

# APPENDICES

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## Agency budget submittal dates

### No later than Sept. 12, 2018:

080	Office of the Lieutenant Governor	185	Horse Racing Commission
082	Public Disclosure Commission	190	Board of Industrial Insurance Appeals
086	Governor's Office of Indian Affairs	205	Board of Pilotage Commissioners
087	Commission on Asian Pacific American Affairs	220	Board for Volunteer Firefighters
090	Office of the State Treasurer	227	Criminal Justice Training Commission
095	Office of the State Auditor	228	Traffic Safety Commission
099	Commission on Salaries for Elected Officials	305	Department of Veterans Affairs
100	Office of the Attorney General	315	Department of Services for the Blind
101	Caseload Forecast Council	340	Student Achievement Council
104	Economic and Revenue Forecast Council	341	LEOFF Plan 2 Retirement Board
110	Office of Administrative Hearings	351	School for the Blind
116	Washington State Lottery	353	Center for Childhood Deafness and Hearing Loss
117	Gambling Commission	355	Department of Archaeology and Historic Preservation
118	Commission on Hispanic Affairs	390	Washington State Historical Society
119	Commission on African-American Affairs	395	Eastern Washington State Historical Society
120	Human Rights Commission	406	County Road Administration Board
124	Department of Retirement Systems	407	Transportation Improvement Board
126	State Investment Board	410	Transportation Commission
140	Department of Revenue	411	Freight Mobility Strategic Investment Board
142	Board of Tax Appeals	460	Columbia River Gorge Commission
147	Office of Minority & Women's Business Enterprises	462	Pollution Liability Insurance Program
160	Office of the Insurance Commissioner	467	Recreation and Conservation Funding Board
163	Consolidated Technology Services	468	Environmental and Land Use Hearings Office
165	Board of Accountancy	471	State Conservation Commission
167	Forensic Investigations Council	701	Treasurer's Transfers
179	Department of Enterprise Services	705	Treasurer's Deposit Income
		740	Contribution to Retirement Systems

### No later than Sept. 12, 2018 (due date for local fund statements):

106	Economic Development Finance Authority	515	Fruit Commission
148	Housing Finance Commission	521	Hardwoods Commission
346	Higher Education Facilities Authority	522	Hop Commission
356	Life Sciences Discovery Fund Authority	524	Puget Sound Gillnet Salmon Commission
412	Materials Management and Financing Authority	525	Potato Commission
500	Apple Commission	526	Strawberry Commission
501	Alfalfa Seed Commission	528	Mint Commission
502	Beef Commission	529	Red Raspberry Commission
503	Blueberry Commission	530	Seed Potato Commission
505	Bulb Commission	532	Turf Grass Seed Commission

506 Asparagus Commission  
507 Cranberry Commission  
508 Canola and Rapeseed Commission  
510 Dairy Products Commission  
512 Dry Pea and Lentil Commission

533 Tree Fruit Research Commission  
534 Wine Commission  
535 Grain Commission  
545 Beer Commission  
599 Health Care Facilities Authority

**No later than Sept. 14, 2018**

001 State Revenues for Distribution  
005 Federal Revenues for Distribution  
010 Bond Retirement and Interest  
011 House of Representatives  
012 Senate  
013 Joint Transportation Committee  
014 Joint Legislative Audit and Review Committee  
020 Legislative Evaluation and Accountability  
Program (LEAP) Committee  
035 Office of the State Actuary  
037 Office of Legislative Support Services  
038 Joint Legislative Systems Committee  
  
040 Statute Law Committee  
045 Supreme Court  
046 Law Library  
048 Court of Appeals  
050 Commission on Judicial Conduct  
055 Administrative Office of the Courts  
056 Office of Public Defense  
057 Office of Civil Legal Aid  
075 Office of the Governor  
076 Special Appropriations to the Governor  
085 Office of the Secretary of State  
102 Department of Financial Institutions  
103 Department of Commerce  
105 Office of Financial Management  
107 Health Care Authority  
195 Liquor Control Board  
215 Utilities and Transportation Commission

225 Washington State Patrol  
235 Department of Labor and Industries  
240 Department of Licensing  
245 Military Department  
275 Public Employment Relations Commission  
300 Department of Social and Health Services  
303 Department of Health  
307 Department of Children, Youth and Families  
  
310 Department of Corrections  
350 Office of Superintendent of Public Instruction  
354 Workforce Training and Education Coordinating  
Board  
359 Washington State Charter School Commission  
360 University of Washington  
365 Washington State University  
370 Eastern Washington University  
375 Central Washington University  
376 The Evergreen State College  
380 Western Washington University  
387 Arts Commission  
405 Department of Transportation  
461 Department of Ecology  
465 State Parks and Recreation Commission  
477 Department of Fish and Wildlife  
478 Puget Sound Partnership  
490 Department of Natural Resources  
495 Department of Agriculture  
540 Employment Security Department  
699 Community and Technical Colleges

## Appendix 2: Information technology addendum

NOTE: Only use this addendum if your DP includes IT and does NOT relate to the One Washington project.

