



# Municipal Bonds 101: Legal & Financial Strategies for Ports

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**Washington Public Ports Association  
Finance & Administration Seminar  
June 26, 2025**

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Piper Sandler

# Overview of Session

## Municipal Bonds 101: Legal and Financing Strategies for Ports

Port financing tools

- [Bond Basics](#)
- [Bond Issuance Process](#)
- [Post Issuance Compliance](#)

Practice Tips, Resources

Questions?

### Washington's Public Ports: Financing Airport and Seaport Infrastructure

Washington's public ports support trade, commerce and economic development and are responsible for the development and operation of seaport, airport, marina, recreational, and industrial development facilities throughout the state. Port districts have a variety of options for financing these facilities, including issuing bonds secured by operating revenues, lease revenues, facility charges, taxes, assessments, or user fees. Port often issue bonds on a tax-exempt basis to reduce financing costs.

[Read more >](#)

# Roadmap

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# Bonds 101 Roadmap

## 1. Bond Basics: *Things to know and think about before issuing bonds*

- *What* is a municipal “bond”?
- *Who* can issue bonds (and *how*)?
- *What* are key rules to consider in the planning process?

## 2. The Bond Issuance Process: *How it looks in practice*

- The finance team
- Key steps and related documents

## 3. Post-Issuance Compliance: *But wait, there’s more!*

- Federal tax law limits on investments and uses of bond proceeds
- Federal securities law regulations requiring ongoing disclosure



# 1. Bond Basics

# Bond Basics: What is a Bond?



# Bond Basics: Deal Mechanics

## BOND ISSUERS

- Ports
- Cities
- Counties
- School districts
- State
- Others



## BOND BUYERS

- Public investors
- Private lenders (bank)
- Seller/vendor
- State government
- Federal government



# Bond Basics: *Why* bond financing?

- Immediate funding for critical infrastructure
- Intergenerational equity



- Time value of money
- Federal tax exemption

# Governmental Bonds

- Issued by ports to finance port projects
  - Can be issued as tax-exempt bonds
  - Payable from and secured by port funds
- Debt types:
  - General obligation bonds paid from property taxes
    - Limited tax general obligation (LTGO) bonds
    - Unlimited tax general obligation (UTGO) bonds
  - Revenue bonds paid from operating revenues
    - General revenue bonds
    - Special facility bonds
  - Assessment bonds



Images from HistoryLink.org

# Qualified Private Activity Bonds (“PABs”)

Nonqualified private activity bonds are taxable, but qualified PABs are available to help private parties finance various types of projects that are designated as eligible for tax-exempt financing under the Code

- Exempt facilities (**airports; docks and wharves;** mass commuting facilities; qualified residential rental projects (IRC § 142(d)); qualified green building and sustainable design projects; certain water, sewage, and solid waste facilities; and others); qualified mortgage bonds; **qualified small issue bonds;** qualified 501(c)(3) bonds (IRC § 145); and others

Sometimes issued as a conduit bond

- Issuer is a governmental entity
- Proceeds loaned to conduit borrower to finance a qualified capital project or other authorized expenses



**MAY 2, 2023**

Tax-Exempt Bonds: A  
Quick Guide to Qualified  
Private Activity Bonds

**[Read more](#)**

# Qualified Private Activity Bonds

- Issued to construct or improve facilities used by a private entity
- Federal tax exemption for bonds issued to finance “exempt facilities”
  - Airports, docks, wharves, and others
  - Subject to legal requirements and restrictions
  - Generally subject to alternative minimum tax (“AMT”)
- General revenue bonds
  - Secured by general operating revenues
- Special facility bonds
  - Payable from specified revenue stream (i.e., lease payments of a particular facility)
  - No recourse to other port revenues



Images from HistoryLink.org

# Industrial Development Revenue Bonds

- Issued on a conduit basis
  - Port forms an industrial development corporation (“IDC”)
  - IDC issues bonds on behalf of private borrower
  - Bonds secured by direct payments from private borrower
  - No recourse to the port or IDC
- Can finance “small issue manufacturing facilities” on a tax-exempt basis
  - Facility must be used in the manufacturing or production of tangible personal property;
  - \$10 million issuance limit; and
  - \$20 million capital expenditure limit
- Can finance solid waste disposal, other “exempt facilities”



**MAY 2, 2023**

Tax-Exempt Bonds: A  
Quick Guide to Industrial  
Development Bonds

**[Read more](#)**

# Legal Framework – Federal Tax Law

Internal Revenue Code and regulations govern:

- How tax-exempt bond proceeds can be spent
- Use of financed facility/assets
  - Limits the ability of the issuer to sell, lease or otherwise allow private use of the bond financed facility
- The investment and arbitrage of bond proceeds
- Records retention



Images from HistoryLink.org

# Federal Tax Law Planning

When planning the development of a new facility, consider:

- When does the issuer/borrower expect to *spend* the proceeds?
- Which expenditures *can be* financed with tax-exempt bonds?
- Which expenditures *should be* financed with taxable bonds or cash (equity)?
- What are the issuer's/borrower's *reasonable expectations* at closing with respect to use of the facility over the term of the bonds?
- How much *flexibility* is desired over the term of the financing?



Image from HistoryLink.org



# 1. Bond Basics

# 2. Bond Issuance Process

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# Participants in the Bond Sale Process

Participant	Function
<b>Issuer</b>	Elected officials, key personnel (finance director, debt manager, in-house counsel, and department management and finance staff)
<b>Bond Counsel</b>	Provides a legal opinion for the bond issue, evaluates the issuer's authority to issue bonds, and determines that interest on tax-exempt bonds is exempt from federal income tax
<b>Financial (Municipal) Advisor</b>	Assists the issuer with readying a bond issue for the market
<b>Underwriter (Purchaser)</b>	Responsible for marketing the bonds to investors (senior manager, co-managers, selling group)
<b>Underwriter's Counsel (negotiated sale only)</b>	Provides legal advice to the underwriting team
<b>Rating Agency</b>	Provides an independent review of the bond issue's credit strength (Moody's Investors Service, S&P Global Ratings, and Fitch Investors Service)
<b>Credit/liquidity provider (if necessary or cost-effective)</b>	Provides credit enhancement to an issue in exchange for a fee (bond insurers, letter of credit (LOC) banks, foreign and domestic, and others such as city/county/state guarantees)
<b>Paying Agent</b>	Responsible for transferring principal and interest payments on the bonds from the issuer to the bond holders
<b>DTC</b>	The Depository Trust Company, acts as an initial securities depository for the bonds when issued
<b>Trustee</b>	Holds funds originating from bond issue as well as the revenues dedicated to repay the bonds; represents the bond holders in the event the issuer defaults on a bond payment

# Bond Issuance Process

1. Project development
2. Authorization

## TO THE VOTERS OF KING COUNTY

At the March 5 election there will be submitted for your approval a bond issue of \$150,000 to build and operate a new public ferry between Leschi Park and Bellevue or Medina, on the eastern shore of Lake Washington.

The farmers living in that great and fertile area of agricultural and dairy land, extending ten miles north and south and from Lake Washington back to and beyond Lake Sammamish, are united for this ferry, and by popular subscription have raised an advertising fund with which to acquaint you with all the facts regarding it; to show you that it is vital to them and of equal importance to the people of Seattle and the whole of King County, because it will develop approximately 30,000 acres of rich land, all less than eight miles from Seattle, and the products of which will appreciably lower the cost of living to the people of Seattle. The proposed ferry will cause at least 10,000 new families to settle across the lake within the next three years.

The ferry has been heartily indorsed and urged by the PORT COMMISSION, the CHAMBER OF COMMERCE, the COMMERCIAL CLUB, the POMONA GRANGE, and other influential and representative bodies.

We want YOUR vote, and every other vote you can bring in, for these ferry bonds. If you will call at our offices or telephone us, we will cheerfully give you additional information of any sort concerning them.

### BELLEVUE FERRY COMMITTEE

FRANK H. POOR,  
Chairman.  
W. A. TEMPLETON,  
Treasurer.  
J. A. HOADLEY,  
C. R. CAMPBELL,  
ALEX ANDERSON.

267 Empire Building,  
SEATTLE.  
H. P. MORAN, Secretary.  
Telephone Main 511.

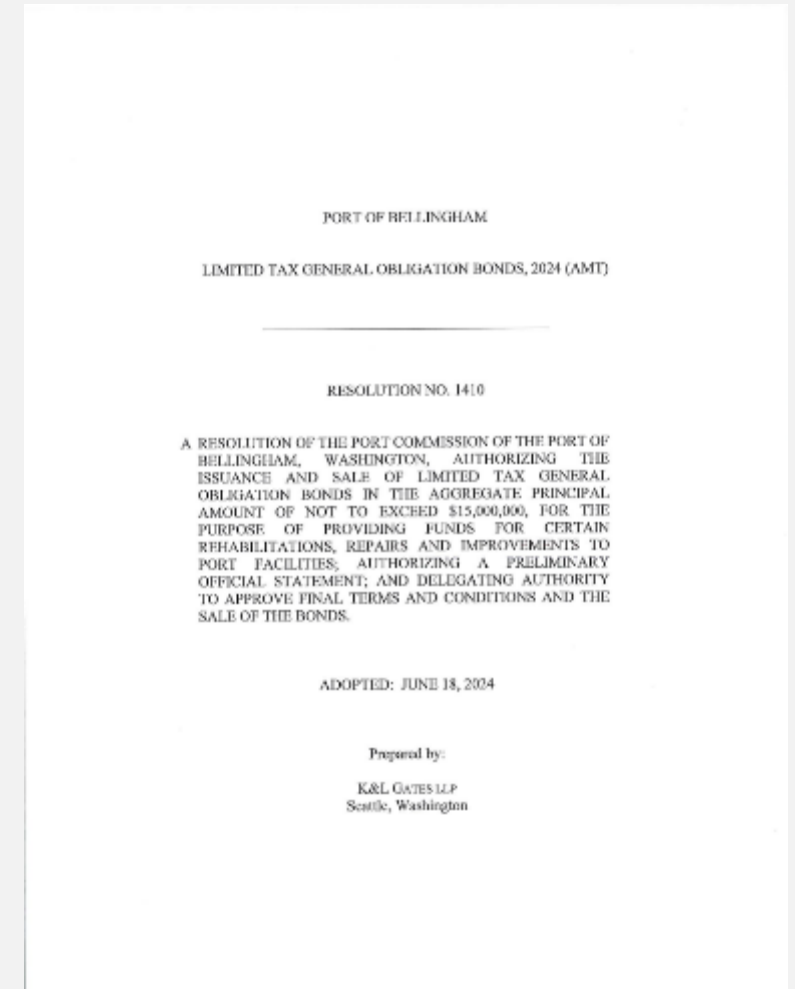
# Bond Issuance Process

1. Project development ☒

2. Voter authorization? ☒

3. Bond legislation

- Authorization
- Security
- Use of proceeds
- Covenants
- Mechanics
- Sale delegation (within parameters)



