, and Draft Legislation

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TABLE OF CONTENTS

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However, it is emphasized that the discussion, analysis and views in this status report are solely those of the authors.

Overview

This document is the culmination of extensive analysis of the feasibility and design of a state-created, public cooperative bank (hereafter, "the Bank") that would serve the governments of Washington State and its political subdivisions.

In 2018 the Legislature included in the fiscal 2018-19 budget SB 6032 Sec. 129(17) a proviso that appropriated $480,000 ($192,000 in fiscal 2018 and $288,000 in fiscal 2019) for the Washington State Office of Financial Management (OFM) to contract with an entity or entities with expertise in public finance and commercial and public banking to evaluate the benefits and risks of establishing the Bank, and to develop a business plan for its creation and launch. (The full text of the budget proviso is in Appendix A.)

In late June 2018, OFM contracted with the Daniel J. Evans School of Public Policy and Governance at the University of Washington with an effective date of July 1, 2018 to complete this evaluation. Two Evans School faculty members — William A. Longbrake, affiliate associate professor, and Justin Marlowe, Endowed Professor — served as co-principal investigators. The workplan in the contract divided the work into two phases, with a preliminary report to be provided to OFM by November 1, 2018 and a final report, including the business plan to be provided to OFM by June 1, 2019. (The full text of the workplan is in Appendix B.) However, because the contract was let after the end of fiscal 2018, the appropriation of funds for fiscal 2018 had expired. Thus, the contract amount was $275,000. It was understood by both parties that that amount would be insufficient to complete the second phase, including preparation of the business plan and that additional funding would need to be appropriated in the 2019 legislative session.

On November 30, 2018, the Evans School research team delivered a report titled *Evaluation of the Benefits and Risks of a State-Chartered, Public Cooperative Bank – Status Report* (hereafter, the "Phase I report")[1] As required in the workplan, that report focused on the Bank's feasibility. It incorporated information from an extensive survey of local governments across the state, consultations with banking industry participants, and a review of the relevant literature, among many other sources.

There were three main conclusions in the Phase I report:

1. Washington State could create a public cooperative bank, but would need to first enact an authorizing statute and amend various other statutes.
2. Based upon a "User Needs Survey" of state governments and political subdivisions, 32% indicated interest in public cooperative banking, 22% indicated no interest, and 46% were uncertain whether they would benefit. Interest was greatest among smaller and rural local political subdivisions.

[1] That report is available at https://www.ofm.wa.gov/sites/default/files/public/publications/PublicCooperativeBanking.pdf

3. Small jurisdictions and public utilities expressed considerable interest in specific products and services the Bank might offer. However, many of those services are available, entirely or in part, through existing state government programs or through private financial institutions.

The Phase I report also described several models and governance mechanisms that could address the legal and financial risks that would accompany the creation of the Bank.

The Legislature included a new $100,000 proviso in the supplemental 2019 budget directly to the University of Washington intended to provide funds for the completion of the business plan mentioned in the Phase I report.[2] Work on the second phase and development of the business plan began in July 2019 and was carried out in direct consultation with several state legislators and their legislative staffs.

This report (hereafter, the "Phase II report") meets the expectations articulated in the original 2018 budget proviso, the 2019 supplemental budget proviso, and phase 2 of the original OFM workplan. It is organized in three parts.

Part I is a "design framework" that speaks to what we consider to be the main issues the Legislature must address about the Bank's initial design. It poses six questions that will need to be addressed in drafting implementing legislation:

1. Which types of entities and projects should be eligible to participate in the Bank?
2. Where would the Bank reside within state government?
3. Who would regulate the Bank?
4. Who should exercise oversight of the Bank's programs and operations?
5. How could the Bank optimize its credit rating?
6. What staffing resources and administrative expenses would the Bank require?

Our analysis and responses to those questions are based on our interpretation of information gathered from several sources, including: the contemporary literature on public banking; the academic literature on cooperative infrastructure financing models like bond banks and infrastructure banks; consultations with Washington state legislators; consultations with relevant personnel at several Washington state agencies; pronouncements from the credit rating agencies, state regulators, and federal regulators; and our own expertise on banking, infrastructure finance, and state and local finance generally.

For some of those questions our analysis and interpretation identified a clear course of action, often requiring new legislation and/or changes to existing statutes. For other questions we were unable to discern a legislative preference, or we were unable to determine the technical or political feasibility of a particular option. In those cases we instead describe for the Legislature the advantages and

[2] Put differently, the total amount spent on this project from June 2018 to the present is $375,000.

disadvantages of potential courses of action. The Bank's ultimate finances, operations, governance, and oversight would depend in large part on how the State answers these questions.

Part II is a business plan for the Bank. It covers the Bank's goals, membership structure, oversight and governance, and other operational details. It is based on a variety of assumptions developed from information taken from several sources, including the Phase I report findings, new information gathered during the Phase II analysis, and the research team's expertise. With those assumptions established, the plan then outlines a variety of working assumptions about the Bank's operational details, and provides proforma financial statements for three scenarios for the Bank's first ten years of operations.

Part III is draft legislation to effectuate the business plan. It incorporates the requisite legislative changes needed to create the Bank and enable its operations, as described in the business plan.

Part I: Design Framework

This section provides analysis and response to six questions that the State must address when considering the design of a public cooperative Bank.

1. Which types of entities and projects should be eligible to participate in the Bank?

Potential Benefits to Local Governments and the State

A public cooperative Bank could offer local governments many potential benefits.

First and foremost, it could offer financing on public infrastructure projects at lower underwriting/origination fees than investment banks. This has certainly been the case with bond banks and other local infrastructure pooling mechanisms in other states. The Phase I User Needs Survey showed that many public finance officials in smaller, rural jurisdictions believe larger regional and national investment banks simply aren't interested in their projects, and that community banks often do not have the capacity to underwrite their projects at scale. A Bank with the ability to pool multiple smaller projects could operate at economies of scale.

Second, with a strong enough credit rating based on strong capital reserves (see Question 5) the Bank could offer more competitive rates than investment banks for certain types of projects. However, this benefit comes with several caveats. Below market rate financing would most likely be available only for low-risk local projects supported by stable local revenue streams. Most local governments have no trouble financing those projects in the public capital markets, thus obviating that potential role for the Bank. By contrast, there is a clear unmet demand for financing of riskier local projects that the public capital markets have tended to support less enthusiastically, particularly in areas like public utilities, economic development, and public housing.

A third potential benefit is that the bank would enable local governments to make deposits in the Bank at potentially higher rates of return than what are currently available through the Local Government Investment Pool and other investment options. Such deposits could also be a source of funds for the Bank to extend short-term loans to members.

At the same time, it should be noted that the potential benefits of other models of public banking in other states are not available within the public cooperative banking model described here. Because of constitutional limits on "gifts of public goods," lending to the private sector would be prohibited. That eliminates the potential for student loans or business loans. Our assessment also suggests it would be operationally difficult and costly for the Bank to serve as a local government's "transactional" bank, as has been suggested in other analyses of public banking.[3]

Recommended Assumptions about Membership

In light of these findings, we recommend the following:

- Bank is created as a cooperative membership organization.
- Overall, based on 2017 State Auditor's Office data, 2,905 state political subdivisions are eligible to be members of the Bank. Membership is voluntary, therefore only a fraction of governments eligible to be members will choose to become members.
- The number of political subdivisions that choose to become members will increase over time.

We developed estimates of potential membership from responses to the "User Needs Survey" conducted as part of the Phase I analysis carried out in autumn 2018. Of the 1,703 political subdivisions contained in a data base available from the Office of the State Auditor, 531 covering five categories of governments – city/town, county, public facilities district, public utility district and water sewer district – were invited to participate in the "User Needs Survey."

Statistical methodology was used to estimate the probability of bank membership of political subdivisions in each of the five categories. The statistical methodology produced a specific probability estimate of the likelihood of membership for political subdivisions in each category and a confidence interval bracketing the point estimate. The point estimate is referred to as the "BASE" and the confidence interval resulted in "LOW" and "HIGH" membership probability estimates.

Six other categories of political subdivisions – fire protection district, hospital district, housing authority, park and recreation district, port/airport district, and transportation authority – totaling 579 political subdivisions, were included in the development of membership estimates. Because political subdivisions in these six categories did not participate in the "User Needs Survey," membership probability estimates for "BASE," "LOW," and "HIGH" were assumed to be the weighted average membership participation probability of political subdivisions in the five categories included in the "User Needs Survey."

Table 1 shows the number of political subdivisions in each of the eleven categories covering 1,110 member-eligible political subdivisions that are estimated will choose to be members of the bank in the "BASE," "LOW," and "HIGH" scenarios – 387, 171, and 636, respectively.

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[3] See, for example, the "Public Bank Feasibility Study for the City of Seattle" – available at: http://coscouncilconn.wpengine.netdna-cdn.com/wp-content/uploads/2018/10/HR-A-Advisors-Public-Bank-Feasibility-Study.pdf

Although membership probability was not estimated for political subdivisions in other categories (totaling 602 local entities), these governments would be eligible to become members, as would the 1,202 not in the State Auditor's data base. Political subdivisions in these other categories generally are small and have limited need for services offered by the bank.

Table 1: Eligible Local Governments and Potential Bank Membership

Government Type	Number of Governments	Included in Survey	Included in Business Plan	Bank Member BASE	Bank Member LOW	Bank Member HIGH
City/Town*	270	270	270	87	44	137
County*	39	39	39	4	1	15
Public Facilities District	25	25	25	8	1	16
Public Utility District	30	30	30	14	3	23
Water Sewer District	167	167	167	74	34	117
Fire Protection District	332		332	115	51	189
Hospital District	50		50	17	8	28
Housing Authority	38		38	13	6	22
Park and Recreation District	53		53	18	8	30
Port/Airport District	81		81	28	12	46
Transportation Authority	25		25	9	4	14
Air Pollution District	7					
Area Agency on Aging	6					
Behavioral Health Organization	2					
Cemetery District	91					
Conservation District	45					
Diking/Drainage District	77					
Emergency Management Service	28					
Flood Control District	11					
Health District	10					
Industrial Development Corporation	18					

Irrigation and Reclamation District	91					
Library District	41					
Local/Regional Trauma Care Council	8					
Miscellaneous	31					
Mosquito/Pest/Weed District	31					
Public Development Authority	30					
Regional Planning Council	13					
Risk Pool	15					
Stadium Authority	1					
Transportation Benefit District	19					
TV Reception District	2					
Water Conservancy Board	16					
TOTAL	1,703	531	1,110	387	171	636
General Purpose Governments*	309	309	309	92	45	152

*General purpose governments include city/town and county

Table 2 shows "BASE," "LOW," and "HIGH" membership probabilities for the 11 categories of political subdivisions. These participation probabilities were used to develop three sets of financial proforma statements presented in Part II – "BASE," "LOW," and "HIGH."

Table 2: Predicted Rates of Participation in a Public Bank

Government Type	Bank Member BASE	Bank Member LOW	Bank Member HIGH
City/Town	32.3%	16.2%	50.6%
County	11.2%	2.3%	39.0%
Public Facilities District	30.6%	5.1%	62.5%
Public Utility District	45.8%	9.7%	76.7%
Water Sewer District	44.4%	20.3%	70.1%
Fire Protection District	34.5%	15.3%	56.8%
Hospital District	34.5%	15.3%	56.8%
Housing Authority	34.5%	15.3%	56.8%
Park and Recreation District	34.5%	15.3%	56.8%
Port/Airport District	34.5%	15.3%	56.8%
Transportation Authority	34.5%	15.3%	56.8%

2. Where would the Bank reside within state government?

There are three options:

1. State-created entity which operates independently
2. State-created entity which contracts with other state agencies for specific services
3. Expansion of the responsibilities of an existing state agency. There are at least three logical state agencies which have missions and staffing expertise congruent with the anticipated activities of the bank:
    - Washington State Treasurer – expertise in managing funds for municipal governments, working with credit agencies and capital markets in issuing debt
    - Washington State Housing Finance Commission – expertise in housing finance and expertise in working with capital markets and rating agencies
    - Public Works Board – expertise in working with municipal governments on infrastructure projects

Option 1 – State-created entity that operates independently

- Positive – The bank would be a cooperative capitalized and governed by member state agencies and political subdivisions; policy and financial decisions, such as rules on capital contributions, would be made by the political subdivisions that are putting money up to capitalize the bank
- Positive – Enables bank to structure itself without limitations and constraints of an existing statutory mandate of another state agency
- Negative – Starting a bank from scratch has inherent risks. It will take time to hire staff and could slow recruitment of members
- Negative – Without an established track record, may be difficult to obtain the highest possible credit rating, at least initially
- Negative/Positive **–** The Public Works Board and the state Treasurer's Local Government Investment Pool (LGIP) would see the bank as a direct competitor, but it could be argued that competition might achieve better outcomes for political subdivisions, e.g. the bank could expand maturity options for member investments

Option 2 – State-created entity that contracts with other state agencies for specific services

- Positive – The bank would be a cooperative capitalized and governed by member state agencies and political subdivisions; policy and financial decisions, such as rules on capital contributions, would be made by political subdivisions that are putting money up to capitalize the bank
- Positive – Governance, recordkeeping and financial management could easily be segregated when contracting with other state agencies for specific services
- Positive – Bank able to structure itself without limitations and constraints of an existing statutory mandate of another state agency

- Positive – Start-up risks could be reduced substantially by utilizing the established capabilities and expertise of an existing state agency
- Positive – Obtaining a high credit rating would be facilitated by a contractual relationship with the Housing Finance Agency or the State Treasurer
- Positive – Providing technical assistance to members on infrastructure projects would be facilitated and expedited though utilization of existing expertise in the Public Works Board
- Positive – Bank staff could focus efforts better on recruiting members; concerns of potential members about the bank's viability could be mitigated
- Positive – It is possible that the total cost of operating the bank would be reduced because of economies of scale in shared operations
- Negative – It could increase the risk of political in-fighting

Option 3 – Expansion of the responsibilities of an existing state agency

- Positive – Avoids creating yet another state agency when existing state agencies can already provide some (but not all) of the services the bank could provide to members
- Positive – Eliminates the risk that membership in a separately-created bank and usage of its services is insufficient to establish financial viability
- Negative – Eliminates ability of political subdivisions to work collaboratively in a cooperative governance structure with respect to infrastructure projects and financing
- Negative – Does not facilitate pooling of financing needs of political subdivisions which would limit the ability to obtain low-cost infrastructure financing

Based on consideration of the positive and negative aspects of each option, we recommend Option 2.

3. Who would regulate the bank?

Audits of Financial Statements

State agencies typically are required to have independent auditors audit their financial statements. This requirement should apply to the bank.

Audits of Processes, Internal Controls and Compliance with Laws and Regulations

Best practice involves conducting periodic audits of systems and processes such as record keeping, credit underwriting and reviews, information security, to name a few. The State Auditor oversees operational audits of state agencies, but in some instances, such as the Washington State Investment Board, an agency can have its own internal audit capability, which supplements the work of the State Auditor. Like most financial institutions, the Bank should have a robust internal audit capability. However, given the expected small size of the staff, the most cost-effective approach to internal audits will be through a qualified outside audit firm, which should be in addition to the State Auditor and also in addition to an external audit firm that conducts the audit of financial statements.

Oversight and Examination by a Qualified Independent

Robust internal and external audits plus oversight by the State Auditor should be sufficient. The Washington State Housing Finance Commission (WSHFC) engages in many of the financial activities in which the bank is expected to engage. The regulatory oversight processes that apply to WSHFC could be followed for the Bank. The WSHFC, with the approval of the State Auditor, contracts with an independent national accounting firm to annually audit its books. The State Auditor periodically performs "accountability audits" of the WSHFC's compliance with applicable law while retaining the statutory authority to perform its own financial audits if the State Auditor deems it appropriate.

However, financial institutions, because they engage in activities that pose financial risks to a broad array of stakeholders, are typically subject to oversight and examination by a professional agency, such as the Department of Financial Institutions (DFI). DFI has expertise in credit analysis, capital markets activities, compliance with laws and regulations and information security. DFI has expressed concern about potential limitations in its capabilities to examine the bank. There may also be concern on the part of DFI about potential political ramifications of examining another state agency. Nonetheless, should the legislature desire another layer of regulatory oversight in addition to internal and external auditing, DFI is the best existing option available.