### Part 1: Itemized IT costs

Please itemize all IT-related costs, including hardware, software, services (including cloud-based services), contracts (including professional services, quality assurance, and independent verification and validation), or IT staff. When itemizing costs, please consider the total cost of the combined level of effort which includes: the associated costs, from planning through closeout, of state, vendor, or both, in order to purchase, acquire, gather and document requirements, design, develop or configure, plan or conduct testing, and complete implementation of enhancement(s) to an existing system.

Information Technology Items in this DP (insert rows as required)	FY 2018	FY 2019	FY 2020	FY 2021
Item 1	xxx	yyy	zzz	aaa
Item 2	xxx	yyy	zzz	aaa
<b>Total Cost</b>	<b>Enter Sum</b>	<b>Enter Sum</b>	<b>Enter Sum</b>	<b>Enter Sum</b>

### Part 2: Identifying IT projects

If the investment proposed in the decision package is the development or acquisition of an IT project/system, or is an enhancement to or modification of an existing IT project/system, it will also be reviewed and ranked by the OCIO as required by RCW 43.88.092. The answers to the three questions below will help OFM and the OCIO determine whether this decision package is, or enhances/modifies, an IT project:

1. Does this decision package fund the development or acquisition of a new or enhanced software or hardware system or service?  Yes  No
2. Does this decision package fund the acquisition or enhancements of any agency data centers? (See OCIO [Policy 184](#) for definition.)  Yes  No
3. Does this decision package fund the continuation of a project that is, or will be, under OCIO oversight? (See OCIO [Policy 121](#).)  Yes  No

If you answered “yes” to any of the above questions, you must answer the questions in Part 3 to finish the IT Addendum. Refer to Chapter 10 of the operating budget instructions for more information and a link to resources and information about the evaluation criteria questions.

### Part 3: IT project questions

#### Agency readiness/solution appropriateness

##### Organizational change management

1. Describe the types of organizational changes expected because of this effort. How has your agency considered these impacts in planning the project and within this funding request? Include specific examples regarding planned Organizational Change Management (OCM) activities and whether or how the requested funding will support these efforts.

### Agency technology portfolio risk assessment

2. How does this project integrate into and/or improve the overall health of your agency's IT portfolio? Include specific examples such as system efficiencies, technology risks mitigated, technology improvements achieved, etc.

### Solution scale

3. Explain how this investment is scaled appropriately to solve the proposed business problem. Describe what considerations and decisions the agency has made to determine the sizing of this investment and why it is appropriate to solve the business problem outlined in the decision package.

### Resource availability

4. How has the agency determined the resources required for this effort to be successful? How does this funding request support that resourcing need? If the agency intends to use existing resources for this effort, how are risks around resource availability being addressed?

### Investment urgency

5. With regards to the urgency of this investment, please select **one** of the following that most closely describes the urgency of your investment, and **explain your reasoning**:

- This investment addresses a currently unmet, time sensitive legal mandate or addresses audit findings which require urgent action.

**Reason:**

- This investment addresses imminent failure of a mission critical or business essential system or infrastructure and will improve that issue.

**Reason:**

- This investment addresses an agency's backlog of technology systems and provides an opportunity for modernization or improvement.

**Reason:**

- This investment provides an opportunity to improve services, but does not introduce new capability or address imminent risks.

**Reason:**

### Architecture/Technology Strategy Alignment

#### Strategic alignment

6. Using specific examples, describe how this investment aligns with strategic elements of the Enterprise Technology Strategic Plan. Examples of strategic principles that tie back to tenets of the strategic plan include, but are not limited to: buy don't build, solutions hosted on modern hosting solutions, solutions promoting accessibility, early value delivery of functionality throughout the project, and modular implementation of project features.

