



FACILITIES FINANCING

Policy Guide

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I. Introduction

In 1983, the state legislature authorized the Washington Higher Education Facilities Authority (“WHEFA” or “the Authority”) to issue tax-exempt bonds on the behalf of private nonprofit 501(c)(3) colleges and universities to improve and ensure the quality and range of educational services available to the citizens of Washington.

During the 2007 legislative session, the state legislature gave WHEFA authority to issue taxable and tax-exempt bonds for the purpose of acquiring or originating student loans.

The Authority’s enabling legislation is found in Chapter 28B.07 of the Revised Code of Washington (the “Act”) and its rules are codified in Title 253 of the Washington Administrative Code (the “Rules”). The program is also subject to federal tax law requirements contained in the Internal Revenue Code of 1986, as amended (the “Code”).

This Facility Financing Policy Guide (the “Policies”) serves as a reference manual for program participants. It gives the basics of the laws, policies, and procedures that govern the program.

The Authority reserves the right to modify or revise any and all policies at any time and without prior notice. At the Authority's sole discretion, policy revisions may be subject to a public hearing process. As revisions are adopted, they will be distributed to the Authority's board, staff, and members of the finance team, and will be incorporated into the Policies and posted on the Authority website at <http://www.whefa.org/guide.htm>. Additional requirements may be placed on specific financings with the approval of the Authority.

The requirements and policies contained herein apply to all financing options unless specifically noted otherwise.

II. Waiver Policy

With the exception of provisions contained in the Act, the Rules and the Code, borrowers may request a waiver of an Authority policy by submitting a detailed written request to the Executive Director. The request must specify the reasons for the waiver and will be considered by the Executive Director for presentation to and consideration by the Board.

III. Out of State Issuers

Effective with the passage of SHB 1761 (RCWs 39.46 and 39.86), the Authority must review proposed bond financings for projects that could be financed by the Authority, but are submitted by issuers formed or organized under the laws of another state (an “Out-of-State Issuer”) and may charge a fee for the evaluation process, as authorized by law.

The borrower is responsible for paying all legal fees and costs of the Authority and the borrower incurred in connection with this review, including those of bond counsel; provided, that at its sole discretion, the Authority may pay up to \$5,000 of the legal fees and costs incurred by the Authority or bond counsel.

The Authority is required to determine whether the proposed financing submitted by an Out-of-State Issuer is “consistent with the laws and public policy of the state and is in the best interest of the State.” The Authority will make its evaluation based on its established policies and goals for each program operated by the Authority. The Authority may approve or deny the proposed financing by the Out-of-State Issuer based on whether the proposal meets the policy objectives and goals of the State, as embodied in Authority policies.

IV. Eligibility

A. Eligible Borrowers

A nonprofit higher education institution is eligible to participate if it is certified by the IRS under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and owns and will continue to own 100% of the project, or that portion of the project which will be financed by tax-exempt bonds, for as long as the bonds are outstanding.

The higher education institution must:

- have its main campus permanently situated in the state of Washington;
- be open to all residents of the state of Washington;
- not restrict entry on racial or religious grounds;
- not be deemed pervasively sectarian;
- provide programs of education beyond high school leading to at least the baccalaureate degree;
- be accredited by the Northwest Commission on Colleges and Universities or by an accrediting association recognized by the Student Achievement Council (SAC); and
- comply with all applicable local and state laws, including, but not limited to, laws against discrimination, zoning ordinances, building codes, and environmental and growth management regulations.

B. Project Eligibility

All financed projects must comply with all applicable local and state laws, including, but not limited to, zoning ordinances, building codes, and environmental and growth

management regulations. Projects must further the nonprofit institution's stated 501(c)(3) purpose.

Real estate projects must be located in the state of Washington and may include, but are not limited to:

- Dormitories or other multi-unit housing facilities for students, faculty, officers, or employees;
- Dining halls;
- Student unions;
- Administration buildings;
- Academic buildings;
- Classrooms;
- Laboratory facilities;
- Athletic facilities;
- Health care facilities;
- Maintenance, storage, or utility facilities;
- Parking facilities;
- Energy facilities; or
- Any other related structures, facilities, or equipment.

Federal tax law plays the most important role in determining eligibility standards. State law and Authority policy may set additional eligibility standards. Since the eligibility for financing of a particular project may depend on the interpretation of the Federal tax code and of State law, the Authority's bond counsel ultimately determines the eligibility of projects and the use of bond proceeds.

C. Ineligible Projects

Some types of projects are not eligible. These include, among others:

- Projects in which religious activities are conducted, such as churches, synagogues, and mosques. Projects sponsored by religious organizations that serve non-sectarian purposes may be eligible.
- Projects whose primary purpose is gambling or the sale of alcoholic beverages for consumption off-premises.
- Airplanes, skyboxes, and private luxury boxes.