An alternative possibility to DFI is the Public Deposit Protection Commission (PDPC) whose members include the Governor, Lieutenant Governor, and Treasurer.

A hybrid regulatory oversight structure could involve DFI having direct examination authority, with the PDPC or a similarly structured body serving as an oversight board. An example of such a structure at the federal level is the Public Company Accounting Oversight Board (PCAOB) which is a nonprofit corporation established by the U.S. Congress to oversee audits of public companies. Board members of the PCAOB are selected by the Securities and Exchange Commission, which has responsibility for examining the financial statements of public companies. Another example at the federal level was the Resolution Trust Corporation whose responsibility was to resolve failed savings and loans associations in the 1990s. It had a board of directors, but Congress also provided for an oversight board, which included the Secretary of the Treasury, the Chairman of the Federal Reserve System and the Director of the General Accountability Office.

A dual regulatory oversight structure could provide at one level detailed oversight of the bank's operations and financial soundness and at the oversight level review of policies and program initiatives. For example, the authorizing statute for the bank could provide for State Auditor financial and accountability audits, with the State Auditor authorized to approve independent annual financial audits similar to the arrangement for the WSHFC. In addition, annual audits and performance reports could be sent to the PDPC, which could be vested with the authority to order additional reviews and audits if it deems necessary.

Oversight by the State Legislature

State agencies customarily submit reports of activities to the state Legislature and are subject to legislative oversight hearings. This should be a requirement for the bank.

4. *Who should exercise oversight of the Bank's programs and operations?*

There are three sets of governance considerations – composition and size of the board of directors, oversight of operations, and role of the state legislature.

Board of Directors

The board of directors would have overall governance responsibility for the operations of the bank including traditional responsibilities of corporate boards, such as hiring or engaging a Chief Executive Officer (CEO) by appointment or by contract, and determining the CEO's compensation, establishing operating policies, approving programs, approving business plans and budgets, and hiring external auditors to perform financial statements audits and operational audits.

Several objectives should guide determining the composition of the board of directors:

- Member representation
- Public representation
- Linkage with elected officials and state agencies with relevant expertise
- Expertise – financial management, credit management, infrastructure finance, information technology, operations management would be among the more important areas of board member expertise
- Diversity – skills, ethnicity, gender

The objectives of expertise and diversity can be met by managing the identification of member and public candidates for board membership.

The size of the board matters. It should be large enough to meet the compositional objectives but not so large that it becomes cumbersome. Management literature and experience suggest a board size ranging from at least 7 members to no more than 15. Given the compositional objectives, a board size toward the higher end of the range is likely.

Procedures for selecting board members will need to be specified in the legislation that creates the bank. There are many possible models. Some examples include:

- Federal Home Loan Banks (FHLBs). This model is relevant because FHLBs are member-governed cooperatives like the cooperative corporate structure of the bank. Members identify member director nominees. An FHLB board solicits suggestions from members for public interest director nominees and selects qualified nominees to stand for election. Members elect member directors and public interest directors. The number of votes each member has is determined by its stock holding in the bank; however, there is a cap on the maximum number of shares that a member can vote to limit the possibility of a very large member controlling the election of directors. In addition, each FHLB has an affordable housing advisory board whose members are appointed by the board of directors.

- Washington State Investment Board. There are ten voting members and five non-voting members. The ten voting members include the Treasurer, a member of the House of Representatives (selected by House leadership), a member of the Senate (selected by Senate leadership), the Director of the Department of Retirement Systems, the Director of the Department of Labor and Industries, a representative of retirees (appointed by the Governor) and four members from beneficiaries (appointed by the Governor), such as teachers, firefighters, etc. The directors appointed by the Governor must be approved by the Senate but can serve with full powers unless their appointment is specifically rejected by the Senate. These ten statutory directors elect five non-voting members who generally have financial and investment expertise. The five non-voting members are not advisory but have full fiduciary responsibility.

- Federal Reserve Banks. Each bank has a board of nine – six are elected by members of the regional Federal Reserve Bank and three are appointed by the Board of Governors of the Federal Reserve System.

The Washington State Investment Board offers a germane example of drawing directors from different groups of stakeholders (beneficiaries). FHLBs, which are cooperatives, provide a useful model for selecting member directors of the bank which could include individuals from cities, counties, state agencies, ports, public utility districts, and possibly elected officials. As is the case with Federal Reserve Banks, member directors could be divided into classes linked either to size of a member or to type of member. Best practice argues against setting up classes. However, such a structure might be deemed necessary to assure breadth of representation among types and sizes of members.

In addition, directors with expertise in infrastructure finance, cash and investment management, credit oversight, financial markets, among other skills would be important to include and could be member or public interest directors.

Generally, director members of the cooperative would constitute a majority of the board, for example if the overall board size is 13, at least 7 directors should be member directors.

If the Legislature chooses to reserve a director position for the State Treasurer and additional director slots for one or more agency heads (WSHFC and Public Works Board are possibilities), as is the case with the WSIB board of directors, the remaining directors should be public interest directors nominated by the board of the bank and elected by the members of the cooperative.

Oversight of Operations

Potential oversight could be provided by state entities such as the Public Deposit Protection Commission, the State Finance Committee and/or the Department of Financial Institutions. The public cooperative bank statute, together with amendments to existing statutes, can specify the extent to which any of the agencies would (or would not) have regulatory authority over the Bank.

Drafters of public cooperative bank legislation should also consider the role of the State Treasurer and the State Auditor with respect to the entity. Should the State (presumably through the Office of the State Treasurer) be a member of the governing board? Whether or not the Treasurer is a board member, would the Treasurer have a special oversight role? Would the State Treasurer serve as treasurer of the public cooperative bank? Could the board appoint its own treasurer? Would the board be authorized to appoint an independent auditor, such as the one permitted for Energy Northwest under RCW 43.52.375? Would the bank additionally be subject to audit by the State Auditor? Further, would the Legislature play any formal role in overseeing the Bank and its operations?

Because of the Bank's primary goal of providing Washington state governments access to capital at competitive rates to be used in building public infrastructure and its linkage to corresponding goals of the State Treasurer, the Public Works Board and other state agencies, it may be appropriate to consider a two-tier governance structure. In such a structure the board of the Bank would be directly responsible for governing the bank's operations. An oversight board, a second-tier board, could review the bank's major policies and program initiatives.

A two-tier governance structure could provide, at one level, detailed oversight of the Bank's operations and member relationships, and at the oversight level additional review of major policies and program initiatives proposed by the Bank's governing board. An oversight board could be the Public Deposit Protection Commission (PDPC) whose members include the Governor, Lieutenant Governor, and Treasurer, or the State Finance Committee (comprised of the same members). The oversight board could have approval or, alternatively, disapproval authority. Generally, disapproval authority coupled with a time limit in which to exercise disapproval, is more effective in avoiding the potential for political paralysis.

If the Bank were created as a state agency or instrumentality, and if the members and borrowers are all state agencies or political subdivisions, the bank likely will be exempt from regulation by the Federal Reserve Bank, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Commission or the National Credit Union Administration. Participation in Federal Reserve Bank payments systems and account services might cause the entity to be subject to certain Federal Reserve regulations.

The Federal Reserve Banks payments systems and account services enable participants to wire funds directly and to undertake certain other transactions without going through (and paying fees to) a financial institution that participates in that system. To participate, an entity either must be eligible for FDIC insurance (whether or not it uses FDIC insurance), or the entity must become a member of a Federal Reserve Bank by purchasing stock in that bank in a minimum amount equaling 6 percent of the member's paid-up capital and surplus. Because of the restrictions of Article XII, Section 9, a public cooperative bank (or any type of state bank), as a Washington governmental body, probably could not purchase stock in the Federal Reserve Bank of San Francisco because of the latter's private characteristics. A public cooperative bank might be structured so that it would be eligible for FDIC insurance, and qualify that way. However, the Federal Reserve Banks do not hold government accounts (other than the Federal Reserve Bank of New York, which holds U.S. Treasury funds). The bottom line is that there is a trade-off between structuring a public cooperative bank as a state agency (thus avoiding securities and most federal financial regulations) or creating it as a chartered private entity (enabling it to participate in Federal Reserve Bank systems but subjecting it to a substantial number of additional regulations).[4] It would be relatively easy for a public cooperative bank to handle its payment services, processing, wires and certain other operations though a "banker's bank" that provides services to banks only.

If the Bank is authorized to provide certain financial advisory functions, it appears that the bank and its employees will be exempt from the municipal financial advisor requirements of the Securities Exchange Act and related rules promulgated by the Securities Exchange Commission and the Municipal Securities Rulemaking Board. SEC Rule § 240.15Ba1-1 defines a "municipal advisor" as "a person (who is not a municipal entity or an employee of a municipal entity) that provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities…." A "municipal entity" is in turn defined to include "any State, political subdivision of a State, or municipal corporate instrumentality of a State or of a political subdivision of a State, including: (1) Any agency, authority, or instrumentality of the State, political subdivision, or municipal corporate instrumentality; (2) Any plan, program, or pool of assets sponsored or established by the State, political subdivision, or municipal corporate instrumentality or any agency, authority, or instrumentality thereof; and (3) Any other issuer of municipal securities. The intergovernmental public cooperative bank would be both an instrumentality of the State and a "plan, program, or pool of assets sponsored by the State."

If the Bank were authorized to borrow money in order to capitalize itself or to provide "bond bank" functions, and if that borrowing involved the issuance of bonds to the public, then the bank and its bond offerings would have to comply with certain federal securities laws and regulations. If the borrowings were on a tax-exempt basis, the bank and its bonds would have to comply with applicable federal tax laws and Internal Revenue Service rules.

In addition, the Bank would likely obtain its own Employee Identification Number from the IRS, as do other semi-independent instrumentalities of the state such as the Washington State Housing Finance Commission.

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[4] Membership of the public cooperative bank in the Federal Home Loan Bank system (through the Federal Home Loan Bank of Des Moines) was considered. However, membership in a Federal Home Loan Bank is restricted to certain institutions, particularly those engaged in mortgage lending. As a cooperative bank for Washington governmental entities, the state public cooperative bank studied here is not conceived to be a lender to homebuyers.

Role of the State Legislature

The Bank would be created as a state agency by the Legislature. The statute would describe its purpose, its powers, its governance structure among other things. The Legislature will always have the power to amend the statute which governs the activities of the Bank.

As is the case with government agencies generally which provide services, particularly financial services, there will be concern about the independence of the Bank. This concern flows directly from the recent diversion of funding from the Public Works Trust Fund to finance other legislative initiatives. This should be less of a concern if the Bank is capitalized directly by member political subdivisions and accesses funding from public capital markets and not from state appropriations. Nevertheless, there could be concern about the Legislature at some future date diverting revenues from the bank to other purposes. While the state government, as the body which created the bank will always retain the authority to change the statute governing the Bank, bank members and financial markets will want governance to be structured so that this possibility is minimized without consent of the members.

5. *How could the Bank optimize its credit rating?*

The bank will issue revenue bonds[5] and use the proceeds to make loans to members.

Assuming membership is voluntary, for the bank to be attractive to potential members, generally it must be able to serve member needs more efficiently and at lower cost than other available alternatives. Access to low-cost municipal debt is a paramount requirement. At a minimum, the Bank will need to have an AA credit rating and preferably an AA+ or AAA rating.

The strongest mechanism to obtain an AA+ or AAA credit rating is a state guarantee of all debt issued by the Bank. If the state were able to provide a guaranty, the bank's credit rating typically would be one or more notches below the state's credit rating (currently AA+/AA+/Aaa as assigned by S&P, Fitch and Moody's). However, Washington state's constitution would likely require treating the total amount of guarantees as a charge against the State's own debt capacity, thus reducing the amount the State could borrow for its own purposes.

Absent a realistic availability of a direct state guarantee without a constitutional change, credit rating agencies, in determining what rating to assign to debt issued by the Bank, will consider and assess the credit strength of member borrowers together with the bank's management and governance structures to enable debt service obligations to be met and to absorb credit losses in the event of default.

Credit Agency Credit Rating Review Criteria

Assessment of several factors will determine the Bank's credit rating.

In the case of the Bank, rating agencies would not assess directly individual member political subdivision's credit strength but would assess the adequacy of the bank's procedures and systems for underwriting, maintaining documentation, and conducting on-going compliance and credit reviews of individual member borrowers.[6]

The Bank's loan portfolio credit quality, the number and diversity of members and the bank's loan portfolio, bond covenants, and management capability and governance structure will also influence the bank's credit rating.

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[5] A *revenue bond* is a bond that is payable from a specific source of revenue. Pledged revenues may be from operation of financed projects, grants, or excises or other specified non-ad-valorem taxes. Without taxing authority, the bank would not be able to issue GO bonds.

[6] If the bank's loan portfolio is small and consists of only a few borrowers, credit rating agencies might choose to get a better sense about the member borrowers. If member borrowers are already rated, existing credit reports could be adequate.

Because the Bank's governance and management structures will be independent of the state, it's rating will rely on the credit strength of its members and related program mechanics that mitigate risk including:

- Layer 1: a debt service reserve fund (DSRF) and replenishment mechanisms,
- Layer 2: member contributed loss-reserves and replenishment mechanisms,
- Layer 3: loss-recovery policy mechanisms (e.g., state-aid intercept programs),
- Layer 4: issuance of loss-absorbing loss-contingency debt, and
- Layer 5: access to other bank funds, specifically retained earnings.

The Bank will need to demonstrate the adequacy of its staffing, systems and procedures to conduct initial and on-going assessments of the following factors for each member:

1. The economic base including per capita income or median household income (relative to the US average), total taxable value of property and full value per capita, and diversity of economic activity (e.g., regional economic centers with diversified taxpayer base, presence of large institutional actors like universities or military bases)

2. The member's operating budget including revenue or taxing authority, whether the operating budget is structurally balanced, expenditure reduction flexibility, and 5-year trend in changes in cash and or fund balances. Fund balances are a proxy measure of budget outcomes – any growth (reduction) in fund balances means revenues in prior budget periods were greater (less) than expenses. Cash balances are equally important. They are proxy measure of the government's ability to pay obligations as they come due.

3. Management and governance structures including legal and constitutional restrictions (e.g., tax limits and legislative supermajority requirements) or the adoption of prudent financial management practices into law (e.g., balanced budget requirements, mandatory contributions to pension programs, mandatory contributions to rainy day or similar reserve funds, executive authority to make mid-year budget adjustments), and

4. Outstanding debt and pension obligations including total outstanding debt (as a percent of Full Value or Revenue) and the 3-year average of Net Pension Liability (as a percent of Full Value or Revenue).

The following assessment factors focus directly on the bank:

1. Portfolio credit quality: Since loan repayments are the primary source of funds for debt service, the credit quality of the Bank's borrowers is a key factor determining the Bank's rating. Assessment elements include strength and diversity in economic activity of member borrowers,

revenue and taxing authority, expenditure flexibility, outstanding debt and pension obligations, management (e.g., financial policies), and governance structures (e.g., tax limits or balanced budget requirements).

Additionally, the Bank's rating will be affected by the proportion of borrowers that unconditionally pledge to repay loans with tax revenues (i.e., a *full faith and credit* pledge) relative to the proportion of borrowers that pledge revenues, net of operating and maintenance costs, of their enterprise activities (e.g., water, sewer or public utility districts). A pledge of taxing authority, particularly the ad valorem property tax, will provide more stability than enterprise revenues, especially if the member is not a monopoly provider of essential services.

2. Portfolio size and diversity: A diversified portfolio is less susceptible to idiosyncratic credit issues at the borrower level. Rating agencies consider a large portfolio as one with more than 100 unique borrowers. Rating agencies are less likely to assign a rating if the bank has fewer than 10 unique borrowers. Therefore, achieving a threshold of operations will be directly relevant to procuring a high credit rating.

   Regional and issuer-industry diversity is equally relevant to the credit rating process.

   Diversity in aggregate dollar value further mitigates risk. This can be measured by the proportion of borrowers with less than 1 percent of the borrowed portfolio. The Bank's rating is more likely to be higher if borrowers with less than 1 percent in aggregate of the total dollar amount of the outstanding pool exceed 35 percent of the Bank's portfolio. The bank's rating is more likely to be higher if its top five borrowers account for less than 20 percent of the total loans extended to members. Again, regional and economic diversity is directly relevant to the Bank's loan portfolio default risk exposure.