#### Technical alignment

7. Using specific examples, describe how this investment aligns with technical elements of the Enterprise Technology Strategic Plan. Examples of technical principles that tie back to tenets of the strategic plan include, but are not limited to: data minimization, incorporating security

principles into system design and implementation, publishing open data, and incorporating mobile solutions into systems.

### **Governance processes**

8. What governance processes does your agency have in place to support this project, or what new governance processes will be introduced to accommodate this effort? Examples of governance processes include executive sponsorship and steering, vendor/contract management, change control, quality assurance (QA), independent verification and validation (IV&V), and incorporating stakeholder feedback into decision making processes. Provide examples of how your proposed budget includes adequate funding and planning for governance processes, if applicable.

### **Interoperability, interfaces and reuse**

9. Does this proposed solution support interoperability and/or interfaces of existing systems within the state? Does this proposal reuse existing components of a solution already in use in the state? If the solution is a new proposal, will it allow for such principles in the future? Provide specific examples.

### **Business/Citizen Driven Technology**

#### **Measurable business outcomes**

10. Describe how this proposed IT investment improves business outcomes within your agency? Provide specific examples of business outcomes in use within your agency, and how those outcomes will be improved as a result of this technology.

#### **Customer centered technology**

11. Describe how this proposed investment improves customer experience. Include a description of the mechanism to receive and incorporate customer feedback. If the investment supports internal IT customers, how will agency users experience and interact with this investment? If the customers are external (citizen), how will the citizen experience with your agency be improved as result of implementing this investment? Provide specific examples.

#### **Business process transformation**

12. Describe how this IT investment supports business processes in your agency. Include the degree of change anticipated to business processes and the expected improvements as a result of this technology. Describe how the business and technology will coordinate and communicate project tasks and activities. Provide specific examples of how business processes are related to this technology and expected improvements to business processes as a result of implementing this technology.

## Appendix 3 - Financing guidelines

### General obligation bonds

#### Authorization

All state general obligation debt must be authorized by a 60 percent vote by the Legislature. In addition, no bonds may be issued without prior legislative appropriation of the proceeds. Bonds are issued by the State Finance Committee under the authority granted by the Legislature. As authorized by the State Finance Committee, the issuance of bonds is administered by the Office of the State Treasurer (OST).

*Consolidated Cash Flow Financing.* OST manages cash flow financing for multiple projects across multiple agencies in accordance with U.S. Treasury regulations to minimize administrative tax compliance monitoring over the life of the borrowing. Bond sales are sized to fund agency and OFM estimates of expected capital expenditures over a six-month period. In estimating cash flow needs, OST also takes into account remaining bond proceed balances and seasonal spending patterns. This type of cash-flow financing ensures that funds are not borrowed until they are needed.

Consolidating funding needs also produces pricing efficiencies in the sale of bonds, ensuring the state receives the lowest possible cost for all capital projects. It results in issuance amounts which meet the minimum size thresholds preferred by investors and minimizes the costs of issuance such as underwriting, legal, and rating agency fees. Bond proceeds received on the closing date are immediately transferred to the appropriate funds as directed in the capital budget.

*25-Year Final Maturities with Level Debt Service.* VPGO bonds are typically structured with level payments of principal and interest over a 25-year period. This serial amortization structure provides a disciplined repayment schedule which spreads the cost of the project over the life of the asset. It means that some of the bonds are repaid one year after issuance, some in the second year, some in the third year and so forth each year until the last bonds are repaid in 25 years. In an interest rate environment with higher rates at longer maturities, serial amortization is also less expensive than repaying the debt at one maturity. The true interest cost (TIC) of the entire series is a weighted average of interest rates between one and 25 years. In fact, as the average life of a 25-year bond with level debt service is approximately 12 years, the TIC of the entire series is the tax-exempt rate for that term. To meet the requirements of the federal Internal Revenue Code (the “Code”), the aggregate projects funded with each series of bonds – that is the assets being purchased or constructed – must exceed the final maturity of the bonds. For every series of bonds, OFM certifies that this requirement has been met.

#### Certificates of participation

The certificate of participation program uses standardized documentation, which minimizes legal and administrative costs for agencies. Once financing documents have been completed and borrowing rates set by the market, each agency receives a detailed schedule of semi-annual payments due on its outstanding leases. Funds are made available to agencies on a reimbursement basis upon receipt of detailed invoices and proof of payment. To ensure compliance with tax and legal requirements, OST periodically requests information to monitor the spend-down of proceeds and the use of the facilities that have been financed.