# Bond Issuance Process

1. Project development ☒
2. Voter authorization? ☒
3. Bond legislation ☒
4. Preliminary official statement
  - Required for public bond sales
  - Provides extensive information regarding the issuer and credit
  - Commonly drafted by disclosure counsel
  - Must be materially complete and accurate

**BOOK-ENTRY ONLY  
NEW ISSUE**

Moodys's Rating: "A1"  
S&P's Rating: "AA-"  
Fitch's Rating: "AA-"  
See "RATINGS" herein

*In the opinion of K&L Gates LLP, Bond Counsel, assuming compliance with certain covenants of the Port, interest on the 2024A Bonds and 2024B Bonds is excludable from gross income for federal income tax purposes under existing law, except for interest on any 2024B Bonds for any period during which such bond is held by a "substantial owner" of the jurisdiction followed or referenced by such bond, or a "related person" to such "substantial owner," within the meaning of Section 137(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the 2024A Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. Interest on the 2024B Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. Interest on the 2024A Bonds and the 2024B Bonds is taken into account in determining "adjusted financial statement income" of certain corporations for purposes of computing the alternative minimum tax imposed on "applicable corporations." See "TAX MATTERS" herein.*



**\$168,975,000**  
**Intermediate Lien Revenue Refunding Bonds, Series 2024A (Non-AMT)**

**\$648,940,000**  
**Intermediate Lien Revenue and Refunding Bonds, Series 2024B (AMT)**

**Dated:** Date of Delivery **Due:** As shown on the inside cover page

The Port of Seattle (the "Port") is issuing its Intermediate Lien Revenue Refunding Bonds, Series 2024A (Non-AMT) (the "2024A Bonds") and Intermediate Lien Revenue and Refunding Bonds, Series 2024B (AMT) (the "2024B Bonds") and, together with the 2024A Bonds, the "Series 2024 Bonds") (i) to finance or refinance capital improvements to the aviation facilities as described herein (the "2024 Projects"), (ii) to refund certain outstanding Port obligations, (iii) to make deposits to reserve accounts, (iv) to capitalize a portion of the interest on the Series 2024 Bonds, and (v) to pay costs of issuing the Series 2024 Bonds.

The 2024A Bonds will bear interest payable on March 1 and September 1 of each year, commencing March 1, 2025. The 2024B Bonds will bear interest payable on January 1 and July 1 of each year, commencing January 1, 2025. The Series 2024 Bonds are subject to redemption prior to their scheduled maturities, as described herein. The fiscal agent of the State of Washington, currently U.S. Bank Trust Company, National Association, is the registrar, authenticating agent and paying agent for the Series 2024 Bonds. When issued, the Series 2024 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, as more fully described herein.

**Maturity Dates, Principal Amounts, Interest Rates, Yields, Prices, and CUSIP Numbers on Inside Cover Page**

The Series 2024 Bonds are payable from and are secured by a pledge of Available Intermediate Lien Revenues of the Port as defined and described herein, on a parity with the Port's outstanding Intermediate Lien Parity Bonds and any future Intermediate Lien Parity Bonds as described herein. The Series 2024 Bonds and any outstanding and future revenue bonds issued on a parity of lien with the Series 2024 Bonds are collectively referred to in this Official Statement as the "Intermediate Lien Parity Bonds." The Series 2024 Bonds are not general obligations of the Port or the State of Washington or of any political subdivision of the State of Washington. Neither the full faith and credit of the Port nor the taxing power of the Port is pledged to the payment of the Series 2024 Bonds.

The Series 2024 Bonds are offered when, and if issued, subject to receipt of the approving legal opinions of K&L Gates LLP, Seattle, Washington. Bond Counsel to the Port, Pacifica Law Group LLP, Seattle, Washington, is serving as Disclosure Counsel in the Port. Certain legal matters will be passed upon for the Underwriters by their counsel, Crick, Flannigan & Sutcliffe LLP, Seattle, Washington. It is expected that delivery of the Series 2024 Bonds will be made by Fast Automated Securities Transfer through DTC in New York, New York, on or about August 15, 2024.

*This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

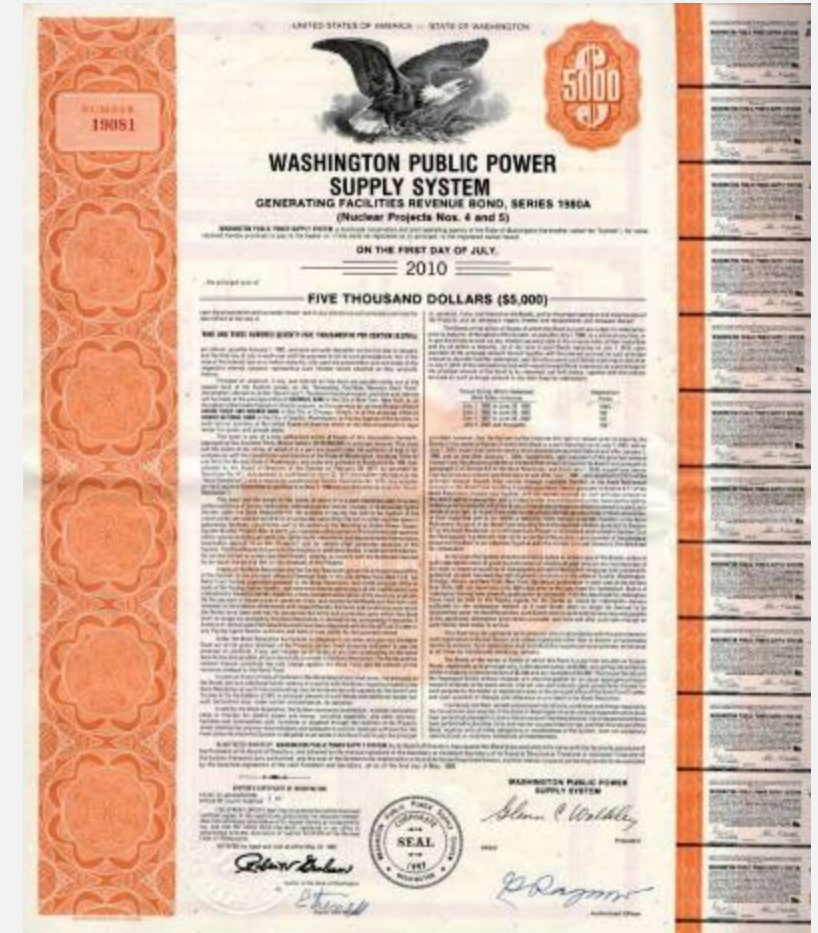
**BoFA SECURITIES**

<b>BARCLAYS</b>	<b>GOLDMAN SACHS &amp; CO. LLC</b>	<b>JEFFERIES LLC</b>
<b>MORGAN STANLEY</b>	<b>SIEBERT WILLIAMS SHANK &amp; CO., LLC</b>	<b>ACADEMY SECURITIES</b>
	<b>STERN BROTHERS &amp; CO.</b>	

Official Statement Dated August 1, 2024

# Federal Antifraud Provisions

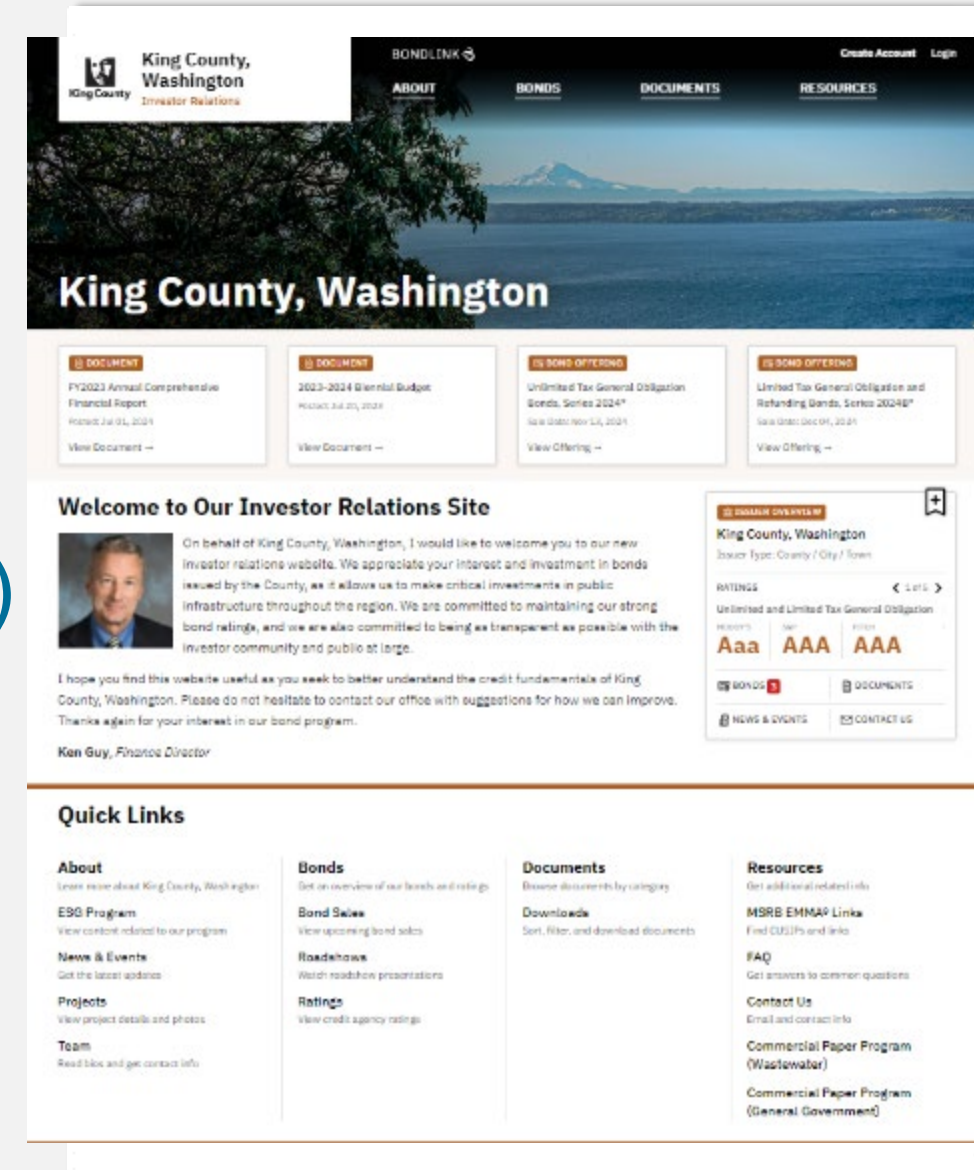
- Rule 10b-5 & Section 17(a) prohibit:
  - Any unlawful statement of material fact, or
  - Any omission of a material fact necessary in order to make the statements made, in light of the circumstances, not misleading
- “Material” if:
  - Substantial likelihood
  - Reasonable bond investor
  - Would consider it important to an investment decision
  - *i.e.*, misstatement/omission *significantly altered the total mix of info*