3. Debt Structure, Bond Covenants, Reserves, and Program Cash Flows. The Bank will issue revenue bonds payable from the repayment of loans made from bond proceeds, to member borrowers. The program will need to match cash in-flows resulting from member borrower payments with cash outflows to bondholders to meet principal and interest payments on the Bank's bonded obligations.

   Rating agencies will frequently review the bond indenture to ascertain what assets are pledged to the bondholders. These will generally include loan payments or pledged revenues by obligors, presence of a debt service reserve funds, and the presence of additional assets to cover cash flow shortfalls (non-repayment by obligors).

   Additional assets may be pledged to cover any shortfalls; however, their relevance to the Bank's rating would be limited to whether they are pledged to bondholders or not. For example, reserves in the bank's member-funded loss reserve would need to be directly pledged to bond holders. Rating agencies view unpledged funds as less secure compared to pledged assets.

An assessment impact of non-repayment by members is frequently used to determine the Bank's overall vulnerability (i.e., default tolerance). Rating agencies will review the number and diversity of members in the bank's loan portfolio and volatility in member-pledged revenues to estimate default risk. If the loan portfolio has more participants, it is more likely to have a higher default tolerance.

4. Management and governance structures and practices that are directly relevant to the Bank's lending to members include depth and experience of management, the loan underwriting process (i.e., process to review credit strength of member borrowers), process to review loan portfolio quality and exposure to risk, process to periodically collect financial information from borrowers, state oversight (where appropriate), and management arm's length relationship with state and local governments.

   Data is readily accessible to this entity as all local governments are required to file annual financial reports with the Office of the State Auditor (SAO). The SAO recently upgraded the financial reporting platform and now provides local governments with data on financial outcomes via the Financial Intelligence Tool (FIT) (https://portal.sao.wa.gov/FIT/).

   Other relevant sources of data include the Washington's Department of Revenue (e.g., assessed values), Washington's Office of Financial Management, the Census Bureau, Bureau of Labor and Statistics, and the Bureau of Economic Analysis.

Risk Mitigation Mechanisms

Mechanisms to mitigate risk and obtain a high credit rating include:

1. Layer 1 – Debt service reserve fund (DSRF) – A debt service reserve would be the first layer of loss mitigation. It would be established at the time a loan is extended to a member and would be added to the overall DSRF covering all member loans. Generally, the debt service reserve for each member's borrowing would be equal to the lesser of 10 percent of loan proceeds, maximum annual debt service (interest and principal repayments), or 125 percent of average annual debt service.

   If a member misses a scheduled payment of interest and principal, funds to cover the missed payment would be withdrawn from the DSRF. The Bank would work with the member borrower to develop a plan to cure the missed payment. If the missed payment is not cured within a specified time period, the member loan will be deemed to be in default and a work-out program will be developed that may entail recognizing a loss and triggering specific recovery mechanisms such as intercept of specific member borrower revenues.

2. Layer 2 – Member funded loss-reserve fund is a second layer of loss mitigation which would be separate and distinct from the DSRF. The key element here would be that these reserves could be used as a secondary pledge to the Bank's bondholders to assure payment of principal and interest if the DSRF is depleted. An important consideration in obtaining a high credit rating for the bank would be the size of the loss-reserve fund relative to the Bank's portfolio of member loans.

   It will be important to establish a loan-loss reserve of sufficient size prior to the extension of loans to individual members. For this reason, contribution (membership contribution) to a loan loss reserve should be a condition of membership and payable at the time membership becomes effective. The size of the contribution should be tied to the size of the member, e.g., percentage of a member's total fund balance. A mechanism could be established to "true up" this contribution on a periodic basis.

   In addition to a size-based member contribution to the loan loss reserve, an additional contribution (usage contribution) to the loan loss reserve could be established based on actual member borrowings from the Bank. This would assure that the loan loss reserve would grow as the size of the Bank's loan portfolio grows.

   All member contributions to the loan loss reserve would be available to cure default by any individual member on its loan from the bank, but only up to the total of the loan loss reserve.

   An issue to be resolved is whether a member's contributions to the loan loss reserve should be refundable should the member exit membership in the Bank.

   Depending upon rating agency guidance, it may be possible to limit the size of the loan loss reserve if a mechanism were put in place that enabled the bank to assess members to increase the reserve if it fell below a specified level that could lead to a ratings downgrade.

3. Layer 3 – Loss-recovery mechanisms (third layer of loss mitigation) including adopting into law a state-aid intercept program. Statutes would need to provide the bank with the authority to withhold state-aid, via the Office of the state Treasurer, based on prior notification of non-payment.

   Other mechanisms would need to be considered for governments that do not receive state-aid or those whose share of state-aid is less than principal and interest payments due to the Bank.

4. Layer 4 – Issuing loss absorbing contingency debt to the public could provide funds to cover depletion of the DSRF and/or loan loss reserve in exigent circumstances. Loss absorbing debt is used by some insurance companies to absorb extraordinary insured losses which might otherwise threaten an insurance company's solvency. Such bonds reduce the level of capital the insurance company needs to carry to cover the potential for low probability, high impact loss events.

5. Layer 5 – Replenishment of DSRF and/or loan loss fund from member retained earnings. As a fifth layer of loss mitigation, it may be helpful in obtaining a high credit rating to enable the Bank to transfer a portion of retained earnings to replenish the DSRF and/or the loan loss fund on an interim basis until loss recovery mechanisms (Layer 3) can be collected.

Other Loss Mitigation Considerations

Other loss mitigating considerations include:

1. Limiting loans, at least in the initial stages, to political subdivisions that provide essential public services or are monopoly providers could mitigate risk (or enhance ratings). Project essentiality is negatively correlated with default risk. Political subdivisions financing essential projects are more likely to use ad valorem property taxes (akin to the full faith and credit pledge) or rely on state funds for their operating budgets (e.g., school districts). Political subdivisions that are monopoly providers (e.g., water and sewer districts, public utility districts) have historically shown a very low risk of default as revenues are inelastic and immune to changes in the economic environment.

2. Mandate political subdivisions maintain their general fund balance greater than or equal to 20 percent of revenues (or other debt-service weighted measure) and provide financial advisory services to political subdivisions that fall below this threshold. Such a mechanism would provide the Bank some insight on the challenges the borrower is facing and what the bank's exposure would be.

3. An alternative to the state providing a guarantee and an expansion of the bank's authority to design effective loss recovery mechanisms would be to provide the bank with taxing authority (property or sales tax), to be exercised under exigent circumstances to replenish the DSRF. Municipal pool programs in the U.S. do not have any revenue authority (taxing authority or otherwise). However, the Municipal Finance Authority of British Columbia (MFABC), which lends proceeds to regional districts in the province, has a nominal tax rate on all properties in the province. Because the taxing authority exists, the province can replenish its DSRF in 14 months or less with revenues from a nominal property tax without delays related to a voter approval. MFABC has never had to exercise its taxing authority. That said, rating agencies consider the pledge "a key strength underpinning it's AAA rating." Another parallel is the local improvement guarantee funds that Washington cities create under Chap. 35.54 RCW. In the event special assessments are insufficient to pay outstanding LID bonds, under RCW 35.54.060 a city may impose an additional property tax to gradually replenish its guaranty fund.

6. *What staffing resources and administrative expenses would the Bank require?*

Staffing and administrative expenses will depend upon whether the Bank is a standalone entity or is housed within an existing state agency. Staffing and administrative expenses will also depend upon the number of governments that are members of the bank, the number of different types of services the Bank provides to members and the volumes of each service.

It will take the Bank longer to become fully effective and mature if it is an entirely new and separate entity. The mission and operations of the bank could be accelerated by incorporating its mission and responsibilities into an existing state agency or by contracting with existing state agencies, with relevant expertise and experience, to perform certain of the Banks' operating requirements, such as issuing bonds to the public and providing technical assistance to political subdivisions on capital infrastructure projects.

The following estimates of staffing requirements and administrative expenses assume that the Bank is a separate entity within state government. These estimates are based upon assumptions about the amount of business the Bank will have, how the amount of business will build over time and the types and costs of administrative expenses that likely would be required. Estimates of compensation and benefits and administrative expenses were guided by those of a typical small community bank.

Estimates were prepared for three scenarios depending upon size of expected membership – BASE, HIGH and LOW.

Staffing Assumptions

Key staff members (7) necessary to launch Bank operations. These and other estimated staffing figures are reported in Table 3 below:

1. Chief Executive Officer – in addition to overseeing day-to-day management of the bank, works with other state agencies, stakeholders and board of directors
2. Administrative Assistant – performs a variety of tasks
3. Director of Finance (CFO) – initially performs all accounting and financial reporting functions; as business builds, some of these functions offloaded to an Accountant and a Controller; in conjunction with Chief Credit Officer works with rating agencies to achieve and maintain a high credit rating
4. Treasurer/Portfolio Manager – responsible for all capital markets activities both raising funds in the public markets and working with members to design loan programs;
5. Director of Business Services – responsible for membership recruiting and relations and supervises Client Support Specialists that are added as membership grows
6. Chief Credit, Risk and Compliance Officer – responsible for overseeing loan underwriting, in conjunction with CFO works with rating agencies to achieve and maintain a high credit rating

7. Chief Technology Officer – responsible for all technology based systems including working with vendors providing operating and IT security systems

Additional staffing required in year 2 and year 3 (+8 to total of 15 BASE; +12 to total of 19 HIGH; +6 to total of 13 LOW) include:

1. Human Resources Director – outsource until beginning of year 4
2. Controller – add in year 3, Director of Finance responsible for controller function in years 1 and 2
3. Accountant – add in year one to do bookkeeping and other accounting tasks
4. Client Support Specialist – responsible for membership recruiting and membership relations (number depends on number of members: 2 BASE; 4 HIGH; 1 LOW)
5. Credit Analyst – responsible for underwriting member loans, tracking credit performance (number depends upon number of member loans: 2 BASE; 4 HIGH; 1 LOW)
6. Loan Operations Technician – responsible for loan and compliance documentation

Staffing at beginning of year 4 (assumes membership in the Bank and usage of the Bank's services has matured:

- BASE: 15 by beginning of the fourth year
- HIGH: 19 by beginning of the fourth year
- LOW: 13 by beginning of fourth year
- Several functions are outsourced, e.g. human resources, bond counsel, other legal services, investment management, auditing, credit analytics
- Cost of benefits: 30% of base compensation

Table 3: Estimated Public Bank Staffing and Compensation

Internal Position	Initial	Year 1	Year 2	Year 3	Year 4-10 BASE	Year 4-10 HIGH	Year 4-10 LOW	Compensation per Employee
Chief Executive Officer	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 350,000
Administrative Assistant	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 75,000
Human Resources (outsource)	0.00	0.00	0.00	0.00	1.00	1.00	1.00	$ 125,000
Director of Finance (CFO)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 225,000
Controller	0.00	0.00	0.00	1.00	1.00	1.00	1.00	$ 175,000
Accountant	0.00	0.75	1.00	1.00	1.00	1.00	1.00	$ 75,000
Treasurer/Portfolio Manager	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 150,000
Director of Business Services	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 225,000
Client Support Specialist*	0.00	0.00	1.00	2.00	2.00	4.00	1.00	$ 125,000
Chief Credit, Risk and Compliance Officer	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 200,000
Credit Analyst**	0.00	0.00	1.00	2.00	2.00	4.00	1.00	$ 100,000
Loan Operations	0.00	0.00	1.00	1.00	1.00	1.00	1.00	$ 75,000
Chief Technology Officer	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 200,000
Programmer (outsource)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	$ 100,000
TOTAL	7.00	7.75	11.00	14.00	15.00	19.00	13.00	

Operating and Administrative Expenses (see Table 4 below)

- Expenses ramp up over first two years
  - Bond Counsel (fees for general work - bond issuance specific fees amortized over life of bonds in interest expense)
  - Capital Markets – Investments Management – bank will have several cash funds that will need to be invested – Treasurer will be responsible for working with outsourced vendor – expenses don't begin until year 2 until there are funds available for investing and then ramp up based upon volume
  - Capital Markets – issuance of bonds to the public – issuance expenses to be amortized over life of borrowing as a part of interest expense
  - Processing Systems (accounting and IT)
  - Web and Network
  - HR Consultant
  - IT Consultant
  - Legal Services
  - External Auditor – financial statements (begins year 2)
  - External Auditor – internal processes and compliance (begins year 2)
  - Credit Analytics (begins year 2)
  - Travel and Miscellaneous Expenses (varies with FTE)
  - Insurance (D&O, cyber, liability, etc.)
  - Occupancy Expenses – rent (varies with FTE)
  - Occupancy Expenses – furniture, fixtures, supplies (varies with FTE)

Table 4: Estimated Operating and Administrative Expenses

	Year 1	Year 2	Year 5	Year 10
Bond Counsel (fees for general work)	$ 50,000	$ 51,250	$ 55,191	$ 62,443
Capital Markets - Securities Issuance	$ -	$ -	$ -	$ -
Capital Markets - Investments Management	$ -	$ 51,250	$ 110,381	$ 124,886
Processing Systems (accounting, IT)	$ 350,000	$ 358,750	$ 386,335	$ 437,102
Web and Network	$ 50,000	$ 51,250	$ 55,191	$ 62,443
HR Consultant	$ 50,000	$ 51,250	$ 55,191	$ 62,443
IT Consultant	$ 50,000	$ 102,500	$ 110,381	$ 124,886
Legal Services	$ 100,000	$ 102,500	$ 110,381	$ 124,886
Auditor - Financial Statements	$ -	$ 76,875	$ 82,786	$ 93,665
Auditor - internal processes	$ -	$ 51,250	$ 55,191	$ 62,443
Credit Analytics	$ -	$ 51,250	$ 55,191	$ 62,443
Travel and Miscellaneous Expenses (per FTE)	$ 19,375	$ 28,188	$ 41,393	$ 46,832
Insurance (D&O, cyber, liability, etc.)	$ 100,000	$ 102,500	$ 110,381	$ 124,886
Occupancy - rent (per FTE)	$ 77,500	$ 112,750	$ 165,572	$ 187,329
Occupancy - furniture, fixtures, supplies (per FTE)	$ 31,000	$ 45,100	$ 66,229	$ 74,932
TOTAL - BASE	$ 877,875	$ 1,236,663	$1,459,793	$1,651,621
TOTAL - HIGH	$ 877,875	$1,236,663	$1,532,644	$1,734,046
TOTAL - LOW	$ 877,875	$1,236,663	$1,423,367	$1,610,409

Part II: Business Plan and Financial Proformas

Goals, Membership, and Scope of Services

Primary Goal of the Bank

The primary goal of the Bank is to provide Washington state governments access to capital at competitive rates to be used in building public infrastructure. This will enable and empower communities with the ability to invest in resources to support the public good.

To accomplish its primary goal, the Bank will accept funds from members and issue debt, either taxable or nontaxable, to the public and provide various types of loans to individual members to finance infrastructure projects and manage timing of cash flows.

Additional Services

In addition, the Bank will be authorized to provide other services to members:

- Accept deposits from members
- Manage investment of funds for members
- Provide professional technical assistance services to member governments and to non-member governments
- Provide financial advisory services to member governments and to non-member governments

The Bank will not provide transactional depository services to members, such as check clearing, automatic clearing house transactions, and remittance processing

Membership Cooperative with Voluntary Membership

The Bank will be structured as a member-capitalized and governed cooperative. Membership will be voluntary and restricted to state governments and political subdivisions – 2,905 based on 2017 data. Nongovernmental entities and individuals are not permitted to be members of the cooperative.

Membership Participation – Three Scenarios

Because membership will be voluntary, it is necessary to estimate potential membership and usage of the Bank's services. Based upon the results of the User Needs Survey and statistical extrapolation to all governments and political subdivisions eligible for membership, financial proformas are developed for three scenarios. The three scenarios facilitate an assessment of the length of time for the bank to achieve profitability and what threshold of membership and usage of the Bank's services will be sufficient to ensure ongoing financial viability.

- BASE – most likely
- HIGH – optimistic
- LOW – pessimistic

Financial Proformas – Three Scenarios

Financial proformas for each of the three scenarios include an income statement and balance sheet for the Bank for 10 years. This covers a long enough period for the Bank to evolve from initial start-up to mature operations.