D. Eligible Use of Bond Proceeds

Bonds may be issued to make secured loans to 501(c)(3) organizations for the following purposes:

- Land Acquisition.

- Expansion, acquisition, renovation, and/or new construction, and related costs of buildings.
- Equipment.
- Refinancing of existing indebtedness to pay for costs incurred for the types of projects listed above. The existing debt to be refinanced must be to a third party, such as a financial institution, that is unrelated to the nonprofit organization. Internal debt may not be refinanced, except in limited circumstances.
- Debt service reserves.
- Credit enhancement fees and bond insurance premiums.
- Capitalized interest.
- Interest rate swap costs, including acquisition and termination costs, if approved by bond counsel.
- Costs of issuance, up to 2% of the total bond issue size.

The Authority will issue bonds for construction financing, for permanent financing, and for combined construction and permanent financing.

Bond proceeds may only be used to finance capital and capital related expenditures. Operating expenditures, including working capital, may not be financed, except as is allowed under federal law. Bond proceeds may not be used for facilities within a project which are not directly related to the borrower and to the borrower's purpose as defined in its nonprofit organizational documents.

V. Financing Options

A. Public Sale

In a public sale, investment banks purchase tax-exempt bonds from the Authority then market the bonds to retail and institutional investors. This type of financing is often most feasible for borrowings that exceed \$5 million. Bonds sold in a public sale generally carry lower interest rates than bonds placed privately with a single investor. The bonds may be sold using a competitive sale process or a negotiated sale process. Specific additional requirements for a public sale may be found in Section VIII C.

B. Private Placement

In a private placement, a financial institution, an institutional investor, or a sophisticated investor will purchase bonds for their investment portfolio through a negotiated sale process. These bonds are generally unrated bonds. Refer to specific additional requirements for privately placed, unrated bonds in Section VIII E.

C. Streamlined Tax-Exempt Placement (STEP)

STEP is a form of private placement that uses standardized bond documents, thereby reducing the time and cost of issuing tax-exempt bonds. The lender makes the credit decisions. The lender earns tax-exempt interest from the bond and passes the savings on to the borrower by offering a lower than market interest rate. Specific additional requirements for STEP can be found in Sections VIII E and X.

VI. Development of a Bond Transaction

A. Official Intent Declaration

Description

For a project to be eligible, the Executive Director or designee must adopt an Official Intent Declaration (OID). The OID serves as the inducement resolution for projects to be financed with tax-exempt bonds. It indicates the intention to use tax-exempt bonds for a particular project. Borrowers will receive a numbered and dated OID when they apply for financing through the Authority.

The date the OID is approved marks the beginning of the period from which eligible costs may be reimbursed with tax-exempt bond proceeds (and costs incurred in the sixty days prior to the date of the OID are eligible to be reimbursed). Expenditures which occur before an OID is approved *may not be eligible* to be reimbursed from bond proceeds, although there are limited exceptions under federal tax law for certain preliminary costs incurred prior to the date of the OID. Authority borrowers are encouraged to have their governing body adopt their own inducement resolutions. The earlier date of the borrower's resolution or the Authority's OID will govern.

A new or amended OID will be required when the project size or bond amount increases by more than 10%; the project site changes; or the change in ownership or use substantially changes the nature of the project.

B. Application

To apply for financing the borrower should provide the information outlined in items 1 – 8 of this Section B. The borrower must submit one paper and one electronic copy of the application information to the Authority. The submission must also include the required application fee.

The Authority may set time or format submission requirements for application for specific programs or purposes in the future.

1. Identification of the borrower

- Legal name and address of the borrower.
- Names, titles, and telephone numbers of the chief executive officer, chief financial officer, and person assigned responsibility for liaison with the Authority.
- Names, addresses, and telephone numbers of the borrower's legal counsel, outside accounting firm, and financial consultant or investment banking firm (if any).
- Description of the borrower's legal structure (e.g., private nonprofit corporation, including membership structure, and controlled and controlling entities).
- Copy of Articles of Incorporation and By-laws or similar documentation.
- Copy of IRS determination of 501(c)(3) status.
- Accreditation status and name and address of accrediting body.

2. Project

- A description of the proposed project.
- Project timeline, including milestones such as: (i) completion of drawings for project, if necessary; (ii) filing of environmental impact statement, if necessary; (iii) entry into construction contract, if applicable; and (iv) completion or occupancy.
- Estimated cost of project, which should include such costs as: the cost breakdown of general construction, site work, utilities, equipment, land acquisition, architects' and other fees, contingency, interim interest, and issuance fees.