# Federal Antifraud Provisions: Application

*When issuer speaks to the market*

- Primary disclosure (10b-5, 17(a))
  - Preliminary Official Statement
  - Official Statement
- Secondary market disclosure (10b-5)
- Voluntary disclosure (10b-5)
  - Published information
  - Public statements



# Bond Issuance Process

1. Project development ☒
2. Voter authorization? ☒
3. Bond legislation ☒
4. Preliminary official statement ☒
5. Bond sale ☒
6. Official statement ☒
7. Closing ☒

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Section 2.1

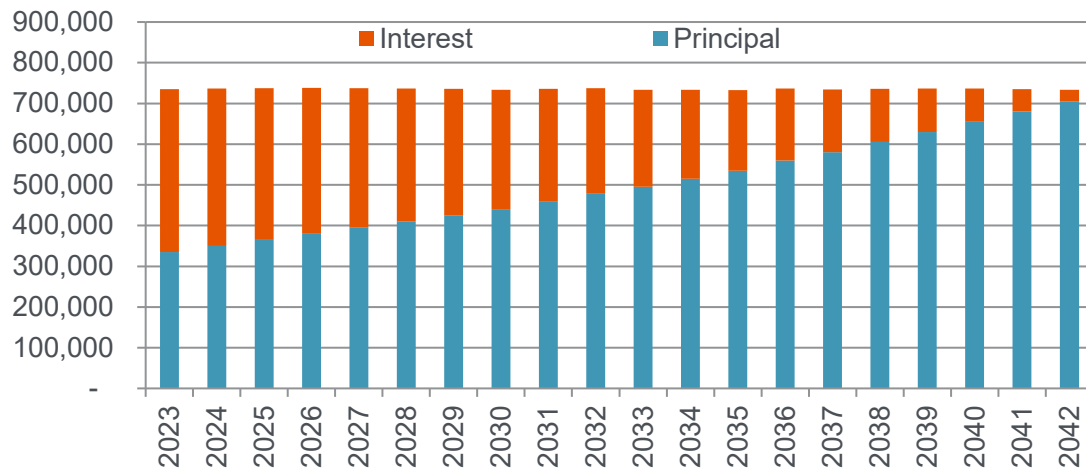
# Municipal Bond Sale Overview

## Bond Structuring

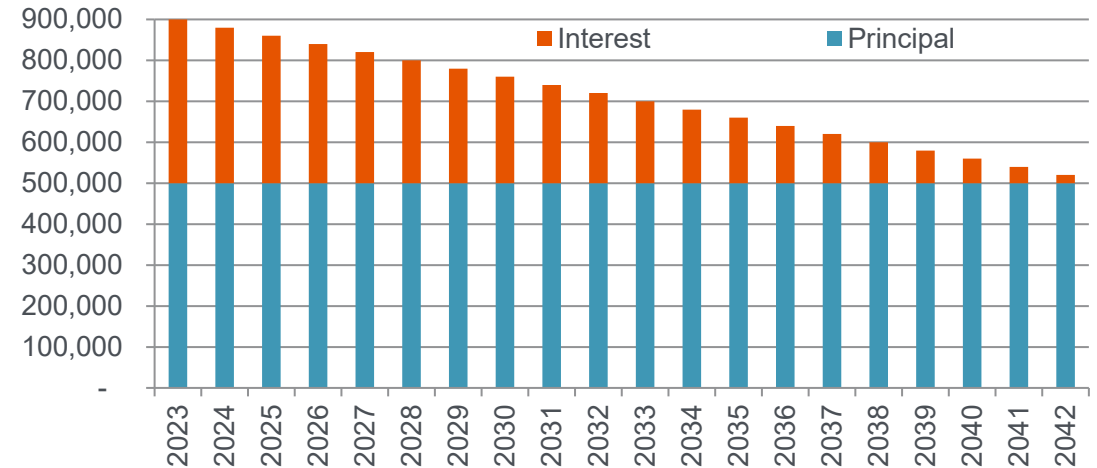
Bond financings can be structured in a number of ways to meet the issuer's objectives.

- **Level Debt Service** – Annual debt service payments remain constant; often used in new money financings
- **Level Principal** – Principal payments are fixed while interest paid declines over time; results in lower cost of capital by frontloading annual debt service
- **Wrapped Debt Service** – Structure debt service payments around the issuer's existing debt to achieve an aggregate level payment plan
- **Proportional** – Align debt service with a specific revenue stream; common in tax-backed bonds where AV grows over time and debt service must be backloaded

Level Debt Service



Level Principal



## Ratings

- Like your personal credit score, a higher credit rating for the State results in a lower borrowing cost.
- Investors view the bond rating as an indication of risk (i.e., likeliness to default on payments). A higher bond credit rating results in lower interest rates because investors feel this is an indication of reduced risk.
- Bonds are commonly labeled either "investment grade" or "speculative" (often called "high yield" instead).
- Each rating agency has developed its own unique methodology for evaluating an issuer's credit quality but they all focus primarily on the following factors:
  - Economy/Demographics
  - Financial Performance
  - Governance
  - Liability Burden
- Recent Areas of Focus:
  - Tariffs
  - Pensions


	Description	Moody's	Standard & Poor's	Fitch
Investment Grade	Highest Quality	Aaa	AAA	AAA
	High Quality	Aa1	AA+	AA+
		Aa2	AA	AA
		Aa3	AA-	AA-
	Upper Medium Grade	A1	A+	A+
		A2	A	A
		A3	A-	A-
	Medium Grade	Baa1	BBB+	BBB+
		Baa2	BBB	BBB
		Baa3	BBB-	BBB-
Non-investment grade	Somewhat Speculative	Ba1	BB+	BB+
		Ba2	BB	BB
		Ba3	BB-	BB-
	Speculative	B1	B+	B+
		B2	B	B
		B3	B-	B-
	Highly Speculative	Caa1	CCC+	CCC
	Most Speculative	Caa2	CCC	CCC
	Imminent Default	Caa3 Ca	CCC- CC	CCC
	Default	C	C	DDD
			D	DD
				D

## Public Sale vs. Bank Loan

Characteristic	Public Sale	Bank Loan (Direct Placement)
<b>Market Access</b>	Broad public investor base (institutions, individuals)	Single or limited number of lenders (banks)
<b>Pricing Transparency</b>	High (competitive or negotiated sale; market-driven)	Low (private negotiation)
<b>Disclosure Requirements</b>	High (Official Statement, continuing disclosure)	Minimal (often no OS; limited continuing disclosure)
<b>Time to Market</b>	Longer (requires ratings, legal docs, marketing)	Shorter (simplified process)
<b>Interest Rate</b>	Market-based, potentially lower in strong markets and follows the yield curve	May be higher or fixed via negotiation
<b>Customization</b>	Less flexible (standard bond terms)	Highly customizable (terms, amortization, etc.)
<b>Term / Maturity</b>	Typically 10–30 years	Typically short- to mid-term (1–10 years)
<b>Covenants</b>	Standard for bond type; less restrictive	More restrictive (bank-driven)
<b>Credit Rating</b>	Usually necessary for lowest rate	Often not required
<b>Continuing Disclosure (SEC Rule 15c2-12)</b>	Required	Often exempt
<b>Cost of Issuance</b>	Higher (underwriter fees, OS prep, ratings, etc.)	Lower (simpler legal & placement process)
<b>Flexibility in Call Features</b>	Standardized (e.g., 10-year par call)	More flexible, negotiable
<b>Best for</b>	Large financings, long-term projects, transparency	Small or short-term deals, quick turnaround, privacy, volatile public markets

## Public Bond Sale Method – Competitive vs. Negotiated

Factor	More Suitable for Competitive Bid	More Suitable for Negotiated Pricing
Credit quality	High quality, known credit	Lower quality, new, or complex credit
Transaction size	Large enough to assure a sufficient number of strong competitive bids. Small enough to allow for multiple bidders. Small enough that the winning bidder does not have to take too many bonds into inventory	Too small to be assured of sufficient interest or too large to ensure market access without paying a substantial risk premium
Structure	No unusual features; bond payments are high priority in the use of funds	Zero coupon bonds, variable rate or changing interest rate modes, subordinate lien, convertibles
Market conditions	Fairly stable market	Unusual volatility or uncertainty
Timing and rate sensitivity	New money issue, timing not critical, decision to go forward not overly rate sensitive	Refunding issue with critical timing, or a rate- sensitive transaction; desire to enter market on short notice or change maturity structure at last minute or in response to investor feedback
Other factors	Need for sale process to be free of any potential controversy	Desire to reward banking team for service between underwritings; use of retail order period; marketing to international investors (taxable issue only).

Year	Competitive	Negotiated	Total	Competitive	Negotiated
2019	\$134,751	\$286,754	\$421,505	32%	68%
2020	\$120,187	\$359,459	\$479,646	25%	75%
2021	\$117,727	\$348,291	\$466,018	25%	75%
2022	\$94,268	\$261,520	\$355,788	26%	74%
2023	\$89,985	\$256,676	\$346,660	26%	74%
<b>Total</b>	<b>\$556,917</b>	<b>\$1,512,700</b>	<b>\$2,069,617</b>	<b>27%</b>	<b>73%</b>

Source: LSEG

# Sample (Simplified) Schedule of Financing Events

June 2025						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

July 2025						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

August 2025						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

September 2025						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

<u>Week</u>	<u>Event</u>	<u>Participants</u>
Week 1	Kickoff/Disclosure and legal document work begins	All
Week 2-3	Draft Preliminary Official Statement, and Legal Opinion distributed	FA/Bond Counsel
Week 3-4	Run Preliminary Numbers	FA/Issuer
Week 5	Comments due on various documents	All
Week 7	Second draft of documents distributed	Bond Counsel
Week 8	Rating agency calls/meetings scheduled and rating presentation prepared	FA/Issuer
Week 9	Rating agency meeting(s)	FA/Issuer
Week 11	Receive ratings	FA/Issuer
Week 12	Finalize and post preliminary official statement and Notice of Sale	Bond Counsel/FA
Week 13	Pricing/bidding	Issuer/FA/Underwriter
Week 15	Closing: receipt and investment of proceeds	All