Standalone Entity vs. Contracting with Other State Agencies for Certain Services

It is recommended that the Bank be established as an independent agency of state government, but that it be authorized and encouraged to contract with existing state agencies to provide certain services. This approach is expected to enable the Bank to ramp up membership more quickly and incur lower costs than if the Bank operated solely on a standalone basis.

To determine the benefits and costs of contracting with existing state agencies requires input from relevant agencies. This was not done as part of preparing the financial proformas but should be a follow-up action. Thus, the baseline assumption in all scenarios is that the Bank is a standalone entity. This assumption results in higher staffing resources, compensation and administrative costs than if the Bank contracts with existing state agencies to provide certain services. Also, the time to ramp up membership and reach maturity will be shortened, if the Bank contracts with existing state agencies to provide certain services. For these reasons, financial projections in all three scenarios will be conservative relative to the alternative involving collaboration with existing state agencies.

Membership Participation Assumptions

As shown in Table 3 above, we developed three scenarios for eligible member participation in the Bank: "BASE," "LOW," and "HIGH" with 387, 171, and 636 members, respectively. Although membership probability was not estimated for governments, totaling 602, in other categories, these governments would be eligible to become members, as would 1,202 other political subdivisions not listed in Table 3. Governments in these other categories generally are small and have limited need for services offered by the Bank.

It is assumed that it would take the first year to recruit members, staff the Bank and prepare to begin operations. Thus, there are no members in the first year in the financial proformas.

- Eligible general-purpose members begin joining in the Bank's second year and numbers reach full potential by the end of the second year

- Other eligible members do not start joining until the third year and numbers then reach full potential by the end of the third year.

Assumptions About Operations

Staffing Resources and Administrative Expenses Assumptions

Staffing and administrative expenses will depend upon whether the Bank is a standalone entity or whether it contracts with existing state agencies to provide certain services. Staffing and administrative expenses will also depend upon the number of governments and political subdivisions that are members of the Bank, the number of different types of services the Bank provides to members and the volumes of each service.

It will take the Bank longer to become fully effective and mature if it is an entirely new and separate entity. The mission and operations of the Bank will be accelerated by contracting with existing state agencies with relevant expertise and experience to perform certain of the Bank's operating requirements, such as issuing bonds to the public and providing technical assistance to local governments and political subdivisions on capital infrastructure projects.

To determine the benefits and costs of contracting with existing state agencies requires input from relevant agencies. This was not done as part of preparing the financial proformas but should be a follow-up action. Thus, the baseline assumption in all scenarios is that the Bank is a standalone entity. This assumption results in higher staffing resources, compensation and administrative costs than if the Bank contracts with existing state agencies to provide certain services. Also, the time to ramp up membership and reach maturity will be shortened, if the Bank contracts with existing state agencies to provide certain services. For these reasons, financial projections in all three scenarios will be conservative relative to the alternative involving collaboration with existing state agencies.

The following estimates of staffing requirements are based upon assumptions about the amount of business the Bank will have, how the amount of business will build over time and the types and costs of administrative expenses that likely will be required. Estimates of compensation and benefits and administrative expenses were guided by those of a typical small community bank.

Estimates were prepared for three scenarios depending upon size of expected membership – BASE, HIGH and LOW.

Staffing Assumptions

Table 6 shows the expected staffing and compensation patterns given the membership estimates. It includes:

- Key staff members (7) necessary to launch Bank operations:
  1. Chief Executive Officer – in addition to overseeing day-to-day management of the bank, works with other state agencies, stakeholders and board of directors
  2. Administrative Assistant – performs a variety of tasks
  3. Director of Finance (CFO) – initially performs all accounting and financial reporting functions; as business builds, some of these functions offloaded to an Accountant and a Controller; in conjunction with Chief Credit Officer works with rating agencies to achieve and maintain a high credit rating
  4. Treasurer/Portfolio Manager – responsible for all capital markets activities both raising funds in the public markets and working with members to design loan programs;
  5. Director of Business Services – responsible for membership recruiting and relations and supervises Client Support Specialists that are added as membership grows
  6. Chief Credit, Risk and Compliance Officer – responsible for overseeing loan underwriting, in conjunction with CFO works with rating agencies to achieve and maintain a high credit rating
  7. Chief Technology Officer – responsible for all technology based systems including working with vendors providing operating and IT security systems

- Additional staffing required in year 2 and year 3 (+8 to total of 15 BASE; +12 to total of 19 HIGH; +6 to total of 13 LOW)
  1. Human Resources Director – outsource until beginning of year 4
  2. Controller – add in year 3, Director of Finance responsible for controller function in years 1 and 2
  3. Accountant – add in year one to do bookkeeping and other accounting tasks
  4. Client Support Specialist – responsible for membership recruiting and membership relations (number depends on number of members: 2 BASE; 4 HIGH; 1 LOW)
  5. Credit Analyst – responsible for underwriting member loans, tracking credit performance (number depends upon number of member loans: 2 BASE; 4 HIGH; 1 LOW)
  6. Loan Operations Technician – responsible for loan and compliance documentation

- Staffing at beginning of year 4 (assumes membership in Bank and usage of the Bank's services has matured
  - BASE: 15 by beginning of the fourth year
  - HIGH: 19 by beginning of the fourth year
  - LOW: 13 by beginning of fourth year

- Several functions are outsourced, e.g. human resources, bond counsel, other legal services, investment management, auditing, credit analytics
- Cost of benefits: 30% of base compensation
- Base salary rates rise 3% annually

TABLE 6: Estimated Staffing and Compensation Patterns

Internal Position	Initial	Year 1	Year 2	Year 3	Year 4-10 BASE	Year 4-10 LOW	Year 4-10 HIGH	Compensation per Employee
Chief Executive Officer	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 350,000
Administrative Assistant	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 75,000
Human Resources (outsource)	0.00	0.00	0.00	0.00	1.00	1.00	1.00	$ 125,000
Director of Finance (CFO)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 225,000
Controller	0.00	0.00	0.00	1.00	1.00	1.00	1.00	$ 175,000
Accountant	0.00	0.75	1.00	1.00	1.00	1.00	1.00	$ 75,000
Treasurer/Portfolio Manager	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 150,000
Director of Business Services	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 225,000
Client Support Specialist*	0.00	0.00	1.00	2.00	2.00	1.00	4.00	$ 125,000
Chief Credit, Risk and Compliance Officer	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 200,000
Credit Analyst**	0.00	0.00	1.00	2.00	2.00	1.00	4.00	$ 100,000
Loan Operations	0.00	0.00	1.00	1.00	1.00	1.00	1.00	$ 75,000
Chief Technology Officer	1.00	1.00	1.00	1.00	1.00	1.00	1.00	$ 200,000
Programmer (outsource)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	$ 100,000
TOTAL	7.00	7.75	11.00	14.00	15.00	13.00	19.00	

Operating and Administrative Expenses

Table 7 shows the expected operating and administrative expenses, again given the membership estimates. It includes:

- Expenses ramp up over first two years
  - Bond Counsel (fees for general work - bond issuance specific fees amortized over life of bonds in interest expense)
  - Capital Markets – Investments Management – bank will have several cash funds that will need to be invested – Treasurer will be responsible for working with outsourced vendor – expenses don't begin until year 2 until there are funds available for investing and then ramp up based upon volume
  - Capital Markets – issuance of bonds to the public – issuance expenses to be amortized over life of borrowing as a part of interest expense
  - Processing Systems (accounting and IT)
  - Web and Network
  - HR Consultant
  - IT Consultant
  - Legal Services
  - External Auditor – financial statements (begins year 2)
  - External Auditor – internal processes and compliance (begins year 2)
  - Credit Analytics (begins year 2)
  - Travel and Miscellaneous Expenses (varies with FTE)
  - Insurance (D&O, cyber, liability, etc.)
  - Occupancy Expenses – rent (varies with FTE)
  - Occupancy Expenses – furniture, fixtures, supplies (varies with FTE)
- Expenses rise 2.5% annually

Table 7: Anticipated Operating and Administrative Expenses

	Year 1	Year 2	Year 5	Year 10
Bond Counsel (fees for general work)	$ 50,000	$ 51,250	$ 55,191	$ 62,443
Capital Markets - Securities Issuance	$ -	$ -	$ -	$ -
Capital Markets - Investments Management	$ -	$ 51,250	$ 110,381	$ 124,886
Processing Systems (accounting, IT)	$ 350,000	$ 358,750	$ 386,335	$ 437,102
Web and Network	$ 50,000	$ 51,250	$ 55,191	$ 62,443
HR Consultant	$ 50,000	$ 51,250	$ 55,191	$ 62,443
IT Consultant	$ 50,000	$ 102,500	$ 110,381	$ 124,886
Legal Services	$ 100,000	$ 102,500	$ 110,381	$ 124,886
Auditor - Financial Statements	$ -	$ 76,875	$ 82,786	$ 93,665
Auditor - internal processes	$ -	$ 51,250	$ 55,191	$ 62,443
Credit Analytics	$ -	$ 51,250	$ 55,191	$ 62,443
Travel and Miscellaneous Expenses (per FTE)	$ 19,375	$ 28,188	$ 41,393	$ 46,832
Insurance (D&O, cyber, liability, etc.)	$ 100,000	$ 102,500	$ 110,381	$ 124,886
Occupancy - rent (per FTE)	$ 77,500	$ 112,750	$ 165,572	$ 187,329
Occupancy - furniture, fixtures, supplies (per FTE)	$ 31,000	$ 45,100	$ 66,229	$ 74,932
TOTAL – BASE	$ 877,875	$1,236,663	$1,459,793	$1,651,621
TOTAL – HIGH	$ 877,875	$1,236,663	$1,532,644	$1,734,046
TOTAL – LOW	$ 877,875	$1,236,663	$1,423,367	$1,610,409

Capitalization and Loss Mitigation

Loan from State to Cover Start-Up Operating Expenses

- It is assumed that a short-term $10 million loan from the State will be sufficient to cover start-up costs
- Loan is interest free, but the State could choose to charge interest
- If enough governments become members of the Bank, the Bank should be able to repay the loan by the end of the third year or sooner from member contributions to an operating reserve and/or retained earnings

Member Ownership Interests – Methodology for Capitalizing an Operating Reserve

Members will contribute funds to establish an operating reserve. The operating reserve will cover initial start-up expenses but will be needed on an ongoing basis to provide funds to the Bank to manage fluctuations in cash flows and to absorb potential operating losses. With respect to initial funding requirements, the amount needed can be estimated from the financial proformas.

Ownership interests are divided into two classes – one based on membership and one based upon the member's usage of financial services.

Membership Ownership Interests

The membership class of ownership interests is a fixed amount based upon the size of the member. The membership ownership interest is recalculated annually to adjust for changes in the member's size. In the financial proformas, a member's size is based upon a member's total fund balance as of the end of the prior year, a data metric that is regularly collected. It is assumed that the member contributes 1% of that amount to capitalize the Bank's operating reserve.

In practice, the Bank will need to determine what size metric to utilize, what assessment rate to levy and how often to recalculate the size metric and review and potentially adjust the assessment rate. This will be accomplished through a rule-making process. However, since the rule-making process will take time to complete, the Bank should have authority to establish a temporary rule for membership ownership interest contributions to the Bank's operating reserve.

Usage Ownership Interests

The usage of services class of ownership interests is tied to the amount of services utilized and will vary over time as the member's usage of services varies. Using a rulemaking process, the Bank will need to propose a methodology for calculating the amount of usage ownership interests and how the amount will be adjusted as the usage of services by members changes.

An alternative to a complex formula to calculate usage ownership interest requirements would be to authorize the Bank to charge directly for the usage of certain types of services, such as financial advisory services and technical advice. Ownership interest requirements for usage of financial services could be limited to management of cash and investments and member borrowings.

For purposes of developing financial proformas for the Bank it is assumed that the amount of the usage ownership interest contribution to the operating reserve is 1% of the member's prior quarter end outstanding long-term borrowings from the Bank. This is a placeholder as the Bank would need to propose a methodology for calculating usage ownership interests through a rule-making process.

Return of Ownership Interests If a Member Exits Membership

The board of the Bank would have authority through a rulemaking process to establish a procedure for returning ownership interests in the event that a member exits membership. The reason for such a rule is to guard against the potential for a member's exit and withdrawal of its ownership interests to exacerbate the bank's financial condition.

Return of a Portion of Earnings to Members

Assuming the Bank is profitable, profits will be returned to members in proportion to the amount of their individual ownership interests relative to the aggregate amount of ownership interests of all members. This would be akin to declaring a dividend of a specific amount on each unit of ownership interests.

However, it is possible that the Bank might lose money on operations from time to time. To provide for such a contingency, some earnings will be retained in the operating reserve. Such a retained profits reserve would be similar to retained earnings in a private corporate entity.

In the financial proformas the decision rule for returning a portion of profits to members is 50% of the Bank's prior quarter's net income, but only if the Bank's retained earnings are positive. Note that the board may decide that the level of retained earnings needs to be higher than zero before a portion of profits is returned to members. Also, the board will have the authority to determine what percentage to return. During the start-up phase of the Bank's operations when net income is negative and thereafter until accumulated profits restore the retained earnings portion of the operating reserve to a positive level, members will receive no return of profits. This timing of when this point will be reached varies in the BASE, LOW and HIGH scenarios.

Note that credit losses should not affect the decision to return a portion of profits to members or retain some portion of profits because credit losses would be allocated directly to the loss reserve.

Fixing the Value of Ownership Interests

While there could be different classes of ownership interests, as discussed above, the simplest way to treat ownership interests is to have a fixed par value for each unit of ownership interests.

Note that a fixed par value would require the Bank to manage the market value of ownership interests to closely approximate par value.

There is another reason that retention of some portion of earnings might be prudent. That reason would be to cover the possibility that the value of each unit of ownership interests falls below its par value for reasons other operating losses. For example, this could occur because of valuation changes in the bank's assets and obligations.

Recap of Key Assumptions for Ownership Interests and the Operating Reserve

- Membership Ownership Interests
    - Percentage of each member's total funds balance (end of prior year or average of prior year)
    - Amount and calculation methodology to be determined by the board through a rulemaking process
    - 1.0% of total funds balance
- Usage Ownership Interests
    - Percentage of each member's long-term borrowings from the bank (end of prior quarter)
    - Amount and calculation methodology to be determined by the board through a rulemaking process
    - 1.0% of prior quarter's outstanding long-term borrowings
- The board would have authority through a rule making process to determine whether and how much of a member's Membership and Usage ownership contributions to refund to the member if the member exits membership
- The board would be authorized to return a portion of net income to members quarterly proportionate to a member's contribution to paid in capital
    - Retained earnings must be positive
    - Payout rate set at 50% for both classes of ownership interests (note: the board could determine to set different profit return rates for membership and usage ownership interests)
- Member ownership interest contributions to the operating reserve will be redeemable at par, as is the case for Federal Home Loan Banks (alternatively the board might choose to use book value rather than par value in determining the amount of member ownership interests to return, which would incorporate the impacts of accounting adjustments and retained earnings)

Layers of Loss Mitigation

Layer 1 – Debt Service Reserve Fund and Replenishment Mechanism (DSRF)

- DSRF funded with one year's debt service (interest and principal) on loans the Bank extends to members
  - In the financial proformas the required debt service reserve for borrowings is calculated as the weighted average life of a laddered level-payment 30-year borrowing at a weighted average interest rate of 2.65% is 17.4 years, resulting in an average annual debt service coverage requirement of 8.40%, which would be set aside in a segregated account (DSRF) at the bank
  - This assumption is an oversimplification, as the amount of the contribution to the DSRF would vary for each borrowing depending upon its terms
- Funds in the DSRF will be invested in high quality, short-term, liquid assets
- Each member's contribution to the DSRF will be credited with interest on its portion of the DSRF at the end of the quarter following the previous year. Interest rate on DSRF = 2.00% (note – given recent interest-rate movements, the actual realized rate will be much lower; however, since this is a pass-through rate to members, there would be little impact on the bank's profitability)
- A member's contribution to the DSRF plus interest accrued on DSRF balances would be returned to the member when the member's underlying loan has been fully repaid; however, there would be no partial return of the DSRF to the member as long as a portion of the borrowing is outstanding; this way of handling the DSRF would cause the coverage ratio of member interest and principal payments to total outstanding borrowing to rise over time
- DSRF is segregated from all other operations of the bank and accounted for separately
- In the financial proformas, the bank does not charge members a fee for managing the DSRF, the board of directors may determine that the bank should be compensated at a rate sufficient to cover operating costs incurred in administering the DSRF