3. Financing

- Estimated bond amount.
- Preliminary Sources and Uses schedules for bonds.
- The source and use of funds for payment of the project costs and dates of expected receipt (assistance from Authority, interim financing, grants, funds on hand, interest and profit on interim investment of construction funds, other).
- The amount of project revenues expected to be derived from the project, the sources of such revenues, when they are expected to begin, and a three-year projection.
- Feasibility studies on the project, if any (attach copy if one has been completed).
- The proposed security for Authority-issued bonds.
- Expected terms of repayment.

4. Debt to be refinanced with Authority assistance (if applicable)

- The amount, date, maturity or maturities, interest rate or rates, prepayment penalties, if any, debt service and form of borrower's existing debt to be refinanced.
- The source of revenue for payment of existing debt, security for debt and rating, if any, assigned to debt instruments at time of debt issuance and at the current time.
- The holder of debt (if ascertainable).
- Any negative debt service payment history.
- The proposed date and schedule for accomplishing debt refinancing.

5. Finances of borrower

- Audited financial statements for the past three years, or link to where these statements may be found on-line.
- The latest current financial statement.
- The current fiscal year budgeted revenues, expenses and capital expenditures.
- A projection of the borrower's revenues, expenses and capital expenditures for the next three fiscal years. A description of outstanding long-term debt of the borrower, including current terms and outstanding principal balances, if not provided in the financial statements.

6. Student populations

- The fall FTE enrollment, separately for undergraduate and graduate students, for the current and each of the preceding three academic years as well as projections for each of the next three academic years.
- The number of freshmen and transfer students who have enrolled at the institution in the current and each of the preceding three academic years; and projections for each of the next three academic years.

7. General

- Any pending or threatened litigation or regulatory or administrative actions with the potential of a material adverse effect on the borrowers finances, operations or accreditation.
- A brief description of existing institution facilities and the location of such facilities.
- A brief description of institution expansion plans, if any, over the next ten years.
- An estimate of aggregate savings over the life of the proposed financing to be realized by the borrower through Authority financing by tax-exempt bonds as compared to financing through taxable obligations. (Specify interest rate assumptions on which the savings calculations are based)

8. Application fee of \$7,500

C. Due Diligence Review

In addition to the materials provided as part of the application process and to the extent determined to be necessary by the Authority's bond counsel, borrowers will be asked to complete a qualified 501(c)(3) bond financing questionnaire and due diligence checklist.

This questionnaire and checklist may be obtained from Authority staff or Authority Bond Counsel upon request.

D. Application Acceptance

Staff, with the assistance of the Authority advisors, will review applications from the eligible schools and make a recommendation regarding the application to the Executive Director based upon criteria which includes but are not limited to the following:

- It is necessary or advisable for the benefit of the higher education institution for the Authority to provide financing for the project;
- The borrower can reasonably be expected to successfully complete the project;
- The proposed project and the issuance of bonds are economically feasible and can be undertaken on terms satisfactory to the Authority;
- The proposed project will meet the purposes and intent of the Act, the Rules and the Code;
- The borrower has reasonably satisfied the requirements of the Act, the Rules, the Code, and the Policies;
- The borrower must have a history of compliance with payment and financial covenants on all outstanding bonds;
- Other criteria that the Authority may deem appropriate are satisfied. Such other items will be requested in writing.

The Authority has delegated to the Executive Director the authority to accept, require modification of, or deny borrower applications. If the Authority deems modification of the application a prerequisite to accepting the application, it shall notify the borrower in writing, specifying the modifications deemed necessary. In the event that the Authority denies an application based upon the above criteria, it shall notify the borrower in writing, specifying the reasons for its denial.

The acceptance of an application for financing does not commit the Authority or the borrower to proceed with the tax-exempt financing.

E. Appeals Process

Any borrower may appeal the decision of the Executive Director by submitting a written request for reconsideration to the Secretary of the Authority. A request for reconsideration must state all objections to the determination, give specific reasons for the contention, and describe any extraordinary circumstances that merit reconsideration. The appeal must also specify the desired remedy. The request must identify all information the borrower believes the Board of the Authority should consider in its review.

To be considered, the request must include all information related to the appeal and be:

- (1) In writing;
- (2) Signed by the borrower; and
- (3) Received by the Authority no later than ten business days after the Authority notifies the Borrower of the Executive Director's determination.

The Board of the Authority will consider any request at the earlier to occur of 1) its next scheduled meeting or 2) a special meeting for which a quorum can be assembled and notice given in a timely manner.