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Section 2.2

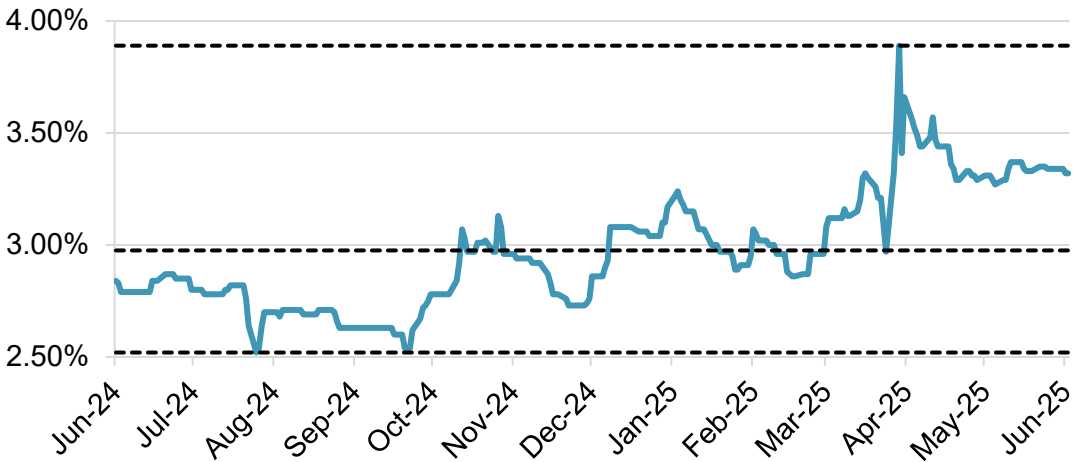
# The Bond Market

# Indices – Municipal Market Data (MMD)

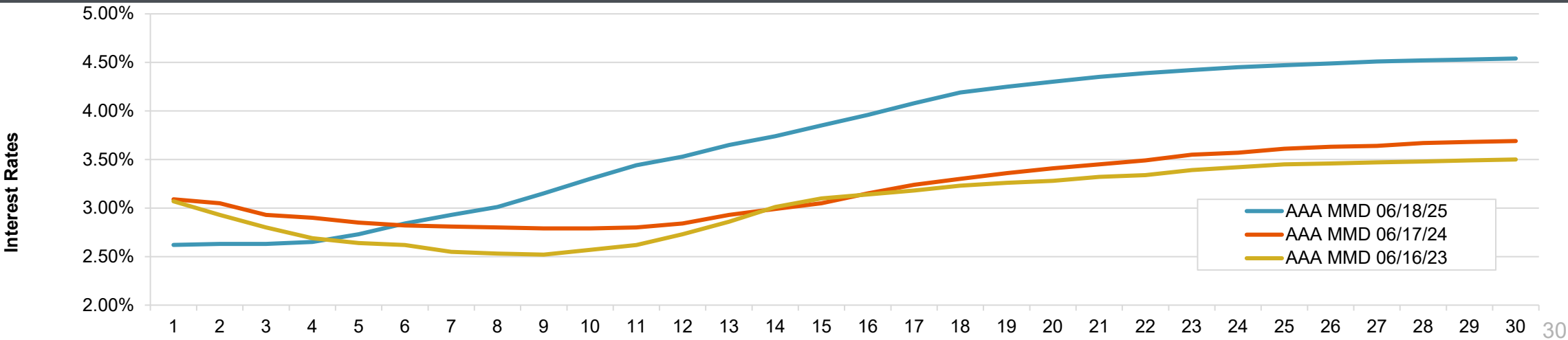
The AAA MMD (or high-grade scale) is one of the most common benchmarks in the municipal market and is typically referenced in evaluating yields on a transaction

- Proprietary tax-exempt yield curve that reflects market activity for AAA-rated state general obligation bonds, as determined by the MMD analyst team
- Published daily just after 3pm ET, with periodic notifications earlier in the day to provide indications of market movement
- Based on daily primary and secondary market activity (institutional block sizes of at least \$2 million)

10-Year AAA MMD (1-Year History)



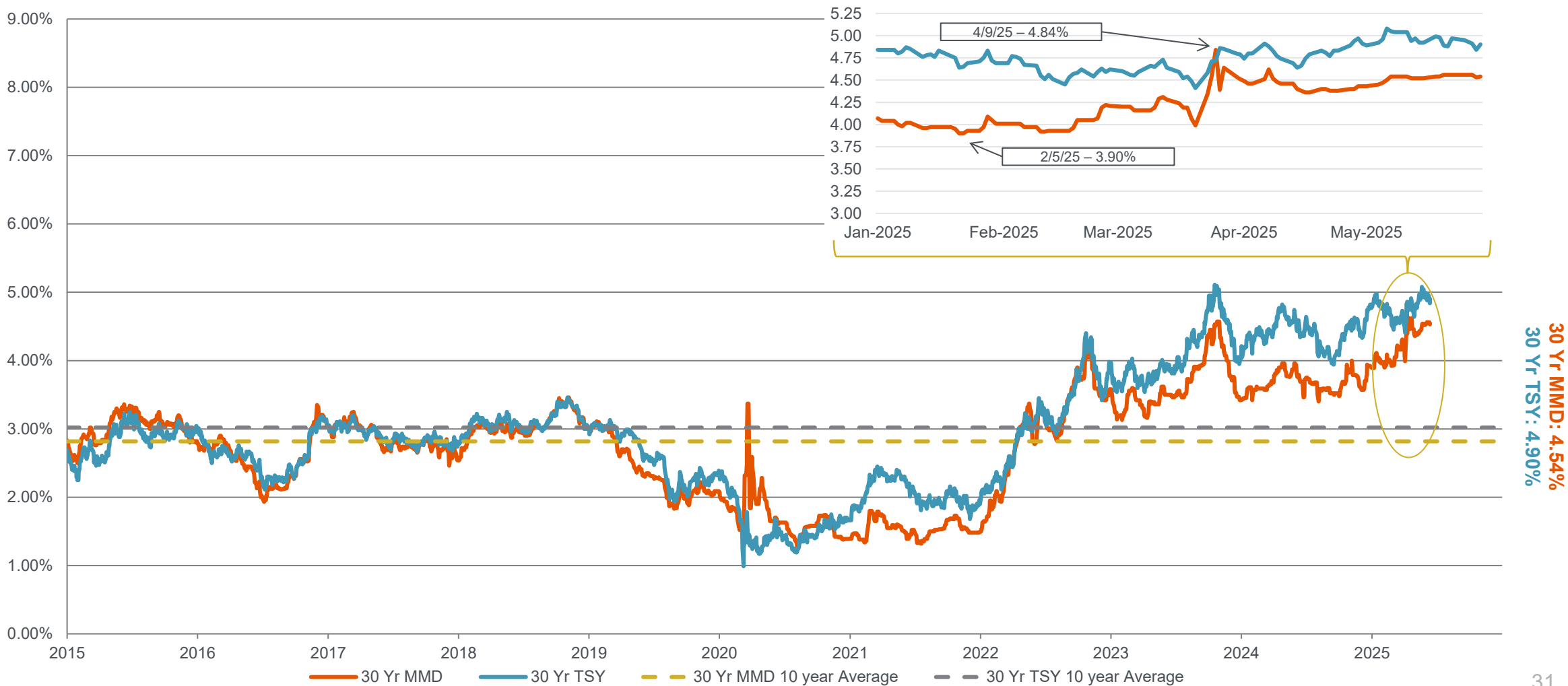
MMD YIELD CURVE



1. Source: TM3. As of 6/18/2025

# Long-Term Market Overview<sup>1</sup>

MMD and Treasury rates are above their 5 and 10-year averages



1. Source: TM3 and Treasury Data. As of 6/16/2025.

## Components of Interest Rates

- The market rate for a particular bond is achieved by taking a “base rate” and adding in the appropriate risk metrics. The graphic representation below illustrates how the issuer’s rate is determined.
- Benchmark Yield – The AAA MMD is used as the “base rate”.
- Estimated Credit Spread Components
  - Security – Pledged revenue (General Obligation, Revenue, etc.)
  - Credit – Issuers underlying credit rating
  - Liquidity - An investor's judgment of how readily the bond could be sold in the secondary market
- Call Feature – Standard call feature is a 10 year par call



\*Benchmark General Obligation AAA Rating

\*\* See behind the numbers slide 37 for further detail on call feature impact to bond pricing

# Economic Indicators

Primary areas of focus include:

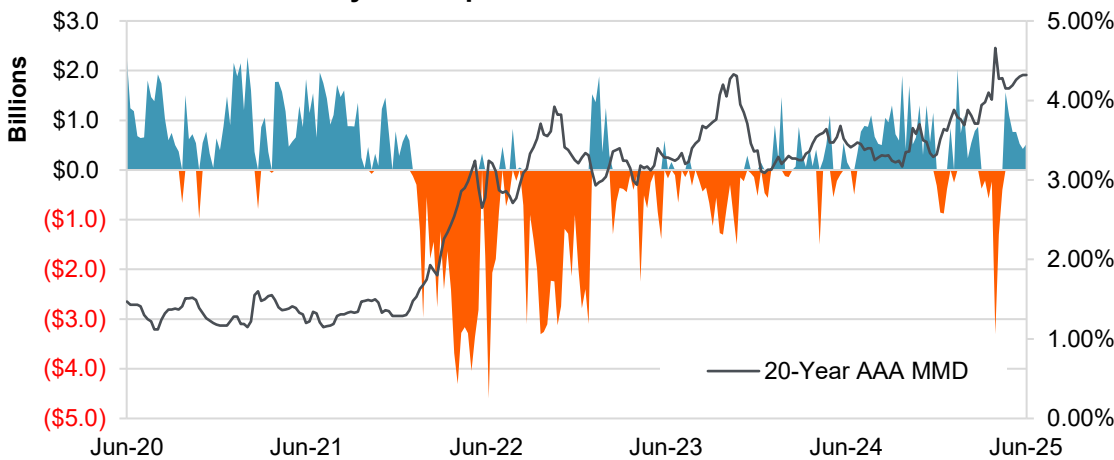
- Inflation (CPI/PCE)
- Real GDP
- Unemployment (Jobless Claims and ADP)
- Federal Open Market Committee (FOMC)

