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## Washington State Refinancing Adds to $1 Billion Budget Relief.

State and local governments that routinely borrow by negotiating with investment banks to sell bonds often cite their ability to control the timing of a bond sale as justification. Officials in the state of Washington don't buy that.

The state sold $673 million of bonds Wednesday through competitive bidding with barely a month to prepare for the sale after the Federal Reserve raised interest rates in December for the first time since 2006. The AA+ state borrowed at 2.02 percent in the 10-year maturity, beating 2.13 percent yield for top-rated debt, according to Municipal Market Analytics Inc. data. JPMorgan Chase & Co. won the bidding.

The state uses competitive bidding for almost all its debt sales except some bonds that rely on unique revenue sources such as so-called Build America Bonds, taxable debt that came with a federal subsidy for two years starting in 2009 to stimulate the economy.

"Washington is a long a way from Wall Street and we want to do everything as transparently as possible, and there's no better way to demonstrate you got the lowest cost of funds than to put it out for bid," said Ellen Evans, deputy state treasurer for debt management, in an interview before the bids were awarded. "We get a fantastic cost of funds."

**Historic Lows**

Washington state is unique in the $3.7 trillion municipal bond market, where more than three-fourths of all borrowers that sold fixed-rate, long-term debt do so by negotiating with banks. But since 2009 the state has refinanced about $9 billion of debt in more than two dozens sales, cutting annual interest payments by more than $1 billion a year, according to state Treasurer James McIntire.

The state is still benefiting from municipal borrowing costs that remain near historic lows, even after the Fed raised rates. Yields on benchmark 10-year Treasury notes dropped on Wednesday to the lowest level since October as investors sought the safety of sovereign debt as the collapse of oil prices sparked anxiety in markets from stocks to inflation derivatives.

Last year refinancing of outstanding debt accounted for 63 percent of all municipal bonds sold, according to data compiled by Bloomberg. Bank America projected about 60 percent of $450 billion of issuance in 2016 would be to refinance debt to cut borrowing costs.

**Escrowed Funds**

Washington was planning to sell $530 million of new-money bonds next month after the Fed increased its target rate by 0.25 percentage points Dec. 14. Soon after Evans and her staff realized that while muni rates remained low, the increase in U.S. Treasury rates moved short-term taxable rates high enough the state could fund the escrow needed to advance refund the debt.

In an advance refunding the state borrows to replace existing debt once it is callable by putting the proceeds in escrowed U.S. Treasuries that are redeemed as refinanced debt matures. The escrowed funds must be invested at just the right rate to repay the debt without generating any surplus under U.S. tax law.

"As December started we had no idea we would be in the money to do this at all," said Evans.

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