Layer 2 – Member Contributed Loss Reserves and Replenishment Mechanism

- Loss reserve is funded by members in two ways:
  - Membership contribution: Percentage of a member's total funds balance (end of prior year or average of prior year)
    - 0.5% (rate may be higher or lower depending upon level necessary to obtain a high bond credit rating for the bank)
    - Amount would be reset annually to adjust for changes in a member's size
  - Usage contribution: Percentage of a member's total long-term borrowings from the bank (end of prior quarter)
    - 0.5% (rate may be higher or lower depending level necessary to obtain a high bond credit rating for the bank)

    - Amount would be reset quarterly to adjust for changes in the member's total long-term borrowings
- Bank's board will have the authority to set Membership and Usage rates and the methodology to determine the amount for each member through a rule making procedure
- The loan loss reserve would be available to cover default of interest and principal on any member loan
- The board would have authority through a rule making process to determine whether and how much of a member's membership contribution to the loan loss reserve to refund to the member if the member exits membership; the usage requirement remains in place until the loan has been paid off

Layer 3 – Loss Recovery Mechanisms, Such as State-Aid Intercept Programs

- Member failure to pay scheduled interest and principal payments on borrowings from the Bank or outright default could be cured through a state-aid intercept program
- Such a power would improve the Bank's credit rating and limit the impact on other members of covering losses
- The Legislature needs to enact a statute that provides the Bank the authority to withhold state-aid via the Office of the Treasurer, based upon prior notification of non-payment
- It is assumed in the financial proformas that losses are absorbed by the loss reserve fund and fully recovered, thus the proformas show no actual losses, which is typical outcome for bond banks in other states

Layer 4 – Issuance of Loss-Absorbing Debt to the Public

- Contingent loss-absorbing debt could be issued and structured to replenish the DSRF or the loss reserve in exigent circumstances
- Issuance of loss-absorbing debt could help boost the Bank's credit rating
- Because of the loss contingency feature, this debt would carry a high interest rate
- Criteria for triggering use of contingent debt proceeds would be stringent
- Layer 4 loss mitigation is not activated in the financial proformas

Layer 5 – Temporary Replenishment of DSRF and/or Loss Reserves from the Retained Earnings Portion of the Operating Reserve

- Transfers would be temporary and repayable though Layer 3 recoveries
- This would be a contingency power to be used in times of distress and would help bolster the bank's credit rating
- Layer 5 loss mitigation is not activated in the financial proformas because no credit losses are assumed to occur

Borrowing, Lending, and Investing Activities

Borrowing Funds in Capital Markets

- The Bank may borrow funds in both the tax-exempt and taxable markets in ways that minimize issuance costs and maximize investor liquidity
- Such borrowings would entail a degree of interest-rate risk since the maturity profile of borrowings would not necessarily replicate exactly the maturity profile of loans to members
- The Bank will minimize interest-rate risk and minimize the difference between the aggregate market value and aggregate book value of member contributions (membership and usage ownership interests) to the operating reserve
- In the financial proformas it is assumed that the Bank borrows funds in periodic issuances:
  - Amount of each bond issuance will be large
    - Reduces issuance costs as a percentage of principal
    - Provides secondary market liquidity
  - Bond maturities and other terms, such as calls, will be structured to maximize investor appetite and obtain best price execution
  - Bond issuance maturities in the financial proformas are assumed to have the following maturity profile (this maturity profile may be different from what is assumed in the financial proformas, depending on member borrowing needs and investor preferences):
    - 1 year or less: 10%
    - 5-year maturity: 20%
    - 10-year maturity: 30%
    - 20-year maturity: 40%
- Interest rates are assumed to be tax-exempt AA+ (could be AAA, depending upon rating agency evaluation of the layers of credit protection)
  - 1 year or less: 1.60%
  - 5-year maturity: 1.75%
  - 10-year maturity: 2.25%
  - 20-year maturity: 2.95%
  - New issue interest rates will fluctuate, depending upon economic and market conditions; however, the exact level of the interest rates in the proformas does not matter much because the Bank will pass interest costs on to member borrowers at a small markup, so it is the margin between bond rates and member loan rates that matters and not the level of interest rates)

Loans to Members

- The Bank will make loans of any maturity to members up to a maximum maturity of 30 years
- In the financial proformas, loans extended to a member to finance a project are assumed to have tranches from 1 to 30 years and payments of interest and principal are assumed to be equal each year for 30 years
    - While this is a simplifying assumption, it should have limited impact on projections of net interest income
    - But, this assumption could alter the total amount of outstanding borrowings, which would impact member usage contributions to the operating reserve and separately to the loan loss reserve; in both instances any potential shortfall in the adequacy of the operating reserve or the loan loss reserve could be corrected by raising the assessment rate
- In the financial proformas, member long-term loan demand is assumed initially to equal the average of actual member debt issues covering the six years from 2013 to 2018 (Table 8), but is assumed to grow at a rate of 0.75% per quarter
- In the financial proformas, members in the aggregated are assumed to borrow short-term from the Bank for cash management purposes equal to 0.25% of outstanding total cash balances
- Interest rates assumptions on member borrowings:
    - Short term = 1.75%
    - Long term – weighted average = 2.65%
    - Interest rates on loans to members will fluctuate, depending upon economic and market conditions; however, the exact level of the interest rates in the proformas does not matter much because the Bank will pass interest costs of bond issuances on to member borrowers at a small markup, so it is the margin between bond rates and member loan rates that matters and not the level of interest rates)

Table 8: Member Loan Demand Probability, Size of Loan, and Number of Loans

Government Type	Probability of Loan Demand Per Year	Average Size of Loan (millions)	Number of Loans BASE	Number of Loans HIGH	Number of Loans LOW
City/Town	35.6%	$6.59	31.0	48.5	15.5
County	37.2%	$9.86	1.6	5.6	0.3
Public Facilities District	6.7%	$2.74	0.5	1.0	0.1
Public Utility District	22.2%	$48.61	3.1	5.1	0.6
Water Sewer District	13.8%	$1.71	10.2	16.1	4.7
Fire Protection District	5.6%	$2.69	6.4	10.5	2.8
Hospital District	8.3%	$19.91	1.4	2.4	0.6
Housing Authority	4.8%	$5.34	0.6	1.0	0.3
Park and Recreation District	7.2%	S8.39	1.3	2.2	0.6
Port/Airport District	15.6%	$5.61	4.4	7.2	1.9
Transportation Authority	2.7%	$114.05	0.2	0.4	0.1
TOTAL	16.5%		60.8	100.2	27.6

Member Deposits

- The Bank will establish a deposit account for each member
- Member deposits are assumed in the financial proformas to equal 5% of a member's total cash balances
- The Bank will not provide payment, remittance or other transactional depository services to members
- Member deposit accounts will facilitate management of a member's loan balances and other cash transactions with the Bank
- The Bank can determine whether to pay interest (the proformas do not include payment of interest)

Members' Investment Balances

- The Bank may invest funds on behalf of members and charge a management fee
- Members are assumed to place 5% of cash balances with the Bank for investment
- Bank earns 2.00% on member funds, as rates fluctuate with economic and markets conditions the management fee would remain at 10 basis points
- Bank retains 0.10% (10 basis points) as a fee and pays the member 1.90%

Professional and Technical Services to Members and Non-Members

- The Bank will provide professional and technical services to a member at the member's request and may determine whether to charge fees
- The Bank may provide professional and technical services to nonmember governments and political subdivisions but shall charge fees at least sufficient to recover expenses
- In the proforma financial income statement service fees are assumed to equal 0.50% of total revenues

Bank Earnings on Cash

- Earning rate on short-term investments (taxable) = 2.25%
- Earning rate on long-term investments (taxable) = 2.50%

Other Balance Sheet Assumptions Included in Financial Proformas

- Aggregate member fund balances are assumed to grow 0.75% per quarter
- Accrued interest receivable = 0.33% of total loans to members and 0.22% of total investments

- Other assets (depreciable property, leasehold improvements and equipment) = 50% of quarterly expenses
- Non-member investment balances = 0.50% of total assets
- Accrued interest payable = 0.22% of short-term borrowings and 0.33% of long-term borrowings
- Other liabilities = 0.30% of total assets

Proforma Financial Statements

Table 9 presents a summary of the proforma balance sheet and income statement based on the assumptions and scenarios described above. The complete financial statements for all three scenarios are in Appendix C. Note that these financial statements assume a standalone entity.

Table 9: Summary Statistics for 10-year Income Statement and Balance Sheet Proformas – Base, High, and Low Scenarios

	BASE	HIGH	LOW
1st Year of Profitability	Year 5	Year 4	Year 9
Max. Cumulative Loss	$8.0 million	$5.3 million	$16.9 million
1st Year Retained Earnings Positive	Year 7	Year 5	Over 10 Years
1st Year Profits Returned to Members	Year 8	Year 5	Over 10 Years
Total Assets Year 5	$1.75 billion	$2.99 billion	$.70 billion
Total Assets Year 10	$4.41 billion	$7.47 billion	$1.73 billion
Loan Loss Reserve/Borrowings Year 3	6.33%	6.63%	6.52%
Loan Loss Reserve/Borrowings Year 5	2.63%	2.75%	2.83%
Loan Loss Reserve/Borrowings Year 10	1.38%	1.43%	1.48%
Operating Reserves/Total Assets Year 3	5.12%	6.37%	4.07%
Operating Reserves/Total Assets Year 5	3.75%	4.36%	2.47%
Operating Reserves/Total Assets Year 10	2.78%	3.06%	1.71%

- Profitability will improve and occur sooner if the Bank contracts for services with existing state agencies and accelerates membership recruiting
- Loan loss reserve coverage will depend on rating agency requirements for a high bond rating and can be increased by raising the membership and usage assessment rates
- Generally, the operating reserve ratio should be sufficient, given that there is separate loan loss reserve coverage

Part III: Draft Legislation

AN ACT Relating to the creation of the Washington state public bank; amending RCW ____________; creating a new chapter in Title 43 RCW.

Be it enacted by the Legislature of the State of Washington:

NEW SECTION. Sec. 1. Purpose

The legislature finds that there exists in the state of Washington billions of dollars of critical local projects for the planning, acquisition, construction, repair, replacement, rehabilitation, or improvement of streets and roads, bridges, water systems, storm and sanitary sewage systems, solid waste handling, communications systems, and other public infrastructure. While some local governments successfully borrow for infrastructure capital projects through private sector lenders and the bond markets, other government entities do not have the same access to capital at attractive rates to be used in building out public infrastructure.

It is the policy of the state of Washington to encourage self-reliance by local governments in meeting their public works needs and to assist in the financing of critical public works projects by providing effective mechanisms for making and financing loans and providing financing guarantees that do not create state debt, and by providing technical assistance to local governments for these projects.

It is the policy of the state to foster and promote by all reasonable means the provision of adequate capital markets and facilities for borrowing money by local governments in the state to finance infrastructure improvements, and to the greatest extent possible to reduce costs of borrowed money to taxpayers and residents of the state.

It is the purpose of this chapter to establish a Washington state public bank to act as a financial conduit that, without creating state debt, can issue make loans to local governments, issue revenue bonds, and _____________ to help facilitate access to needed capital by Washington municipalities on reasonable terms and rates. The state public bank will have full powers to borrow money and to issue its bonds and notes to make capital funds available for borrowing by local governments, and those powers will enable the state public bank to carry out the declared policies of this act, which are in the public interest of the state and its taxpayers and residents.

NEW SECTION. Sec. 2. Definitions.

As used in this chapter, the following words and terms have the following meanings, unless the context requires otherwise:

(1) "Bank" means the Washington state public bank created under section 3 of this act, or any board, body, commission, department or officer succeeding to the principal functions of the bank or to whom the powers conferred upon the bank shall be given by law;

(2) "Bonds" means any bonds, notes, debentures, interim certificates, conditional sales or lease financing agreements, lines of credit, forward purchase agreements, investment agreements, and other banking or financial arrangements, guaranties, or other obligations issued by or entered into by the bank. Such bonds may be issued on either a tax-exempt or taxable basis;

(__) "Board" means the operating board of the bank created under section 3 of this act.

(__) "Borrower" means one or more local governments [or the state];

(__) "Financial assistance" means the infusion of capital to local governments for use in the planning, acquisition, construction, repair, replacement, rehabilitation, development and exploitation of infrastructure projects;

(__) "Financing agreements" means, and includes without limitation, a contractual arrangement with a borrower whereby the bank obtains rights from a borrower in exchange for the granting of financial assistance to the borrower.

(__) "Financing document" means an instrument executed by the bank and one or more borrowers pertaining to the issuance of or security for bonds, or the application of the proceeds of bonds or other funds of, or payable to, the bank. A financing document may include, but need not be limited to, a lease, installment sale agreement, conditional sale agreement, mortgage, loan agreement, trust agreement or indenture, security agreement, letter or line of credit, reimbursement agreement, insurance policy, guaranty agreement, or currency or interest rate swap agreement. A financing document also may be an agreement between the bank and an eligible banking organization which has agreed to make a loan to a borrower;

(__) “Infrastructure projects” means undertakings for the planning, acquisition, construction, repair, replacement, rehabilitation, or improvement of streets and roads, bridges, water systems, storm and sanitary sewage systems, solid waste handling, pollution control facilities, schools, communications systems, docks and wharves, mass transportation facilities and equipment, public housing, fire suppressing and emergency services equipment and facilities, energy generating, conservation, or transmission facilities, and other public infrastructure deemed eligible by the board;

(__) “Local government” means any Washington city, town, county, special purpose district, authority, instrumentality, or other local municipal or interlocal entity created pursuant to Washington law;

(__) “Member” means a local government that has joined the bank consistent with section __ of this act.

(__) “Participation” means a portion of membership measured by a member’s existing [capital contribution to][capital account in] the bank.

(__) "Project costs" means costs of:

(a) Acquisition, lease, construction, reconstruction, remodeling, refurbishing, rehabilitation, extension, and enlargement of land, rights to land, buildings, structures, docks, wharves, fixtures, machinery, equipment, excavations, paving, landscaping, utilities, approaches, roadways and parking, handling and storage areas, and similar ancillary facilities, and any other real or personal property included in an infrastructure project;

(b) Architectural, engineering, consulting, accounting, and legal costs related directly to the development, financing, acquisition, lease, construction, reconstruction, remodeling, refurbishing, rehabilitation, extension, and enlargement of an infrastructure project, including costs of studies assessing the feasibility of an infrastructure project;

(c) Finance costs, including the costs of credit enhancement and discounts, if any, the costs of issuing revenue bonds, and costs incurred in carrying out any financing document;

(d) Start-up costs, working capital, capitalized research and development costs, capitalized interest during construction and during the eighteen months after estimated completion of construction, and capitalized debt service or repair and replacement or other appropriate reserves;

(e) The refunding of any outstanding obligations incurred for any of the costs outlined in this subsection; and

(f) Other costs incidental to any of the costs listed in this section;

(__) "State" means the state of Washington and any department, agency or instrumentality thereof other than the bank.

<u>New Section</u>. Sec. 3. Washington state public bank created—membership-operating board membership and oversight by state finance committee-administration by Washington state housing finance commission.

(1) The Washington state public bank is established as a public body corporate and politic, with perpetual corporate succession, constituting an instrumentality of the state of Washington exercising essential governmental functions. [The bank is a public body within the meaning of RCW 39.53.010.]

(2) The bank may be activated by at least ____ local governments by submission to the secretary of state of executed articles of activation in a form approved by the state finance committee. The agreement must be filed with the Washington state secretary of state, and the bank shall be deemed to have been formed as of the date of that filing. The articles must be approved by the legislative authority of each of the initial member local governments and each local government that subsequently becomes a member. Each initial member local government must provide to the bank a contribution of not less than $ ________, and the board may subsequently adjust the minimum contribution level for current and new members. Any amendments to the articles of activation must be filed with the Washington state secretary of state and will become effective on

the date of filing. The secretary of state must, upon the filing of articles of activation, issue a charter to the bank in a form proposed by the board and approved by the state finance committee.