## Econoday Economic Calendar

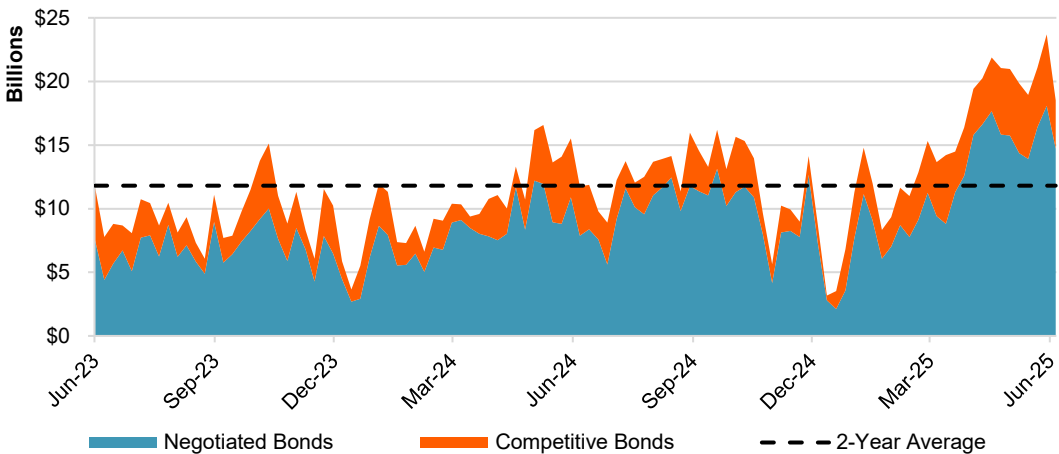
<b>6/16 – Monday</b> Empire State Manufacturing Index	<b>6/17 – Tuesday</b> Retail Sales Industrial Production Import and Export Prices Business Inventories Housing Market Index	<b>6/18 – Wednesday</b> Housing Starts and Permits Jobless Claims EIA Petroleum Status Report FOMC Announcement Fed Chair Press Conference EIA Natural Gas Report Treasury International Capital
<b>6/19 – Thursday</b> US Holiday: Juneteenth (Markets Closed)	<b>6/20 – Friday</b> Philadelphia Fed Manufacturing Index Fed Balance Sheet	<b>Reference Key</b> Market Moving Indicator Merits Extra Attention

Imbalances and shifts in the municipal market’s supply/demand relationship can create market volatility.

Weekly Municipal Bond Funds Cash Flows



The Bond Buyer - Weekly Visible Supply



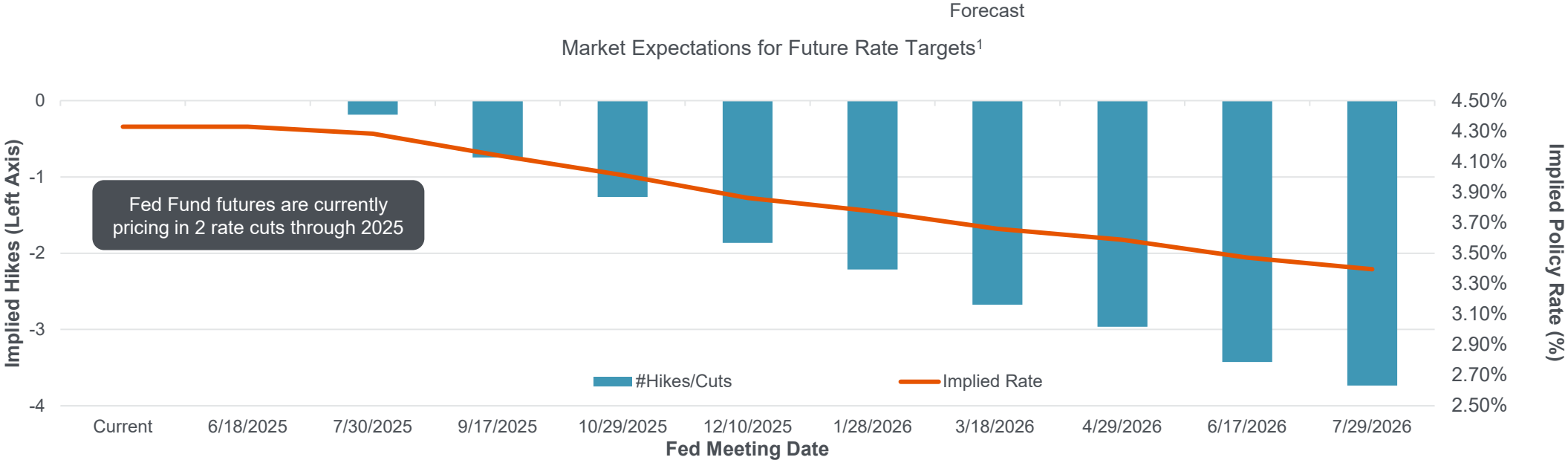
1. Source: BLS and Piper Sandler Financials Strategies.

# Economic Update and Market Expectations

Economic Forecast<sup>1</sup>

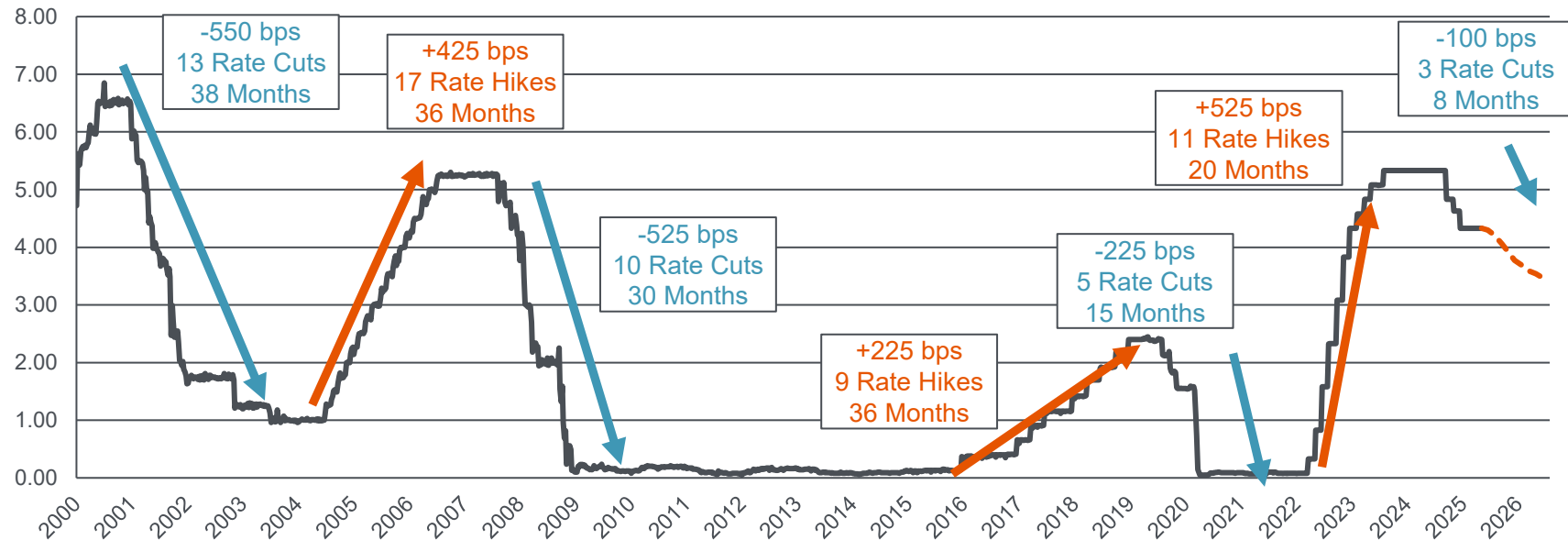
	2024		2025				2026		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Real GDP (QoQ%)	3.10	2.30	-0.30	1.40	0.80	1.20	1.50	1.80	1.90
CPI (YoY%)	2.60	2.70	2.70	2.70	3.20	3.40	3.10	3.00	2.70
Core PCE (YoY%)	2.70	2.80	2.80	2.80	3.20	3.30	3.10	2.90	2.50
Unemployment %	4.20	4.10	4.10	4.30	4.40	4.50	4.50	4.50	4.50
Fed Funds Upper Bound	5.00	4.50	4.50	4.50	4.30	4.05	3.85	3.70	3.55
2yr TSY	3.64	4.11	3.89	3.90	3.78	3.64	3.58	3.53	3.46
10yr TSY	3.78	4.30	4.21	4.41	4.32	4.25	4.20	4.17	4.10
30yr TSY	4.14	4.52	4.78	4.89	4.76	4.66	4.63	4.59	4.54

Both treasuries and inflation are expected to moderate through 2025



1. Source: Bloomberg. As of 6/16/2025.

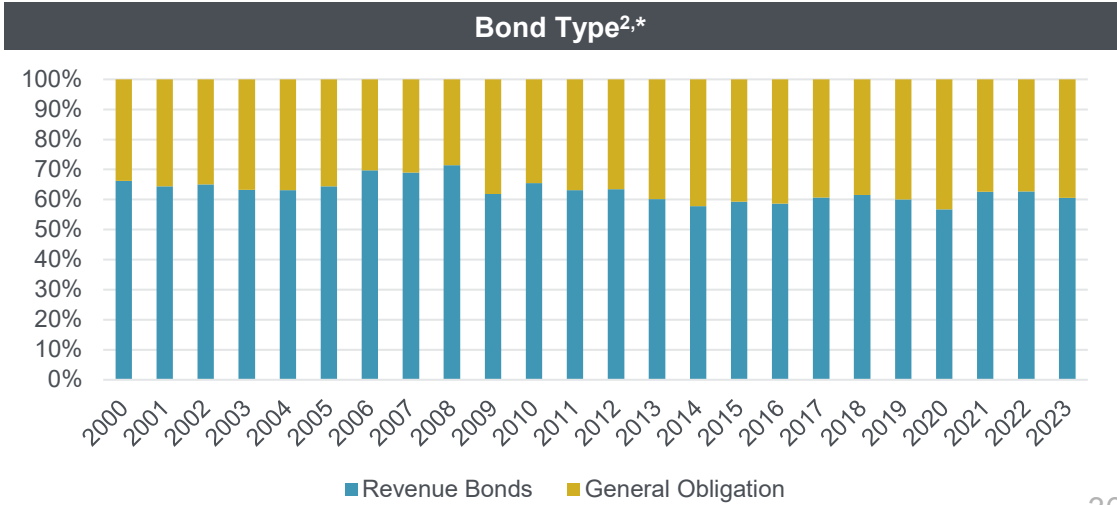
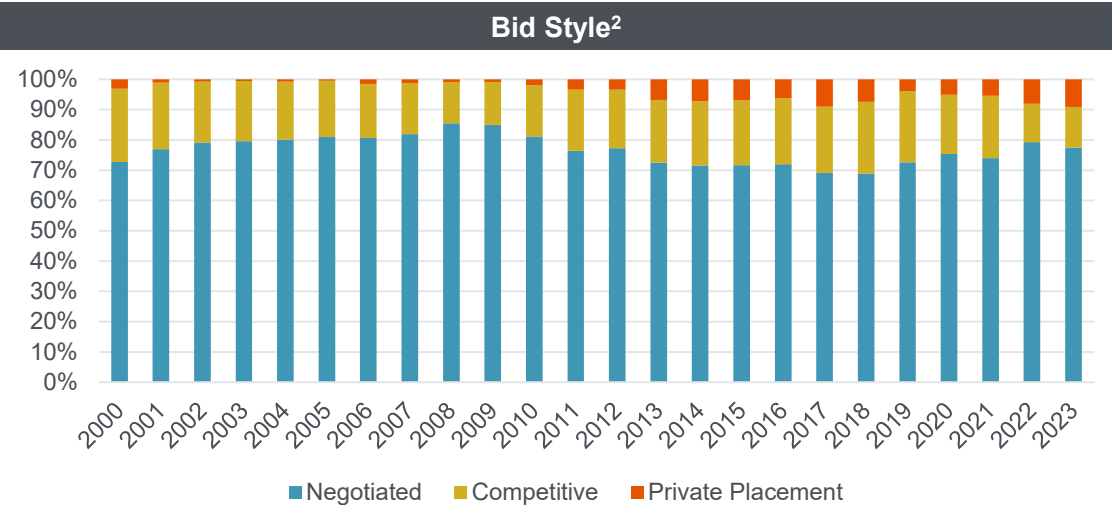
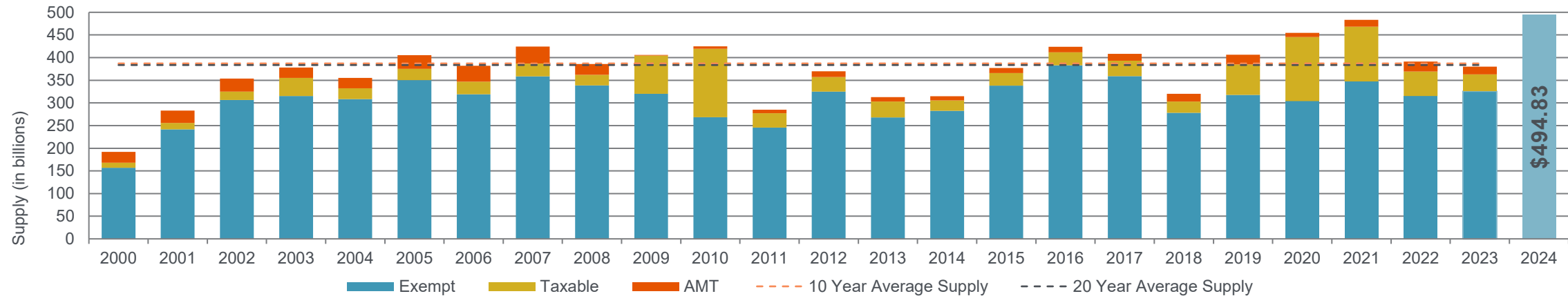
# Historical Federal Funds Rate Movements<sup>1</sup>