#### Authorization

The state is authorized by Chapter [39.94](#) RCW to enter into financing contracts for agencies to acquire real and personal property (real estate and equipment). Financing contracts are

lease/purchase contracts or capital leases with a term of more than one year, which (1) provide that title to the property secures performance of the State, or (2) transfer title to the property to the State by the end of the term. Each agency financing equipment or real estate under this program pledges its budget appropriation for payment of the lease. This is true regardless of whether it may anticipate making payments from other revenues. Additional information is available in the Lease/Purchase Program [Guide](#).

The form of financing contracts is subject to approval by the State Finance Committee, which also approves the aggregate amount of financing contracts outstanding. State Finance Committee guidelines for use of the program are shown in [Guidelines](#) for Use of Financing Contracts. State law requires prior legislative approval of real estate financing contracts, typically in the capital budget. Most equipment financings do not require explicit legislative authorization, although OST policy requires legislative approval prior to financing major acquisitions of equipment or information systems.

*Project Financings.* Unlike bonds, COP borrowings are “secured” financings, i.e., in certain situations investors have rights to the underlying property if investors are not repaid on a timely basis. For this reason, COP financings are for tangible assets that could be relinquished if the Legislature chooses not to appropriate funds for lease payments. Agencies must be able to offer a security interest in the asset being acquired and must commit to maintain the property in working order and condition over the life of the borrowing. If a state agency cannot reasonably make these representations about the property to be financed, the property is not suitable for COP financing.

*Borrowing Term.* The term of each financing contract must be greater than one year and no longer than the expected useful life of the asset being financed. Standardized guidance on the useful life of specific assets is available in the OFM State Administrative & Accounting Manual (SAAM), Chapter [30.50](#), Capital Asset Class and Location Code List and Useful Life Schedules. For unique or used equipment, OST staff can provide assistance. OST limits the maximum maturity to 20 years in order to efficiently pool multiple transactions in each COP issuance.

For administrative efficiency, OST has established a minimum borrowing threshold of \$10,000 for each lease. Combine smaller financing requests for equipment of the same expected useful life.

### **Other financing contracts**

Occasionally the state finances construction projects with a 63-20 financing contract. In this structure, tax-exempt lease revenue bonds are issued by a non-profit corporation on behalf of the state. The non-profit corporation causes the project to be built through a fixed price contract with a private real estate development company. The state agency makes lease payments over time to a trustee and takes title to the property at the final maturity. Costs of issuance and ongoing fees on 63-20 financings are typically higher than on COP financings and the borrower usually pays higher interest rates. Use of a 63-20 financing contract requires legislative authorization. In addition, the State Finance Committee must approve both the financing contract and the non-profit corporation issuing the lease revenue bonds on behalf of the state. For additional information, consult the State Finance Committee’s [Guidelines](#) for the Use of 63-20 Financing Contracts.

### **Private activity restrictions on tax-exempt financing**

In general, Congress and the federal government consider the tax exemption for interest on state and local bonds to be a federal subsidy provided to state and local governments. This is because the federal government foregoes the revenues that it would otherwise receive from income taxes

imposed on interest income received by taxpayers who own municipal bonds. Therefore, the provisions of the federal Code and related U.S. Treasury regulations that apply to tax-exempt obligations are intended to restrict the benefits of this federal subsidy to governmental purposes of state and local governments and not to allow benefits of the subsidy to be transferred to persons other than state and local governments.

Private business use includes: ownership by the nongovernmental person of the financed property or use of the financed property by a nongovernmental person under a lease, management contract (unless it is a “qualified” management contract under IRS guidelines), “output contract” (such as a contract to purchase water or electricity produced by a financed facility), research agreement (with certain exceptions under IRS guidelines), a “naming rights” contract, or any other arrangement that provides similar “special legal entitlements” to a nongovernmental person to use the financed property. However, use of financed property by a nongovernmental person simply as a member of the general public or under certain, specified short-term use arrangements (involving terms of use not exceeding 50, 100 or 200 days, depending on the type of arrangement) do not result in private business use. Also, use of financed property by private individuals not engaged in a trade or business activity is not private business use.

### **Limits on private business use**

In general, the amount of private business use of proceeds of a tax-exempt governmental financing is limited to the lesser of 10 percent or \$15 million of proceeds of the issue. In addition, no more than 5 percent of the proceeds of the issue may be used for any “unrelated” private business use — i.e., a private business use that is not functionally related to the governmental purpose of the tax-exempt financing. These limitations are measured on the basis of the average amount of private business use in each year during a measurement period generally corresponding with the overall term of the bond or COP issue.