(3) The operating board of the bank consists of ________ directors. Terms of directors are four years, with half of the initial directors other than the initial chair serving two-year terms as determined by lot, with those positions being filled for four-year terms thereafter. ____ member-appointed directors must be selected by a dual majority of the members of the bank, receiving the approval of both a majority of the member local governments and a majority of the participations held by the members. [Member-appointed directors must be elected local-government officials.] ___ public directors must be appointed by the governor and confirmed by the senate. The independent members shall be residents of the state appointed by the governor on the basis of their interest or expertise in finance, accounting, budgeting, or infrastructure planning, design, construction or project management. The director of the department of commerce [any others?—DFI Director? State Treasurer?] must serve as an ex officio director. One of the public members shall be appointed by the governor as chair of the board and shall serve as chair at the pleasure of the governor. The initial chair must serve a full four-year term.

The bank may select from its membership such other officers of the ban, as it deems appropriate, including without limitation a secretary and a treasurer. In the event of a vacancy on the board due to death, resignation, lack of qualification to serve as a director, or otherwise, a successor for the remainder of the unexpired term will be selected in the same manner as the selection of the director whose position has become vacant. Any independent member of the bank may be removed by the governor for misfeasance, malfeasance or willful neglect of duty after notice and a public hearing, unless such notice and hearing shall be expressly waived in writing by the affected public member. The [state officials] [director of the department of commerce] serving in ex officio capacity may each designate an employee of their respective departments to act on their behalf in all respects with regard to any matter to come before the bank. Such designations shall be made in writing in such manner as is specified by the rules of the bank. A majority of the directors constitutes a quorum. The directors of the bank must serve without compensation but must be entitled to reimbursement, solely from the funds of the bank, for expenses incurred in the discharge of their duties under this chapter.

(4) The state finance committee serves as the oversight board of the bank. In that capacity, the state finance committee must carry out the responsibilities specified in this act. In

addition, the state finance committee may at its discretion require independent audits of the accounts and transactions of the bank and the methods, procedures and operation of the bank in carrying out its duties.

(5) The bank is a state agency subject to audit by the state auditor under chapter 43.09 RCW. [In addition, the department of financial institutions may, at the discretion of the director of that department, review the deposits with the bank and the accounts and transactions of the bank in carrying out the bank’s duties. Nothing herein is meant to establish that the bank is an institution or entity otherwise subject to the jurisdiction of the department of financial institutions.]

(6) The bank’s administration and operation must be performed by employees of the Washington state finance commission, subject to the terms of one or more agreements between the bank and the commission concerning responsibilities of the commission’s staff and compensation of the commission.

[(__) the bank must not be or constitute a bank or trust company within the jurisdiction or under the control of the director of financial institutions, the comptroller of the currency of the United States of America or the treasury department thereof;]

[(__) The bank must not be or constitute a bank, broker or dealer in securities within the meaning of, or subject to the provisions of, any securities, securities exchange or securities dealers' law of the United States of America or the state;]

New Section. Sec. 4. General Powers of the Bank.

The bank is authorized to:

(1) Sue and be sued in its own name, and plead and be impleaded;

(2) Adopt and alter an official seal;

(3) Make and enforce bylaws and regulations for the conduct of its business and for the use of its services and facilities;

(4) Engage such independent consultants, attorneys, and advisers as the bank deems necessary, useful, or convenient to accomplish its purposes, and, subject to section 4(6) of this act, contract with federal, state, and local governmental entities for services;

(5) Make and execute all manner of contracts, agreements and instruments and financing documents with public and private parties as the bank deems necessary, useful, or convenient to accomplish its purposes;

(6) Acquire, hold, use and dispose of real or personal property, or any interest therein, in the name of the bank, and to sell, assign, lease, encumber, mortgage, or otherwise dispose

of the same in such manner as the bank deems necessary, useful, or convenient to accomplish its purposes;

(7) Acquire, hold, use, and dispose of its income, revenues, funds, and money;

(8) Receive deposits of funds from local governments, invest those deposits in lawful funds, [including without limitation investments in loans made by the bank to borrowers];

(9) Open and maintain accounts in qualified public depositaries in the Federal Reserve Bank of San Francisco, in a federal home loan bank, and otherwise provide for the investment of any funds not required for immediate disbursement and provide for the selection of investments. The bank may participate in and use the federal reserve banks payments systems and account services;

(10) Appear in its own behalf before boards, commissions, departments, or agencies of federal, state, or local government;

(11) Procure such insurance of such types, in such amounts, and from such insurers as the bank deems desirable, including, but not limited to, insurance against any loss or damage to its property or other assets, public liability insurance for injuries to persons or property, and directors and officers liability insurance;

(12) Accept gifts or grants from the United States, or from any governmental unit or person, firm, or corporation,

carry out the terms or provisions or make agreements with respect to the gifts or grants, and do all things necessary, useful, desirable, or convenient in connection with procuring, accepting, or disposing of the gifts or grants;

(13) Apply for and accept grants, loans, advances, and contributions from any source of money, property, labor, or other things of value, to be held, used and applied as the bank deems necessary, useful, or convenient to accomplish its purposes;

(14) Borrow money and issue its bonds consistent with this act and provide for and secure their payment, provide for the rights of bond owners and purchase, and hold and dispose of any of its bonds;

(15) For the purpose of facilitating the financing of infrastructure by local governments in the state of Washington, develop and conduct a program or programs to make loans to borrowers for project costs of infrastructure projects. Those loans may be made from the proceeds of bonds issued by the bank, from deposits held by the bank, and from other assets of the bank including contributions. The bank may develop and conduct a program that will stimulate and encourage the development of infrastructure projects by the infusion of financial assistance for local governments;

(16) Establish guidelines for the participation by local governments in programs conducted by the bank under this act. The bank may prescribe the form of application or procedure required of a local government for a loan, fix the terms and conditions of the loan or purchase, and enter into financing agreements and other financing documents with borrowers with respect to loans and other forms of financial assistance.

(17) Establish, revise, and collect such member contributions and such fees and charges as the bank deems necessary, useful, or convenient to accomplish its purposes. Members are authorized to make such contributions, and local governments are authorized to pay such fees and charges;

(18) Make such expenditures as are appropriate for paying the administrative costs and expenses of the bank in carrying out the provisions of this chapter:

(19) Establish such reserves and special funds, including but not limited to debt service and sinking funds, reserve funds, project funds, and such other special funds as the bank deems necessary, useful, or convenient, and controls on deposits to and disbursements from them, as the bank deems necessary, useful, or convenient to accomplish its purposes;

(20) Provide financial assistance other forms of assistance to local governments by providing information, advice,

guidelines, forms, and procedures for implementing their financing programs;

(21) [When authorized by not less than two-thirds of the members of the board,] make distributions to members of [amounts] [assets] that the board deems surplus to the needs of the bank;

(22) Adopt rules concerning its exercise of the powers authorized by this chapter; and

(23) Exercise any other power the bank deems necessary, useful, or convenient to accomplish its purposes and exercise the powers expressly granted in this act.

<u>NEW SECTION</u>. Sec. 5. Financing Powers of the Bank.

(1) Bonds issued under this act shall be issued in the name of the bank. The bonds shall not be obligations of the state of Washington and shall be obligations only of the bank payable from the special fund or funds created by the bank for their payment. Such funds shall not be or constitute public moneys or funds of the state of Washington but at all times shall be kept segregated and set apart from other funds.

(2) Bonds issued under this chapter shall contain a recital on their face to the effect that payment of the principal of, interest on, and prepayment premium, if any, on the bonds, shall be a valid claim only as against the special fund or funds

relating thereto, that neither the faith and credit nor the taxing power of the state or any municipal corporation, subdivision, or agency of the state, other than the bank as set forth in this chapter, is pledged to the payment of the principal of, interest on, and prepayment premium, if any, on the bonds. Contracts entered into by the bank shall be entered into in the name of the bank and not in the name of the state of Washington. The obligations of the bank under the contracts shall be obligations only of the bank and are not in any way obligations of the state of Washington.

(3) The bank's bonds shall bear such date or dates, mature at such time or times, be in such denominations, be in such form, be registered or registrable in such manner, be made transferable, exchangeable, and interchangeable, be payable in such medium of payment, at such place or places, be subject to such terms of redemption, bear such fixed or variable rate or rates of interest, be payable at such time or times, and be sold in such manner and at such price or prices, as the bank's determines. The bonds shall be executed by the chair, by either its duly elected secretary or its treasurer, and by the trustee or paying agent if the bank determines to use a trustee or paying agent for the bonds. Execution of the bonds may be by manual or facsimile signature. [The bonds of the bank may be negotiable instruments under Title **62A** RCW.]

(4) The bonds of the bank shall be subject to such terms, conditions, covenants, and protective provisions as are found necessary or desirable by the bank's, including, but not limited to, pledges of the bank's assets, setting aside of reserves, limitations on additional forms of indebtedness, and the mortgaging of all or any part of the bank's real or personal property, then owned or thereafter acquired, and other provisions the bank finds are necessary or desirable for the security of bond owners.

(5) Any bonds issued under this chapter may be secured by a financing document between the bank and the purchasers or owners of such bonds or between the bank and a corporate trustee appointed by the bank, which may be any trust company or bank having the powers of a trust company within or without the state. The financing document may pledge or assign, in whole or in part, the revenues and funds held or to be received by the bank, any present or future contract or other rights to receive the same, and the proceeds thereof. The financing document may contain such provisions for protecting and enforcing the rights, security, and remedies of bond owners as may be reasonable and proper, including, without limiting the generality of the foregoing, provisions defining defaults and providing for remedies in the event of default which may include the acceleration of maturities, restrictions on the individual

rights of action by bond owners, and covenants setting forth duties of and limitations on the bank in conduct of its programs and the management of its property. In addition to other security provided in this chapter or otherwise by law, bonds issued by the bank may be secured, in whole or in part, by a pledge of the assets of the bank, including contributions of the members, or by financial guaranties, insurance or letters of credit issued to the bank or a trustee or any other person, by any bank, trust company, insurance or surety company or other financial institution, within or without the state. The bank may pledge or assign, in whole or in part, the revenues and funds held or to be received by the bank, any present or future contract or other rights to receive the same, and the proceeds thereof, as security for such guaranties or insurance or for the reimbursement by the bank to any issuer of such letter of credit of any payments made under such letter of credit. [No individual member is liable to the bank, to the bank's trustee or to any other person in amounts exceeding the member's contribution][unless authorized by the governing bodies of a dual majority of the members of the bank, receiving the approval of both a majority of the member local governments and a majority of the participations held by the members].

(6) The bank may enter into financing documents with borrowers regarding bonds issued by the bank that may provide

for the payment by each borrower of amounts sufficient, together with other revenues available to the bank, if any, to: (1) Pay the borrower's share of the fees established by the bank; (2) pay the principal of, premium, if any, and interest on outstanding bonds of the bank issued in respect of such borrower as the same shall become due and payable; and (3) create and maintain reserves required or provided for by the bank in connection with the issuance of such bonds. The payments shall not be subject to supervision or regulation by any department, committee, board, body, bureau, or agency of the state other than the bank.

(7) Any security interest created in the unexpended bond proceeds and in the special funds created by the bank shall be immediately valid and binding against such moneys and any securities in which such moneys may be invested without bank or trustee possession thereof, and the security interest shall be prior to any party having any competing claim in such moneys or securities, without filing or recording pursuant to chapter 62A.9A RCW and regardless of whether the party has notice of the security interest.

(8) When issuing bonds, the bank may provide for the future issuance of additional bonds or parity debt on a parity with outstanding bonds, and the terms and conditions of their issuance. The bank may refund or advance refund any bond of the

bank [in accordance with chapter 39.53 RCW] or issue bonds with a subordinate lien against the fund or funds securing outstanding bonds. Bonds issued for refunding purposes may be combined with bonds issued for the financing or refinancing of new projects. Pending the application of the proceeds of the refunding bonds to the redemption of the bonds to be redeemed, the bank may enter into an agreement or agreements with a corporate trustee regarding the interim investment of the proceeds and the application of the proceeds and the earnings on the proceeds to the payment of the principal of and interest on, and the redemption of, the bonds to be redeemed.

(9) All money received by or on behalf of the bank with respect to this issuance of its bonds shall be trust funds to be held and applied solely as provided in this chapter. The bank, in lieu of receiving and applying the moneys itself, may enter into trust agreement or indenture with one or more banks or trust companies having the power and bank to conduct trust business in the state to:

(A) Perform all of any part of the obligations of the bank with respect to: (a) Bonds issued by it; (b) the receipt, investment and application of the proceeds of the bonds and money paid by a participant or available from other sources for the payment of the bonds; (c) the enforcement of the obligations of a borrower in connection with the financing or refinancing of any project; and (d) other matters relating to the exercise of the bank's powers under this chapter;

(B) Receive, hold, preserve, and enforce any security interest or evidence of security interest granted by a participant for purposes of securing the payment of the bonds; and

(C) Act on behalf of the bank or the owners of bonds of the bank for purposes of assuring or enforcing the payment of the bonds, when due.

(10) The bank may purchase its bonds with any of its funds available for the purchase. The bank may hold, pledge, cancel or resell the bonds subject to and in accordance with agreements with bond owners.

(11) The chair of the state finance committee or the chair's designee shall be notified in advance of the issuance of bonds by the bank in order to promote the orderly offering of obligations in the financial markets.

(12) Neither the members of the bank, nor its directors or agents, nor employees of the Washington state housing finance commission, nor any person executing the bonds, is personally liable on the bonds or be subject to any personal liability or accountability by reason of the issuance of the bonds.

(13) The bank may, out of any fund available therefor, purchase its bonds in the open market.

(14) Any owner of bonds of the bank issued under this chapter, and the trustee under any trust agreement or indenture, may, either at law or in equity, by suit, action, mandamus or other proceeding, protect and enforce any of their respective rights, and may become the purchaser at any foreclosure sale if the person is the highest bidder, except to the extent the rights given are restricted by the bank in any bond resolution or trust agreement or indenture authorizing the issuance of the bonds.

(15) The Bank may charge for its costs and services in review or consideration of a proposed loan to a local government, whether or not the loan is made.

(16) To the extent permitted under its contracts with the owners of bonds of the bank, the bank may consent to modification of the rate of interest, time and payment of installment of principal or interest, security or any other term of a bond or note, loan to a local government, contract or agreement of any kind to which the bank authority is a party.

(17) The bank must not engage in: (a) the financing of housing as provided for in chapter 43.180 RCW; (b)the financing of health care facilities as provided for in chapter 70.37 RCW; (c) higher education facilities as provided for in chapter 28.07 RCW; or (d) privately-owned economic development activities as provided for in chapter 43.163 RCW.

(18) The bonds of the bank are securities in which all public officers and bodies of this state and all counties, cities, municipal corporations and political subdivisions, all banks, eligible banking organizations, bankers, trust companies, savings banks and institutions, building and loan associations, savings and loan associations, investment companies, insurance companies and associations, and all executors, administrators, guardians, trustees and other fiduciaries may legally invest any sinking funds, moneys or other funds belonging to them or within their control.

(19) This act provides a complete, additional and alternative method for accomplishing the purposes of this chapter and shall be regarded as supplemental and additional to powers conferred by other laws. The issuance of bonds and refunding bonds under this chapter need not comply with the requirements of any other law applicable to the issuance of bonds. Insofar as the provisions of this chapter are inconsistent with the provisions of any general or special law, or parts thereof, the provisions of this chapter are controlling.

NEW SECTION. Sec. __. Severability.

If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

NEW SECTION. Sec. __. Liberal Construction.

This chapter, being necessary for the welfare of the state and its inhabitants, shall be liberally construed to effect the purposes thereof.

NEW SECTION. Sec. __. Codification.

Sections 1 through __ of this act shall constitute a new chapter in Title 43 RCW.

NEW SECTION. Sec. 31. If any provision

ADD Possible cross-references in other statutes, such as:

Chap. 43.180 Wash. State Housing Finance Comm.