- The Federal Reserve held interest rates steady on Wednesday, striking a cautionary tone as it acknowledged mounting risks to both sides of its dual mandate. With economic policy uncertainty still elevated, the Fed did not adjust its quantitative tightening or signal an imminent rate cut. Instead, the committee signaled it needs more concrete evidence on how tariffs and trade tensions will impact inflation before making any adjustments to its policy. This is consistent with the view that the Fed will be reactive versus preemptive when it comes to rate cuts and will favor caution over action.
- In a press conference filled with comments about uncertainty, Chair Jerome Powell articulated the complexities surrounding the current economic landscape, which is heavily influenced by policies from the Trump administration. His remarks painted a picture of ambiguity, effectively placing the Fed on the sidelines. “It’s not at all clear what the appropriate response for monetary policy is at this time ... It’s really not clear what it is we should do,” Powell admitted. “I don’t think we can say which way this will shake out”.
- The May meeting could be summed up as a “cautiously semi-hawkish” pause, with the Fed signaling patience as it navigates the choppy waters of economic uncertainty. Prior to the meeting, markets were fully pricing in a July rate cut, but after Powell’s remarks, the probability of such a move slipped to 84%.

# Long Term Municipal Supply

US Municipal Historic Issuance by Tax Status, Bond Type, and Bid Style<sup>1,2</sup>. 2024 supply was higher than 2023 at \$495 billion.



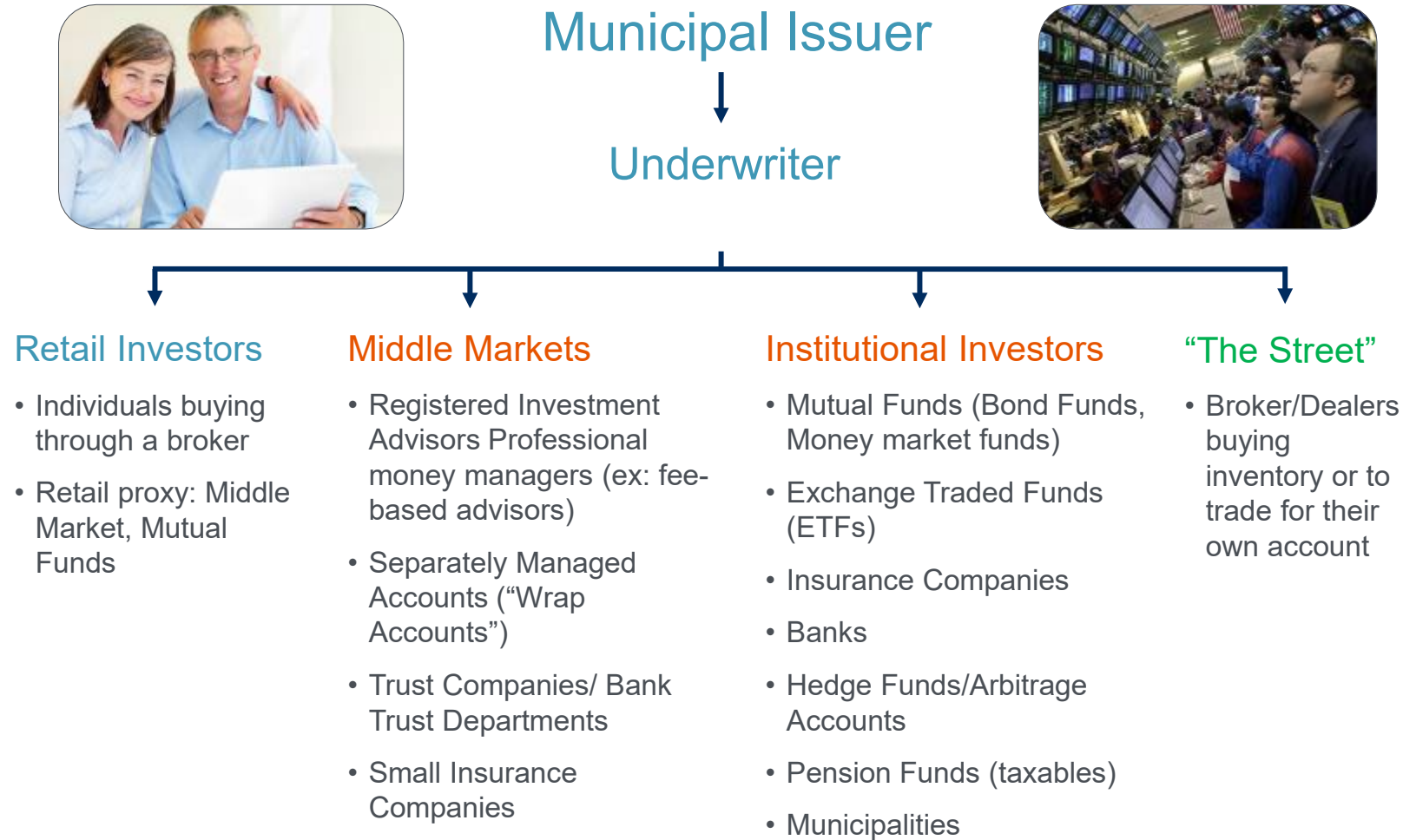
1. Source: SIFMA. As of 6/16/2025.  
2. Grand totals for all three types equate. \*Excludes Private Placements.

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Section 2.3

# Municipal Bond Investors

# Who Buys Municipal Bonds?



## Investor's Perspective

- Investors in higher tax brackets or with higher effective tax rates benefit more from tax exemption.
- Tax Exempt Income
  - Example: If a tax-exempt bond yields 5.0% and the buyer of the bond is in the 39.6% tax bracket, then the after tax equivalent yield is:
    - $\text{After Tax Equivalent Yield} = \text{Tax Exempt Rate} / (1 - \text{Tax Rate})$
    - $\text{After Tax Equivalent Yield} = 5\% / (1 - 39.6\%)$
    - $\text{After Tax Equivalent Yield} = 8.278\%$
- Trading Levels – Municipal Bonds are considered “Cheap to Treasuries”, when the relationship of Municipal Bond Yields / Treasury Yields is above the historical 75% to 80%.
- Driving forces on the relationship include:
  - Government Bond performance
  - Supply and Demand for Municipals