### **Private payments or security**

An issue of tax-exempt bonds with private business use in excess of the limits described above would not violate private activity bond restrictions *unless* the state also expects to receive payments from private business users for their use of the financed property (or payments by others in respect of property that is used for private business use) having a present value exceeding 10 percent of the present value of debt service on the bonds, regardless of whether those payments are pledged to pay the bonds. For this reason, bond proceeds used to make grants may be used for private business use so long as the state has no expectation or right to receive payments from the grantee (except only for violations by the grantee of conditions of the grant). Loans to nongovernmental persons from bond proceeds are not permitted as there would be both private use and private payments.

Moreover, use of tax-exempt bond proceeds to make loans to governmental persons also may be disallowed because of federal tax compliance issues relating to monitoring of the actual expenditure and investment of bond proceeds loaned to the governmental borrower. This is because the bond proceeds are treated as “spent” only when spent by the borrower and not when used to make the loan.

However, for COPs, the focus is on the amount of private business use of the financed property regardless of whether the state receives any payments in respect of the financed property. This is because the financed property itself is pledged as security for the COPs, and private business use of the financed property will result in a corresponding amount of private security for the COPs. Although an issue of COPs generally would violate private activity bond restrictions if payments



from private business users with respect to the financed property were to exceed the applicable limitations, the issue could violate private activity bond restrictions because of private security rather than private payments. That is, if a portion of the COP-financed property representing more than the lesser of 10 percent or \$15 million of proceeds of the COP issue is used for private business use, or if more than 5 percent of the proceeds of the issue is used for any “unrelated” private business use, this would cause the issue to violate the restrictions on private security as distinguished from private payments.

### **Strict limit on tax-exempt financing of private loans**

In addition, under a separate and independent restriction, no more than the lesser of 5 percent or \$5 million of the proceeds of an issue may be used, directly or indirectly, to make or finance loans to any person other than a state or local government unit. This is referred to as the “private loan financing test.” Because of the size of the state’s bond issues, the lower \$5 million limit almost always applies.

### **Use of taxable obligations for private use portions of capital projects**

A capital project that is expected to involve private business use in an amount exceeding the limits described above may require some or all of the financing to be executed on a taxable rather than tax-exempt basis, or require the use of funds not derived from a borrowing to pay the cost of that part of the project expected to be used for a private business use. If the project requires taxable funding, the agency may request funding from the State Taxable Building Construction Account (Account 355).

Most recent bond acts include provisions which permit the State Treasurer, on behalf of the State Finance Committee to cause bonds authorized to be issued as tax-exempt bonds instead to be issued as taxable bonds, if necessary to comply with IRS requirements. Recent bond acts also permit authorized taxable bonds to be issued as tax-exempt bonds using a similar approval process if Code requirements have been met.

### **Use of taxable obligations for private use portions of capital projects**

#### *Examples of Private Business Use*

1. If a state agency leases excess office space in a financed building to commercial businesses, a federal agency, or a private non-profit organization, the portion of the proceeds allocated to the cost of the privately leased space is considered used for nongovernmental purposes.
2. Suppose bond proceeds are used to make a loan to a port district for the construction of an industrial building, and that the port district constructs the building and leases space in the building to various commercial tenants and uses rental income from the building to repay the state loan. In this case, the bond proceeds used to make the loan to the port district would be treated as a private business use.
3. If proceeds of a bond issue with a 25-year term are used to construct leasehold improvements for a state agency that leases office space in a privately owned building for a term of 15 years, and the estimated useful life of the leasehold improvements is 20 years, the proceeds of the bond issue allocable to the cost of the leasehold improvement that will revert to the private building owner at the end of the lease term would be treated as used for private business use.
4. If proceeds are loaned to a housing authority to build an apartment building that the housing authority leases to a separate limited partnership in which the housing authority is the general partner and private investors are limited partners, the financed apartment building is considered used for private business use, and the private loan financing test would be met.

5. If proceeds are loaned to a city to build a sewage treatment plant, but the city enters into a long-term management contract with a private company to operate the sewage treatment plant for the city, and the management contract fails to meet Internal Revenue Service requirements for a "qualified management contract," the plant is considered used for a nongovernmental purposes.

An agreement by a nongovernmental person (such as a business corporation or the federal government) to sponsor research performed by a governmental person (such as a state university) may result in private business use of the property used for the research. Consult tax counsel as it may be possible to structure research agreements with nongovernmental persons to avoid private business use of the property.