Chap 39.59 Authorized investments

Chap. 39.58 Depositaries and collateralization (exception from Depositary Commission oversight, or not?)(Expressly authorize local government deposits in the bank)

Chap.43.84 Add to list of authorized investments

Appendix A: Fiscal 2018-2019 Budget SBB 6032 Sec. 129(17)

(a) Evaluate the benefits and risks of establishing and operating a state-chartered, cooperative public bank in the state of Washington, specifically including the business and operational issues raised by the 2017 infrastructure and public depository task force; and

(b) Develop a business plan for a public cooperative bank based on the federal home loan bank model whose members may only be the state and/or political subdivisions. The purpose of this bank is to assist the potential members of the bank to manage cash and investments more efficiently to increase yield while maintaining liquidity, and to establish a sustainable funding source of ready capital for infrastructure and economic development in the state of Washington. The business plan shall include, but is not limited to:

   i. Identification of potential members of the bank;
   ii. The capital structure that would be necessary;
   iii. Potential products the bank might offer;
   iv. Projections of earnings;
   v. Recommendations on corporate governance, accountability, and assurances;
   vi. Legal, constitutional, and regulatory issues;
   vii. If needed, how to obtain a federal master account and join the federal reserve;
   viii. Information technology security and cybersecurity;
   ix. Opportunities for collaborating with other financial institutions;
   x. Impacts on the state's debt limit;
   xi. In the event of failure, the risk to taxpayers, including any impact on Washington's bond rating and reputation;
   xii. Potential effects on the budgets and existing state agencies programs; and
   xiii. Other items necessary to establish a state-chartered public cooperative bank modeled after the federal home loan bank or other similar institution.

The office of financial management shall facilitate the timely transmission of information and documents from all appropriate state departments and state agencies to the entity hired to carry out this contract. A status report must be provided to the governor and appropriate committees of the legislature by December 1, 2018, and final report and business plan provided to the appropriate committees of the legislature by June 30, 2019. The contract is exempt from the competitive procurement requirements in chapter 39.26 RCW.

Appendix B: Statement of Work/Deliverables

a. <u>Phase 1-Prelimanary Status Report</u>

UW shall:

1) Evaluate the benefits and risks of establishing and operating a state-chartered, public cooperative bank, specifically including the business and operational issues raised by the 2017 infrastructure and public depository task force and those delineated in the budget proviso. (The final report of the task force reported that "… there was a consensus that many Washington governments need access to low cost financing for infrastructure projects." The budget proviso states that "The purpose of this bank is to assist the potential members of the bank to manage cash and investments more efficiently to increase yield while maintaining liquidity, and to establish a sustainable funding source of ready capital for infrastructure and economic development in the state of Washington.");
2) Identify potential state and local government cooperative bank members;
3) Conduct a needs assessment of local governments and state agencies;
4) Identify potential financial products and services the bank could offer to members;
5) Identify and examine legal, constitutional, and regulatory issues to establish a bank whose members are the state and/or political subdivisions;
6) Conduct a literature search and review of relevant studies;
7) Determine whether there would be benefits to Federal Reserve System membership and, if so, what would be required; and
8) Identify potential impacts of a bankruptcy of the cooperative bank on the state's bond rating and reputation, the potential impacts on Washington State taxpayers, and regulatory safeguards and potential resolution mechanisms, such as conservatorship, recapitalization, or liquidation.

Deliverable: Phase 1 - Deliver a status report to Client by November 1, 2018.

b. <u>Phase 2- Final Report</u>

UW shall create a final report that shall include a proposed business plan. The business plan must be based on the federal home loan bank model, whose members may only be the state and/or its political subdivisions. The plan must include the minimum elements below:

1) A capitalization plan that includes alternatives for capitalizing the cooperative bank, including potential impacts on the state and local government debt limits and fund managements, if any;
2) An income statement and balance sheet for five years based upon assumptions of membership and financial services provided (this will include assumptions about staffing requirements and operating costs, as well as estimates of fees and other revenues);
3) A recommendation on how to provide information security and protect the cooperative bank from cyber-attacks and fraud;

4) An exploration of the opportunities for the cooperative bank to collaborate with community banks and other financial institutions;
5) Proposed alternatives for governance and regulatory oversight and assess pros and cons of different structures; and
6) An evaluation of the financial risks and benefits of lending member funds to members.

Deliverable: Phase 2 – Final Report and Business Plan by June 1, 2019

c. **Stakeholder Engagement.** UW, in consultation with Client, shall develop and implement a stakeholder engagement plan. The stakeholder plan must include local governments, financial institutions, relevant state agencies and interested parties.

d. **Progress Updates**. UW shall meet with Client on a monthly basis.

e. **Report**. The final reported shall comply with Exhibit B, The Office of Financial Management Style, Design and Graphics Guidelines for Contractors

7. Service Delivery Dates:
   a. Start Date: July 1, 2018
   b. End Date: June 30, 2019
8. Rates (in U.S. Dollars): $275,000.00

Appendix C: Proforma Financial Statements

Washington State Cooperative Infrastructure Bank
Balance Sheet - BASE

	Initial	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Assets (millions)											
Cash & Investments	$ 10.0	$ 7.4	$ 15.3	$ 43.5	$ 57.8	$ 65.5	$ 74.9	$ 86.6	$ 97.9	$ 109.7	$ 122.7
Member Investments	$ -	$ 15.3	$ 169.0	$ 282.3	$ 290.9	$ 299.7	$ 308.8	$ 318.1	$ 327.8	$ 337.7	$ 348.0
Other Investments	$ -	$ 0.0	$ 0.9	$ 3.1	$ 5.7	$ 8.1	$ 10.6	$ 13.2	$ 15.8	$ 18.5	$ 21.3
Loans to Members											
Short Term	$ -	$ -	$ 5.1	$ 11.9	$ 14.4	$ 14.9	$ 15.3	$ 15.8	$ 16.3	$ 16.8	$ 17.3
Long Term	$ -	$ -	$ 125.5	$ 471.2	$ 922.9	$ 1,389.2	$ 1,869.5	$ 2,364.5	$ 2,874.5	$ 3,399.9	$ 3,941.3
(less Loss Reserve Fund)*	$ -	$ (1.5)	$ (17.5)	$ (30.6)	$ (33.7)	$ (36.9)	$ (40.2)	$ (43.6)	$ (47.2)	$ (50.8)	$ (54.5)
Accrued Interest Receivable	$ -	$ -	$ 0.4	$ 1.7	$ 3.3	$ 4.9	$ 6.5	$ 8.1	$ 9.8	$ 11.6	$ 13.4
Other Assets	$ -	$ 0.4	$ 0.5	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.7	$ 0.7
Total Assets	$ 10.0	$ 21.5	$ 299.1	$ 783.7	$ 1,262.0	$ 1,745.9	$ 2,246.0	$ 2,763.3	$ 3,295.5	$ 3,844.1	$ 4,410.1
Liabilities (millions)											
Deposits (members)	$ -	$ 15.3	$ 169.0	$ 282.3	$ 290.9	$ 299.7	$ 308.8	$ 318.1	$ 327.8	$ 337.7	$ 348.0
Borrowings (Capital Markets)											
Short Term (1-year)	$ -	$ (0.8)	$ 12.4	$ 47.7	$ 94.2	$ 141.7	$ 190.6	$ 241.1	$ 293.0	$ 346.6	$ 401.7
Intermediate Term (5-year)	$ -	$ -	$ 22.6	$ 90.5	$ 180.7	$ 273.4	$ 368.9	$ 467.3	$ 568.7	$ 673.2	$ 780.8
Long Term (10-year)	$ -	$ -	$ 33.9	$ 135.8	$ 271.1	$ 410.1	$ 553.4	$ 701.0	$ 853.1	$ 1,009.8	$ 1,171.2
Long Term (20-year)	$ -	$ -	$ 45.2	$ 181.0	$ 361.5	$ 546.8	$ 737.9	$ 934.7	$ 1,137.4	$ 1,346.4	$ 1,561.6
Accrued Interest Payable	$ -	$ 0.0	$ 0.2	$ 1.0	$ 2.4	$ 3.7	$ 5.1	$ 6.6	$ 8.1	$ 9.6	$ 11.2
Other Liabilities	$ -	$ 0.0	$ 0.5	$ 1.9	$ 3.4	$ 4.9	$ 6.4	$ 7.9	$ 9.5	$ 11.1	$ 12.8
Total Liabilities		$ 14.5	$ 283.8	$ 740.2	$ 1,204.1	$ 1,680.4	$ 2,171.1	$ 2,676.7	$ 3,197.6	$ 3,734.4	4,287.42
Optg. Res. Contributions - Membership	$ -	$ -	$ 20.3	$ 47.7	$ 57.7	$ 59.5	$ 61.3	$ 63.2	$ 65.1	$ 67.0	$ 69.1
Optg. Res. Contributions - Usage	$ -	$ -	$ 0.7	$ 3.6	$ 8.1	$ 12.7	$ 17.5	$ 22.4	$ 27.5	$ 32.7	$ 38.0
Loan from State of Washington	$ 10.0	$ 10.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Retained Earnings	$ -	$ (2.6)	$ (5.7)	$ (7.7)	$ (8.0)	$ (6.7)	$ (3.9)	$ 1.0	$ 5.4	$ 10.0	$ 15.6
Total Optg. Res.**	$ 10.0	$ 7.4	$ 15.3	$ 43.5	$ 57.8	$ 65.5	$ 74.9	$ 86.6	$ 97.9	$ 109.7	$ 122.7
Total Liabilities + Operating Reserve	#VALUE!	$ 21.9	$ 299.1	$ 783.7	$ 1,262.0	$ 1,745.9	$ 2,246.0	$ 2,763.3	$ 3,295.5	$ 3,844.1	$ 4,410.1
*Loan Loss Reserve/Member Loans	#DIV/0!	#DIV/0!	13.43%	6.33%	3.60%	2.63%	2.13%	1.83%	1.63%	1.49%	1.38%
**Operating Reserve to Assets Ratio	100.00%	34.33%	5.12%	5.55%	4.58%	3.75%	3.33%	3.13%	2.97%	2.85%	2.78%
Total Debt Service Reserve Fund (millions)	$ -	$ -	$ 10.6	$ 39.8	$ 78.1	$ 117.6	$ 158.3	$ 200.2	$ 243.4	$ 287.9	$ 333.7
DSRF/Long-Term Borrowings	#DIV/0!	#DIV/0!	8.45%	8.44%	8.46%	8.47%	8.47%	8.47%	8.47%	8.47%	8.47%

Washington State Cooperative Infrastructure Bank
Balance Sheet - LOW

	Initial	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Assets (millions)											
Cash & Investments	$ 10.0	$ 7.4	$ 3.5	$ 13.5	$ 16.9	$ 17.3	$ 18.3	$ 20.1	$ 22.5	$ 25.7	$ 29.7
Member Investments	$ -	$ 6.9	$ 75.9	$ 123.9	$ 127.7	$ 131.5	$ 135.5	$ 139.7	$ 143.9	$ 148.3	$ 152.8
Other Investments	$ -	$ 0.0	$ 0.4	$ 1.3	$ 2.4	$ 3.3	$ 4.2	$ 5.2	$ 6.2	$ 7.3	$ 8.4
Loans to Members											
Short Term	$ -	$ -	$ 2.3	$ 5.3	$ 6.3	$ 6.5	$ 6.7	$ 6.9	$ 7.1	$ 7.4	$ 7.6
Long Term	$ -	$ -	$ 58.8	$ 200.0	$ 376.0	$ 557.6	$ 744.8	$ 937.6	$ 1,136.2	$ 1,340.9	$ 1,551.8
(less Loss Reserve Fund)*	$ -	$ (0.7)	$ (7.9)	$ (13.4)	$ (14.6)	$ (15.9)	$ (17.3)	$ (18.7)	$ (20.1)	$ (21.5)	$ (23.0)
Accrued Interest Receivable	$ -	$ -	$ 0.2	$ 0.7	$ 1.4	$ 2.0	$ 2.6	$ 3.2	$ 3.9	$ 4.6	$ 5.3
Other Assets	$ -	$ 0.4	$ 0.5	$ 0.5	$ 0.5	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6	$ 0.6
Total Assets	$ 10.0	$ 14.0	$ 133.7	$ 331.9	$ 516.6	$ 702.9	$ 895.5	$ 1,094.6	$ 1,300.4	$ 1,513.2	$ 1,733.1
Liabilities (millions)											
Deposits (members)	$ -	$ 6.9	$ 75.9	$ 123.9	$ 127.7	$ 131.5	$ 135.5	$ 139.7	$ 143.9	$ 148.3	$ 152.8
Borrowings (Capital Markets)											
Short Term (1-year)	$ -	$ 0.1	$ 6.1	$ 20.5	$ 38.7	$ 57.2	$ 76.2	$ 95.9	$ 116.1	$ 137.0	$ 158.5
Intermediate Term (5-year)	$ -	$ -	$ 10.7	$ 38.4	$ 73.5	$ 109.6	$ 146.8	$ 185.2	$ 224.7	$ 265.3	$ 307.3
Long Term (10-year)	$ -	$ -	$ 16.0	$ 57.6	$ 110.3	$ 164.5	$ 220.3	$ 277.8	$ 337.0	$ 398.0	$ 460.9
Long Term (20-year)	$ -	$ -	$ 21.3	$ 76.8	$ 147.1	$ 219.3	$ 293.7	$ 370.3	$ 449.3	$ 530.7	$ 614.5
Accrued Interest Payable	$ -	$ 0.0	$ 0.1	$ 0.4	$ 1.0	$ 1.5	$ 2.1	$ 2.6	$ 3.2	$ 3.8	$ 4.4
Other Liabilities	$ -	$ 0.0	$ 0.2	$ 0.8	$ 1.4	$ 2.0	$ 2.5	$ 3.1	$ 3.7	$ 4.4	$ 5.0
Total Liabilities		$ 7.0	$ 130.2	$ 318.4	$ 499.7	$ 685.6	$ 877.2	$ 1,074.6	$ 1,277.9	$ 1,487.5	1,703.40
Optg. Res. Contributions - Membership	$ -	$ -	$ 9.2	$ 21.1	$ 25.3	$ 26.1	$ 26.9	$ 27.7	$ 28.6	$ 29.4	$ 30.3
Optg. Res. Contributions - Usage	$ -	$ -	$ 0.3	$ 1.6	$ 3.3	$ 5.1	$ 7.0	$ 8.9	$ 10.9	$ 12.9	$ 15.0
Loan from State of Washington	$ 10.0	$ 10.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Retained Earnings	$ -	$ (2.6)	$ (6.0)	$ (9.1)	$ (11.8)	$ (13.9)	$ (15.6)	$ (16.6)	$ (16.9)	$ (16.6)	$ (15.6)
Total Optg. Res.**	$ 10.0	$ 7.4	$ 3.5	$ 13.5	$ 16.9	$ 17.3	$ 18.3	$ 20.1	$ 22.5	$ 25.7	$ 29.7
Total Liabilities + Operating Reserve	#VALUE!	$ 14.4	$ 133.7	$ 331.9	$ 516.6	$ 702.9	$ 895.5	$ 1,094.6	$ 1,300.4	$ 1,513.2	$ 1,733.1
*Loan Loss Reserve/Member Loans	#DIV/0!	#DIV/0!	12.90%	6.52%	3.83%	2.83%	2.30%	1.97%	1.76%	1.60%	1.48%
**Operating Reserve to Assets Ratio	100.00%	52.84%	2.61%	4.07%	3.27%	2.47%	2.04%	1.83%	1.73%	1.70%	1.71%
Total Debt Service Reserve Fund (millions)	$ -	$ -	$ 5.0	$ 17.0	$ 32.2	$ 47.8	$ 63.8	$ 80.4	$ 97.4	$ 115.0	$ 133.1
DSRF/Long-Term Borrowings	#DIV/0!	#DIV/0!	8.51%	8.51%	8.56%	8.57%	8.57%	8.57%	8.57%	8.57%	8.57%