## Q: Why Sell Premium Bonds?

### A: Primarily Market Demand

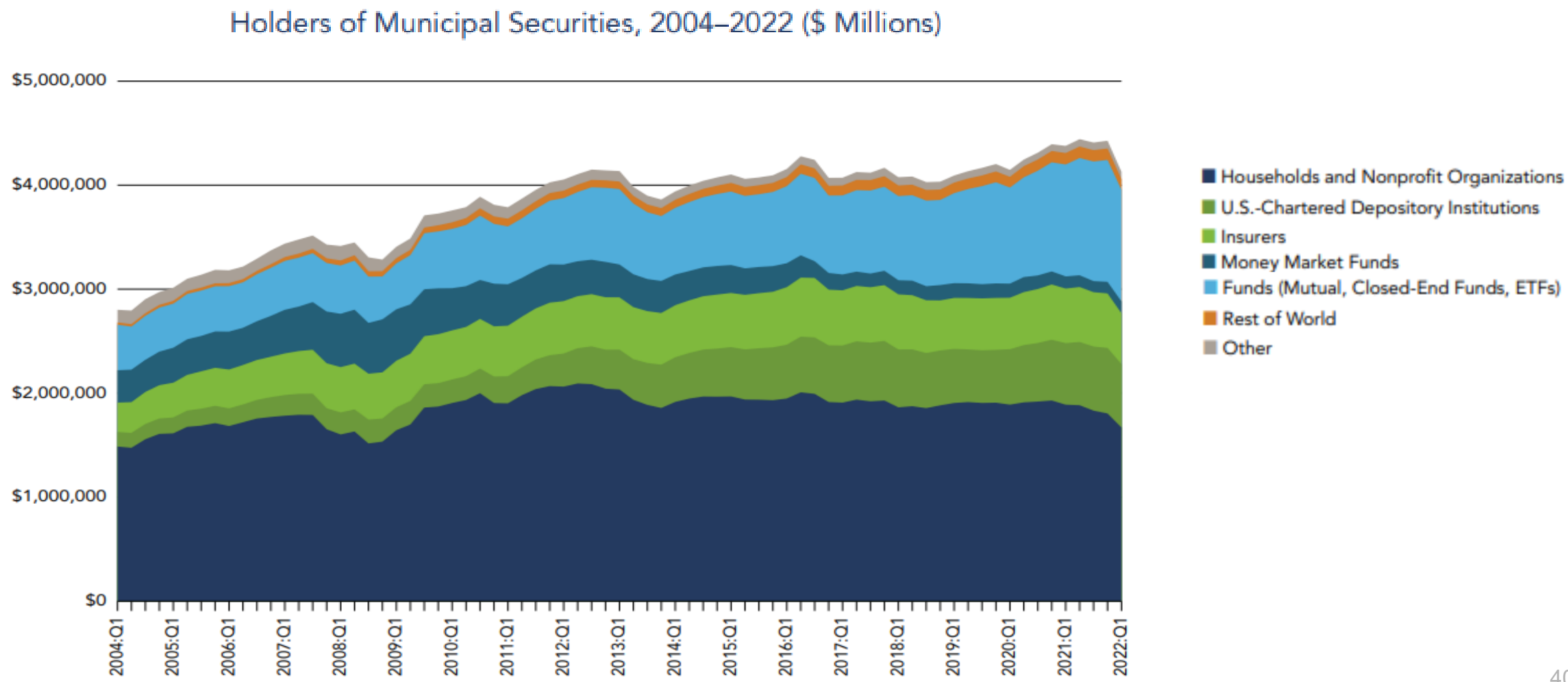
In the current interest rate environment, institutional investor demand is currently greater for bond issues structured with 5% coupons. Bonds structured with premium coupons provide portfolio protection for investors against rising interest rates. If interest rates increase, it is more likely the bonds will not be refinanced in the future and the investor can hold the bonds to maturity.

To receive a higher coupon than the yield at which the Issuer can borrow, the investor pays the Issuer a premium to get that higher coupon. The higher the coupon in relation to the yield, the greater the premium generated.

Effect: The higher demand of premium bonds in the current market equates to a lower yield for the Issuer's bonds.

- Advantage to the Issuer: Lower yields and lower overall costs and higher likelihood of refinancing in the future
- Advantage to the Investor: Higher coupon provides more annual income, greater liquidity, and protection against rising interest rates

# Investors: Potentially Any Entity with a Federal Income Tax Liability



1. Source: MSRB.org.

## Investor Examples and General Investment Preferences

Type of Investor	1 – 5 Years	6 – 10 Years	11 – 15 Years	16 – 20 Years	21 – 25 Years	26 – 30 Years
Money Managers	X	X	X			
Bank Trust Departments	X	X				
Investment Advisors	X	X	X			
Property & Casualty Insur Cos.			X	X	X	
Wrap Accounts	X	X				
Bond Funds (Money Market, Intermediate & Long)	X		X	X	X	X
Hedge Funds			X	X	X	X
Direct Retail		X	X	X		
Bank Portfolios				X	X	X

**Money Managers:** JP Morgan Asset, Goldman Asset Mgmt, Wellington, Northern Trust, Gannett Welsh,

**Bank Trust Depts:** Northern Trust, Bessemer Trust, First Republic, SunTrust, Commerce Bank, Wilmington Trust

**Investment Advisors:** Eaton Vance TABS, Blackrock PCS, Goldman PCS, Nuveen SMA, Franklin PCS, Wells Fargo Advisors.

**Property & Casualty Ins:** State Farm, Travelers Cos, Allstate, Nationwide, Kentucky Farm Bureau, Iowa Farm Bureau, Sentry, Prudential

**Bond Funds:** Vanguard, Blackrock, Nuveen, Franklin, Fidelity, Mass Financial, Capital Group, Northern Trust, Wells Fargo, Goldman, JP Morgan, American Century, Mackay Shields, Eaton Vance

**Hedge Funds:** Susquehanna, Millennium, Bluefin, Dimensional, 16<sup>th</sup> Amendment, Whitehaven, Morgan Stanley, Merrill Lynch TOB, Old Orchard

**Bank Portfolios:** US Bank, Frost Bank, Wells Fargo, Northern Trust, First Republic, KeyState Cos, Associated Bank, Peoples Bank, FHN Portfolio

## Who Buys WA Port Municipal Bonds?

Rank	Investor Name	Investor Type	WA Bond Holdings (000s)
1	BLACKROCK	Bond Fund	\$226,466,484
2	ALLSPRING GLOBAL INVESTMENTS HLD	Bond Fund	\$207,033,321
3	VANGUARD GROUP	Bond Fund	\$169,895,005
4	FMR LLC	Bond Fund	\$148,527,890
5	TIAA-CREF	Bond Fund	\$141,952,000
6	ALLIANCEBERNSTEIN HOLDING LP	Bond Fund	\$131,481,104
7	JP MORGAN CHASE & CO	Bond Fund	\$128,800,379
8	CHARLES SCHWAB CORPORATION	Bond Fund	\$127,900,294
9	GOLDMAN SACHS GROUP INC	Bond Fund	\$91,725,888
10	CAPITAL GROUP COMPANIES INC	Bond Fund	\$75,647,000
11	OLIVE STREET INVESTMENT ADV	Bond Fund	\$72,665,000
12	FEDERATED HERMES INC	Bond Fund	\$66,172,137
13	INVESCO LTD	Bond Fund	\$63,051,481
14	FRANKLIN RESOURCES	Bond Fund	\$61,963,470
15	EATON VANCE CORP	Bond Fund	\$60,047,500
16	HARTFORD FINANCIAL SERV GRP INC	Insurance Company	\$56,144,230
17	T ROWE PRICE GROUP INC	Bond Fund	\$55,953,701
18	VOYA INVESTMENT MANAGEMENT LLC	Bond Fund	\$46,302,649
19	BLACKSTONE PRIV CREDIT STRATEGIE	Investment Advisor	\$41,478,352
20	ALLSTATE INVESTMENTS LLC	Insurance Company	\$40,583,351
<b>Total, Top 20 Holders</b>			<b>\$2,013,791,236</b>
<b>Total, All Holders</b>			<b>\$2,926,084,426</b>



# 1. Bond Basics

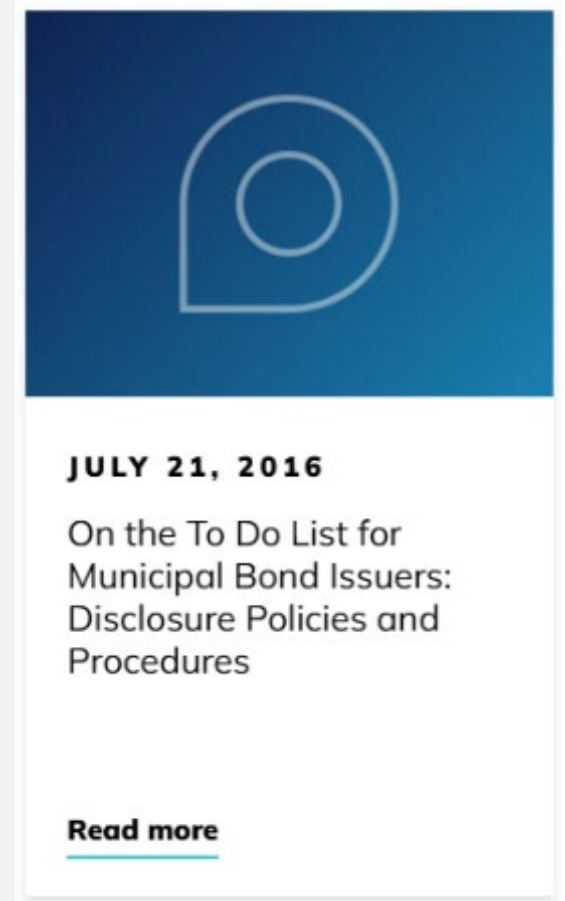
# 2. Bond Issuance Process

# 3. Post-Issuance Compliance

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# Post-Issuance Compliance: Securities Law

- Required under SEC Rule 15c2-12
  - Applies to all public bond sales
  - Duration = the life of the bonds
- Elements of an undertaking:
  - Annual financial and operating information
  - Notice of “listed” events
- Published on “EMMA”



# Post-Issuance Compliance: Securities Law

- Sixteen notice events identified in Rule 15c2-12

- Some must always be disclosed

- e.g., rating change
- e.g., defeasances and redemptions

- Others must be disclosed only if *material*

- e.g., defaults
- e.g., incurrence of a new financial obligation

- Must disclose within **10 business days**



← News & Resources

AUGUST 21, 2018

## Muni News: SEC Adopts Rule 15c2-12 Amendments, Adding Two New Notice Events

On August 20, 2018, the Securities and Exchange Commission (the "SEC" or "Commission") adopted a final rule amending Rule 15c2-12 under the Exchange Act of 1934 (the municipal securities disclosure rule that requires an underwriter to determine, prior to purchasing bonds, that an issuer and/or other obligated person has undertaken to provide continuing disclosure to bondholders in the form of annual financial information and notice of certain listed events via [emma.msrb.org](http://emma.msrb.org)).

# Federal Tax Compliance

**At closing:** Set expectations with key documents

- Tax certificate(s)
- Form 8038-G (governmental bonds) and Form 8038 (qualified private activity bonds)

**Post-closing:** Monitor for changes

- Post-issuance compliance policy
- Investments and expenditures
- Private activity and use

Form **8038-G** Information Return for Tax-Exempt Governmental Bonds  
(Rev. October 2021)  
Department of the Treasury  
Internal Revenue Service

► Under Internal Revenue Code section 149(e)  
► See separate instructions.  
Caution: If the issue price is under \$100,000, use Form 8038-GC.  
► Go to [www.irs.gov/F8038G](http://www.irs.gov/F8038G) for instructions and the latest information.

OMB No. 1545-0047

**Part I Reporting Authority** Check box if Amended Return ► ☐

<b>1</b> Issuer's name	<b>2</b> Issuer's employer identification number (EIN)
<b>3a</b> Name of person (other than issuer) with whom the IRS may communicate about this return (see instructions)	<b>3b</b> Telephone number of other person shown on 3a
<b>4</b> Number and street (or P.O. box if mail is not delivered to street address) Room/suite	<b>5</b> Report number (For IRS Use Only) 3
<b>6</b> City, town, or post office, state, and ZIP code	<b>7</b> Date of issue
<b>8</b> Name of issue	<b>9</b> CUSIP number
<b>10a</b> Name and title of officer or other employee of the issuer whom the IRS may call for more information	<b>10b</b> Telephone number of officer or other employee shown on 10a

# Use of Governmental Bond Financed Facility – Limit on Private Activity

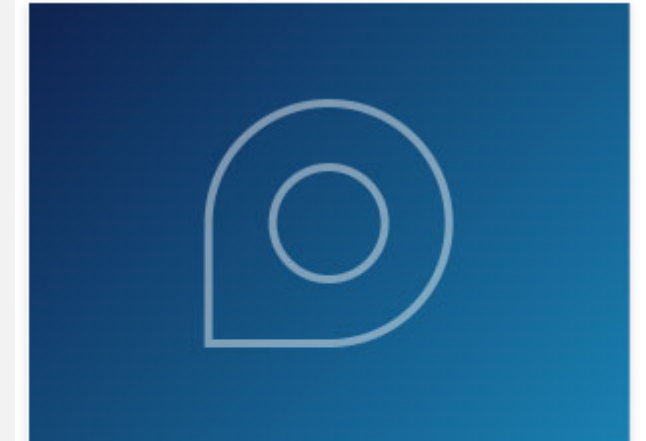
Nonqualified “Private Activity Bond” = TAXABLE

Two ways to have a private activity bond:

1. Private Loans
  - 5% test
2. Private business use plus private payments or security
  - 10% test
  - \$15 million limitation

Generally, “private business use” means:

- Use (directly or indirectly)
- Of a financed facility
- In a “trade or business”
- Carried on by any nongovernmental person



**AUGUST 8, 2019**

Tax-Exempt Bonds: A  
Quick Guide to Private  
Business Use

[Read more](#)

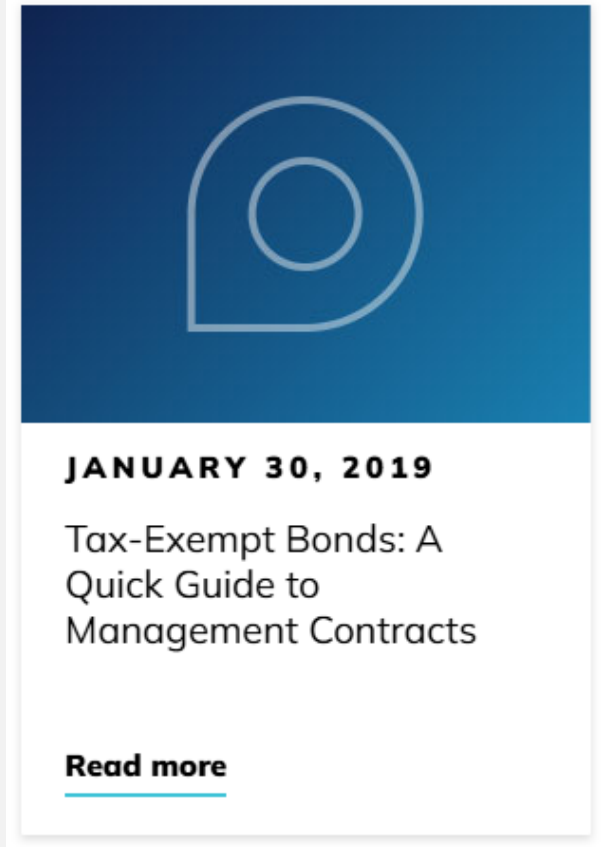
# Private Business Use

## “Nongovernmental person”

- Corporations, partnerships or any other entity engaged in business
- Federal government and federal government agencies
- Natural persons engaged in a trade or business
- Nonprofit organizations

## Common examples of “private business use”

- Private ownership of the financed facility
- Lease of the facility to a private business user
- Nonqualified management contract  
(e.g. food service contracts; parking contracts)
- Nonqualified output contract
- Special legal entitlement



# Common Exceptions to Private Business Use

## General Public Use

- Use by a member of the general public (natural persons not engaged in trade or business) is not private use

## Incidental Use

- Examples: kiosks, vending machines, pay phones
- Use is non-possessory and the non-possessory uses do not exceed 2.5% of the financed facility

## Short Term Use

- Example: facility rental
- Less than 50 days of use under a single lease or use agreement
- Payments must be fair market value

# Wrap Up

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# Port Bonds (Washington) – Additional Background

Unlimited Tax General Obligation (UTGO)	Limited Tax General Obligation (LTGO)
<ul style="list-style-type: none"><li>▪ Consumes UTGO debt capacity (0.75% of value of taxable property)</li><li>▪ Only for capital purposes, not the replacement of equipment</li><li>▪ Supermajority (60%) voter approval</li><li>▪ Validation requirement</li><li>▪ Paid from excess property tax levy</li><li>▪ Outside of statutory or constitutional limits on regular property taxes</li><li>▪ Levy set at rate required to pay debt service</li></ul>	<ul style="list-style-type: none"><li>▪ Councilmanic, non-voter approved</li><li>▪ Consumes LTGO debt capacity (0.25% of value of taxable property)</li><li>▪ Any municipal purpose (generally)</li><li>▪ Pledge to levy regular (nonvoted) taxes as necessary to pay debt service</li><li>▪ Paid from portion of regular levy imposed to pay debt service (or from other legally available funds)</li><li>▪ Levy not subject to the \$0.45 per \$1,000 rate limitation applicable to the general purpose portion of the tax levy, but subject to the 101% limit on annual dollar amount</li></ul>

# Port Bonds (Washington) – Additional Background

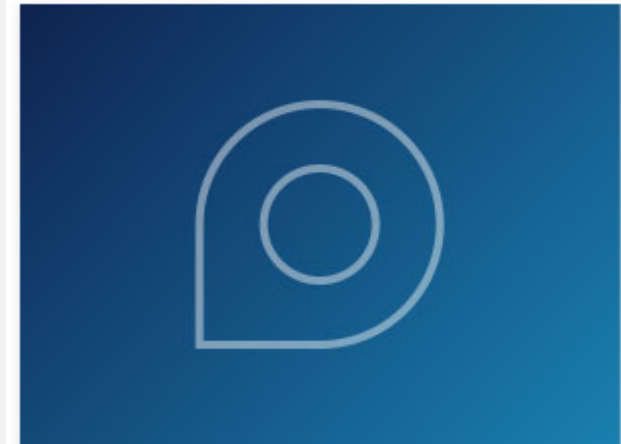
Revenue Bonds	Assessment Bonds
<ul style="list-style-type: none"><li>▪ A port may obligate its general revenues or a specific portion of its revenues to pay port revenue</li><li>▪ <b>Not</b> subject to constitutional or statutory debt limitations (“special fund doctrine”)</li><li>▪ Capacity to issue additional revenue bonds is typically limited by bond covenants</li><li>▪ Additional bonds test (ABT) requires an issuer to demonstrate a minimum level of debt service coverage (e.g., 1.25x or 1.50x), including the proposed new debt</li><li>▪ May require a debt service reserve fund</li><li>▪ Tax revenue may not be used to pay, secure, or guarantee the payment of port revenue bonds (but tax revenue may be applied to pay operating expenses)</li></ul>	<ul style="list-style-type: none"><li>▪ Infrastructure (e.g., road or utility improvements) with special benefit to property owners</li><li>▪ Payable from charges imposed against properties in a designated local improvement district (LID) or utility LID in respect of special benefits received by those properties from the construction of nearby or adjacent public improvements, separate and apart from the general benefit accruing to the public at large</li><li>▪ Special assessments are determined according to the value of the benefit received – value capture financing</li><li>▪ Process for creating district, setting the assessment roll, finalizing the assessment roll, and issuing debt payable from assessment is highly statutory</li></ul>

# Investment Limitations: Arbitrage and Rebate

*Arbitrage* is the ability to earn yield by borrowing money at a lower rate (by issuing tax-exempt bonds) and investing it at a higher rate (in the taxable market)

- Positive arbitrage – earnings above the arbitrage yield
- Negative arbitrage – earnings below the arbitrage yield

Congress enacted rules to ensure tax-exempt bonds are issued for a governmental purpose and not to create arbitrage profits



**MARCH 30, 2019**

Tax-Exempt Bonds: A  
Quick Guide to Yield  
Restriction and Rebate  
Exceptions

**[Read more](#)**

# Investment limitations: Arbitrage and Rebate

Two sets of rules:

- Yield restriction – “Can you earn it?”
- Rebate – “Can you keep it?”

Both sets of rules must be applied to each fund containing “gross proceeds” of the bonds

Gross proceeds –

- Sale proceeds
- Investment proceeds
- Transferred proceeds
- Replacement proceeds

# General Yield Restriction Rule

## General rule:

- Gross proceeds will be yield restricted—i.e., not invested at a yield that is materially higher than the yield on the bonds

## UNLESS – there is a exception:

- Invested at unrestricted yield during an allowable temporary period;
- Invested at unrestricted yield as part of a “minor portion” not exceeding the lesser of \$100,000 or 5% of the issue;
- Invested at unrestricted yield as part of a reasonably required reserve fund

Investment in “Tax-Exempt Bonds” that are not considered “investment property”

# Rebate Computation and Payments

When?

- Computation Dates
  - There is some flexibility in choosing computation dates, but they cannot be later than 5 years after issue date and every 5 years thereafter
  - Date of redemption or final maturity of the bonds (“final computation date”)
- Payment
  - At least 90% must be paid  $\leq$  60 days after each computation date
  - 100% must be paid  $\leq$  60 days after final computation date

What?

- Difference between the amount actually earned on nonpurpose investments and the amount that would have been earned if investments had a yield equal to the yield on the bonds

How?

- Form 8038-T
- Rebate consultant can help

*Get help when needed! Hire a rebate consultant or talk to bond counsel if you have questions.*

# Rebate: Exceptions

If an exception applies, rebate may not be required:

- Project Funds
  - 6 month exception
  - 18 month exception
  - 2 year exception
- Bona fide debt service funds

## Small Issuer Exception

Reserve funds do not have an available exception! Rebate will always apply to excess earnings.

# Useful Resources from the Municipal Securities Rule Making Board (MSRB)

## **Glossary of industry terms:** <https://msrb.org/glossary>

The MSRB's glossary of terms used in the municipal securities industry is intended to help investors and other market participants get a basic understanding of commonly used municipal market terminology.

The brief definitions included in this glossary are intended for educational purposes only and are not comprehensive or official MSRB definitions. The MSRB Board of Directors does not review or adopt the definitions, which have no legal authority under MSRB rules or any other federal securities laws. Instead, the definitions reflect the consensus of industry professionals about the general usage of these terms in the municipal market. Many of these terms are also used in other segments of the securities industry and may have a different meaning when used in those other contexts.

## **Electronic Municipal Market Access (EMMA):** <https://emma.msrb.org/>

The EMMA website was established to increase transparency of the municipal securities market by providing free public access to municipal securities documents and data. EMMA provides investors, state and local governments and other market participants with key information about individual municipal bonds as well as tools to assess bond prices and market trends.