Washington State Cooperative Infrastructure Bank
Balance Sheet - HIGH

	Initial	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Assets (millions)											
Cash & Investments	$ 10.0	$ 7.4	$ 34.1	$ 86.7	$ 113.9	$ 130.2	$ 145.7	$ 163.4	$ 183.0	$ 204.7	$ 228.6
Member Investments	$ -	$ 28.7	$ 315.0	$ 502.3	$ 517.5	$ 533.2	$ 549.4	$ 566.1	$ 583.2	$ 600.9	$ 619.2
Other Investments	$ -	$ 0.0	$ 1.6	$ 5.4	$ 9.8	$ 13.9	$ 18.1	$ 22.4	$ 26.8	$ 31.4	$ 36.1
Loans to Members											
Short Term	$ -	$ -	$ 9.5	$ 21.5	$ 25.7	$ 26.5	$ 27.3	$ 28.1	$ 28.9	$ 29.8	$ 30.7
Long Term	$ -	$ -	$ 213.5	$ 796.0	$ 1,554.6	$ 2,337.5	$ 3,144.2	$ 3,975.4	$ 4,831.8	$ 5,714.1	$ 6,623.3
(less Loss Reserve Fund)*	$ -	$ (2.9)	$ (32.6)	$ (54.2)	$ (59.5)	$ (65.0)	$ (70.7)	$ (76.5)	$ (82.5)	$ (88.7)	$ (95.0)
Accrued Interest Receivable	$ -	$ -	$ 0.8	$ 2.9	$ 5.6	$ 8.2	$ 10.9	$ 13.7	$ 16.6	$ 19.5	$ 22.5
Other Assets	$ -	$ 0.4	$ 0.5	$ 0.6	$ 0.6	$ 0.7	$ 0.7	$ 0.7	$ 0.7	$ 0.8	$ 0.8
Total Assets	$ 10.0	$ 33.6	$ 542.5	$ 1,361.2	$ 2,168.3	$ 2,985.2	$ 3,825.6	$ 4,693.2	$ 5,588.6	$ 6,512.6	$ 7,466.1
Liabilities (millions)											
Deposits (members)	$ -	$ 28.7	$ 315.0	$ 502.3	$ 517.5	$ 533.2	$ 549.4	$ 566.1	$ 583.2	$ 600.9	$ 619.2
Borrowings (Capital Markets)											
Short Term (1-year)	$ -	$ (2.1)	$ 20.6	$ 80.3	$ 158.3	$ 238.1	$ 320.3	$ 405.0	$ 492.2	$ 582.1	$ 674.8
Intermediate Term (5-year)	$ -	$ -	$ 38.1	$ 152.7	$ 304.1	$ 459.8	$ 620.2	$ 785.4	$ 955.6	$ 1,131.1	$ 1,311.8
Long Term (10-year)	$ -	$ -	$ 57.1	$ 229.0	$ 456.2	$ 689.7	$ 930.2	$ 1,178.1	$ 1,433.5	$ 1,696.6	$ 1,967.7
Long Term (20-year)	$ -	$ -	$ 76.2	$ 305.3	$ 608.3	$ 919.6	$ 1,240.3	$ 1,570.8	$ 1,911.3	$ 2,262.1	$ 2,623.6
Accrued Interest Payable	$ -	$ 0.0	$ 0.3	$ 1.7	$ 4.0	$ 6.3	$ 8.6	$ 11.1	$ 13.6	$ 16.2	$ 18.9
Other Liabilities	$ -	$ 0.0	$ 0.9	$ 3.3	$ 5.9	$ 8.3	$ 10.8	$ 13.4	$ 16.1	$ 18.8	$ 21.7
Total Liabilities		$ 26.6	$ 508.3	$ 1,274.5	$ 2,054.3	$ 2,855.0	$ 3,679.9	$ 4,529.8	$ 5,405.6	$ 6,307.9	7,237.56
Optg. Res. Contributions - Membership	$ -	$ -	$ 38.2	$ 86.0	$ 102.7	$ 105.8	$ 109.1	$ 112.4	$ 115.8	$ 119.3	$ 122.9
Optg. Res. Contributions - Usage	$ -	$ -	$ 1.1	$ 6.0	$ 13.6	$ 21.4	$ 29.4	$ 37.7	$ 46.2	$ 54.9	$ 63.9
Loan from State of Washington	$ 10.0	$ 10.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Retained Earnings	$ -	$ (2.6)	$ (5.2)	$ (5.3)	$ (2.4)	$ 3.0	$ 7.2	$ 13.4	$ 21.1	$ 30.5	$ 41.7
Total Optg. Res.**	$ 10.0	$ 7.4	$ 34.1	$ 86.7	$ 113.9	$ 130.2	$ 145.7	$ 163.4	$ 183.0	$ 204.7	$ 228.6
Total Liabilities + Operating Reserve	#VALUE!	$ 34.0	$ 542.5	$ 1,361.2	$ 2,168.3	$ 2,985.2	$ 3,825.6	$ 4,693.2	$ 5,588.6	$ 6,512.6	$ 7,466.1
*Loan Loss Reserve/Member Loans	#DIV/0!	#DIV/0!	14.60%	6.63%	3.77%	2.75%	2.23%	1.91%	1.70%	1.54%	1.43%
**Operating Reserve to Assets Ratio	100.00%	21.99%	6.29%	6.37%	5.25%	4.36%	3.81%	3.48%	3.28%	3.14%	3.06%
Total Debt Service Reserve Fund (millions)	$ -	$ -	$ 18.0	$ 67.1	$ 131.2	$ 197.2	$ 265.3	$ 335.4	$ 407.7	$ 482.2	$ 558.9
DSRF/Long-Term Borrowings	#DIV/0!	#DIV/0!	8.43%	8.42%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%	8.44%

Washington State Cooperative Infrastructure Bank
Income Statement - BASE

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue (thousands)										
Interest - cash	$ 195.9	$ 209.5	$ 715.8	$ 1,207.0	$ 1,384.3	$ 1,576.5	$ 1,812.7	$ 2,078.9	$ 2,332.8	$ 2,611.9
Interest - investments	$ 1.0	$ 8.5	$ 49.6	$ 112.5	$ 172.8	$ 233.8	$ 296.8	$ 362.0	$ 429.0	$ 498.1
Investment income (member investments)	$ 38.2	$ 1,470.6	$ 4,295.4	$ 5,731.2	$ 5,905.1	$ 6,084.3	$ 6,268.9	$ 6,459.1	$ 6,655.0	$ 6,856.9
Interest from loans to members	$ -	$ 1,217.6	$ 7,501.4	$ 18,679.8	$ 30,862.7	$ 43,412.3	$ 56,342.6	$ 69,665.2	$ 83,392.0	$ 97,535.3
Income on Non-member investments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Financial services fees	$ -	$ 7.9	$ 48.4	$ 112.8	$ 176.5	$ 241.2	$ 308.1	$ 377.1	$ 448.2	$ 521.4
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ 235.2	$ 2,914.2	$ 12,610.5	$ 25,843.4	$ 38,501.5	$ 51,548.0	$ 65,029.1	$ 78,942.2	$ 93,257.0	$ 108,023.7
Expense (thousands)										
Interest on Member Deposits	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest on Member Investments	$ 36.3	$ 1,397.1	$ 4,080.7	$ 5,444.7	$ 5,609.9	$ 5,780.1	$ 5,955.4	$ 6,136.1	$ 6,322.3	$ 6,514.1
Interest on Short-Term Borrowings	$ 2.8	$ 71.5	$ 450.7	$ 1,135.8	$ 1,885.5	$ 2,755.6	$ 3,451.9	$ 4,271.0	$ 5,115.0	$ 5,984.5
Interest on Intermediate-Term Borrowings	$ -	$ 134.3	$ 900.6	$ 2,317.1	$ 3,879.3	$ 5,694.0	$ 7,146.1	$ 8,854.1	$ 10,614.0	$ 12,427.3
Interest on Long-Term Debt	$ -	$ 723.7	$ 4,853.1	$ 12,486.4	$ 20,905.3	$ 29,575.8	$ 38,509.4	$ 47,714.0	$ 57,197.9	$ 66,969.5
Losses on Loans to Members	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Compensation & Benefits	$ 1,925.6	$ 2,410.2	$ 3,034.2	$ 3,302.8	$ 3,401.9	$ 3,503.9	$ 3,609.0	$ 3,717.3	$ 3,828.8	$ 3,943.7
Administration	$ 877.9	$ 1,236.7	$ 1,372.1	$ 1,424.2	$ 1,459.8	$ 1,459.8	$ 1,459.8	$ 1,459.8	$ 1,459.8	$ 1,459.8
Other Expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ 2,842.6	$ 5,973.5	$ 14,691.2	$ 26,110.9	$ 37,141.6	$ 48,769.1	$ 60,131.6	$ 72,152.4	$ 84,537.8	$ 97,298.9
Net Income*	$ (2,607.5)	$ (3,059.3)	$ (2,080.7)	$ (267.6)	$ 1,359.9	$ 2,778.9	$ 4,897.5	$ 6,789.8	$ 8,719.2	$ 10,724.7
Profits Returned to Members**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,394.9	$ 4,359.6	$ 5,362.4
***Return on Average Assets (ROA)**	-16.54%	-1.91%	-0.38%	-0.03%	0.09%	0.14%	0.20%	0.22%	0.24%	0.26%
***Return on Average Operating Reserve**	-29.98%	-26.95%	-7.08%	-0.53%	2.20%	3.96%	6.07%	7.36%	8.40%	9.23%
****Ratio of Profits Returned to Members to Average Operating Reserve**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.68%	4.20%	4.62%

Washington State Cooperative Infrastructure Bank
Income Statement - LOW

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue (thousands)										
Interest - cash	$ 195.9	$ 102.0	$ 217.2	$ 370.6	$ 384.0	$ 399.7	$ 430.1	$ 477.4	$ 541.0	$ 621.9
Interest - investments	$ 1.0	$ 4.2	$ 21.9	$ 47.1	$ 70.4	$ 93.8	$ 118.1	$ 143.2	$ 169.2	$ 196.0
Investment income (member investments)	$ 17.2	$ 662.5	$ 1,906.1	$ 2,515.8	$ 2,592.1	$ 2,670.7	$ 2,751.8	$ 2,835.2	$ 2,921.3	$ 3,009.9
Interest from loans to members	$ -	$ 577.7	$ 3,318.1	$ 7,726.0	$ 12,472.4	$ 17,361.3	$ 22,398.5	$ 27,588.6	$ 32,936.1	$ 38,445.8
Income on Non-member investments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Financial services fees	$ -	$ 3.9	$ 21.3	$ 47.2	$ 71.8	$ 96.7	$ 122.5	$ 149.2	$ 176.7	$ 205.1
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ 214.2	$ 1,350.1	$ 5,484.6	$ 10,706.7	$ 15,590.6	$ 20,622.2	$ 25,821.0	$ 31,193.6	$ 36,744.2	$ 42,478.7
Expense (thousands)										
Interest on Member Deposits	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest on Member Investments	$ 16.4	$ 629.3	$ 1,810.8	$ 2,390.0	$ 2,462.5	$ 2,537.2	$ 2,614.2	$ 2,693.5	$ 2,775.2	$ 2,859.4
Interest on Short-Term Borrowings	$ 4.5	$ 38.3	$ 203.5	$ 474.0	$ 766.2	$ 1,105.1	$ 1,376.4	$ 1,695.5	$ 2,024.3	$ 2,363.1
Interest on Intermediate-Term Borrowings	$ -	$ 64.2	$ 398.3	$ 956.3	$ 1,564.8	$ 2,271.6	$ 2,837.2	$ 3,502.5	$ 4,187.9	$ 4,894.2
Interest on Long-Term Debt	$ -	$ 346.2	$ 2,146.4	$ 5,153.3	$ 8,432.6	$ 11,809.7	$ 15,289.2	$ 18,874.3	$ 22,568.2	$ 26,374.1
Losses on Loans to Members	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Compensation & Benefits	$ 1,925.6	$ 2,410.2	$ 2,723.9	$ 2,983.1	$ 3,072.6	$ 3,164.8	$ 3,259.8	$ 3,357.6	$ 3,458.3	$ 3,562.0
Administration	$ 877.9	$ 1,236.7	$ 1,337.4	$ 1,388.7	$ 1,423.4	$ 1,423.4	$ 1,423.4	$ 1,423.4	$ 1,423.4	$ 1,423.4
Other Expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ 2,824.4	$ 4,725.0	$ 8,620.3	$ 13,345.4	$ 17,722.1	$ 22,311.8	$ 26,800.1	$ 31,546.7	$ 36,437.2	$ 41,476.2
Net Income*	$ (2,610.2)	$ (3,374.9)	$ (3,135.7)	$ (2,638.7)	$ (2,131.5)	$ (1,689.5)	$ (979.1)	$ (353.1)	$ 307.0	$ 1,002.6
Dividends to Members**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
***Return on Average Assets (ROA)**	-21.77%	-4.57%	-1.35%	-0.62%	-0.35%	-0.21%	-0.10%	-0.03%	0.02%	0.06%
***Return on Average Operating Reserve**	-30.02%	-62.02%	-36.90%	-17.36%	-12.45%	-9.48%	-5.11%	-1.66%	1.27%	3.62%
****Ratio of Profits Returned to Members to Average Operating Reserve**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Washington State Cooperative Infrastructure Bank
Income Statement - HIGH

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue (thousands)										
Interest - cash	$ 196.0	$ 381.3	$ 1,470.2	$ 2,367.5	$ 2,740.5	$ 3,099.5	$ 3,473.9	$ 3,893.8	$ 4,358.7	$ 4,870.5
Interest - investments	$ 1.0	$ 15.0	$ 88.5	$ 194.7	$ 296.4	$ 399.2	$ 505.2	$ 614.5	$ 727.3	$ 843.7
Investment income (member investments)	$ 71.8	$ 2,758.2	$ 7,815.2	$ 10,197.0	$ 10,506.4	$ 10,825.2	$ 11,153.6	$ 11,492.0	$ 11,840.6	$ 12,199.9
Interest from loans to members	$ -	$ 2,080.8	$ 12,732.4	$ 31,517.9	$ 51,977.4	$ 73,052.6	$ 94,767.2	$ 117,140.6	$ 140,192.8	$ 163,944.4
Income on Non-member investments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Financial services fees	$ -	$ 14.0	$ 85.9	$ 194.7	$ 302.2	$ 411.2	$ 523.5	$ 639.4	$ 758.9	$ 882.3
Other	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ 268.8	$ 5,249.3	$ 22,192.2	$ 44,471.9	$ 65,822.8	$ 87,787.6	$ 110,423.3	$ 133,780.2	$ 157,878.3	$ 182,740.7
Expense (thousands)										
Interest on Member Deposits	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest on Member Investments	$ 68.2	$ 2,620.3	$ 7,424.4	$ 9,687.2	$ 9,981.1	$ 10,283.9	$ 10,595.9	$ 10,917.4	$ 11,248.6	$ 11,589.9
Interest on Short-Term Borrowings	$ 0.2	$ 114.8	$ 757.5	$ 1,909.4	$ 3,168.9	$ 4,630.1	$ 5,799.3	$ 7,174.7	$ 8,591.8	$ 10,052.0
Interest on Intermediate-Term Borrowings	$ -	$ 225.8	$ 1,521.1	$ 3,902.1	$ 6,525.4	$ 9,572.5	$ 12,010.9	$ 14,879.1	$ 17,834.3	$ 20,879.2
Interest on Long-Term Debt	$ -	$ 1,217.1	$ 8,197.3	$ 21,027.8	$ 35,164.6	$ 49,724.2	$ 64,725.5	$ 80,181.9	$ 96,107.2	$ 112,515.7
Losses on Loans to Members	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Compensation & Benefits	$ 1,925.6	$ 2,410.2	$ 3,034.2	$ 3,622.4	$ 4,060.3	$ 4,182.1	$ 4,307.5	$ 4,436.8	$ 4,569.9	$ 4,707.0
Administration	$ 877.9	$ 1,236.7	$ 1,372.1	$ 1,459.7	$ 1,532.6	$ 1,532.6	$ 1,532.6	$ 1,532.6	$ 1,532.6	$ 1,532.6
Other Expense	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total	$ 2,871.8	$ 7,824.9	$ 22,306.6	$ 41,608.6	$ 60,432.9	$ 79,925.4	$ 98,971.8	$ 119,122.4	$ 139,884.5	$ 161,276.4
Net Income*	$ (2,603.1)	$ (2,575.5)	$ (114.4)	$ 2,863.3	$ 5,389.9	$ 7,862.2	$ 11,451.5	$ 14,657.8	$ 17,993.9	$ 21,464.3
Dividends to Members**	$ -	$ -	$ -	$ -	$ 818.3	$ 3,931.1	$ 5,725.8	$ 7,328.9	$ 8,996.9	$ 10,732.2
***Return on Average Assets (ROA)**	-11.93%	-0.89%	-0.01%	0.16%	0.21%	0.23%	0.27%	0.29%	0.30%	0.31%
***Return on Average Operating Reserve**	-29.93%	-12.40%	-0.19%	2.85%	4.42%	5.70%	7.41%	8.46%	9.28%	9.91%
****Ratio of Profits Returned to Members to Average Operating Reserve**	0.00%	0.00%	0.00%	0.00%	0.67%	2.85%	3.71%	4.23%	4.64%	4.95%