An appeal may be filed by email (whefa@wshfc.org), facsimile (206-587-5113) or by mail addressed to the Washington Higher Education Facilities Authority, 1000 Second Avenue, Suite 2700, Seattle, Washington 98104-1046, attention: Secretary of the Authority.

F. Scoping Meeting

A scoping meeting will be held to discuss and plan the financing transaction after the following steps have been completed:

- the borrower has submitted an application, including the application fee;
- staff and counsel have preliminarily determined that the borrower and the project are eligible for tax-exempt financing;
- if applicable, the underwriter has been selected; and
- a lender for credit enhancement, if any (in the case of a public sale), or bond purchaser (in a private placement or the STEP program) has been identified.

At the scoping meeting the Finance Team (See Section IX) will:

- identify and address any issues that could affect the issuance of the bonds;
- outline and agree on the structure of the transaction;
- identify each party's responsibilities; and
- develop a timeline for closing the transaction.

Parties attending the scoping meeting include the borrower, the lender, Authority staff, financial advisor(s), bond counsel, and other participants key to completing the financing. Generally, the meeting is held in person.

The underwriter or borrower's representative will schedule a scoping meeting in consultation with the Authority, bond counsel, and the Authority's financial advisor (if any).

G. Public Hearing and Governor Approval

The Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") requires that a public hearing be held after reasonable notice to gather testimony regarding the use of tax-exempt bond financing. The testimony is then submitted to the applicable elected representative of the jurisdiction in which the facility is located for their consideration and approval. In the Authority's case, that is the Governor of the State.

TEFRA requires the Authority to hold a public hearing for each of its new money bond issuances. As determined by the Authority's bond counsel, a public hearing may be required when an issue is current refunded and the bond structure is significantly altered or the maturity of the bonds is extended.

The public hearing notice will 1) identify the borrower 2) identify the project location; 3) generally describe the project type; 4) and list the proposed principal amount of the bonds. The hearing notice will be published on the Authority's website at www.whefa.org in accordance with proposed Internal Revenue Service (IRS) regulations and Code requirements. The Authority sends a summary of the public hearing to the Governor for review and approval.

If an application is amended or resubmitted, a new public hearing may be required. A new hearing must be held if the bond issue for a project does not close within 12 months after the date of the Governor's approval.

NOTE: The Authority does not consider issues such as the environmental impact or zoning of the project. Such issues are appropriately raised with the applicable land use jurisdiction at the local level.

H. Financing Resolution

The Authority considers and acts on a bond financing resolution to approve the documents and the sale of the bonds when the appropriate documentation is in substantially final form. Generally, neither the borrower nor the lender needs to be present for this meeting.

The financing resolution will set a maximum bond issue amount and maximum interest rate at which the bonds can be sold and/or the level of savings expected in a refunding, and will delegate signing authority to the Authority's Executive Director or designee.

For privately placed bonds, including those under the STEP program, before the financing resolution can be approved, the lender must submit a Bond Purchase Letter to the Authority. This letter outlines the amount and terms of the bond and serves as the lender's commitment to purchase the bond at closing.

The Authority reserves the right to deny an application for financing.

I. Pre-Closing and Closing

At the pre-closing, the documents are signed. The pre-closing generally takes place at the offices of the Authority's bond counsel. All fees related to the cost of issuance not previously paid, including the Authority's pre-paid fees, are due at the time of issuance of the bonds (closing). Generally, all parties involved with the financing are present at the pre-closing.

VII. Fees

The Authority is a self-supporting organization. State law prohibits the Authority from receiving state funds. The Authority depends on fees collected from its financing activity for the administration of its programs.

Fees for STEP transactions are shown in section X B.

For public sale and private placement transactions, fees are as follows:

- An application fee of \$7,500 is to be submitted with the application.
- An issuance fee of the amount in excess of \$7,500 when calculated by multiplying the greater of the bond par amount or the bond par amount plus premium by .125%, due at bond closing.
- In addition, an annual fee of 6 basis points (.06%) of the outstanding bond amount is payable in advance on each July 1.

The Authority may establish a different fee schedule and may waive or credit all or any portion of the annual or application fee at its sole discretion.

The borrower is responsible for paying the costs of issuance, including the fees and expenses of bond counsel and the financial advisor. Up to 2% of these expenses may be reimbursed to the borrower from bond proceeds. Costs of issuance that exceed 2% must be paid from sources other than bond proceeds.

All costs and expenses of the Authority shall be paid from fees assessed pursuant to this section. No moneys of Washington State are available for or shall be expended for such purposes.

VIII. Financing Requirements

A. Security

All Authority-issued bonds, whether publicly sold or privately placed, require as security a first lien against any unexpended proceeds of the bonds and amounts held by the trustee in special funds created by the Authority for payment of the bonds.

B. Trustee, Fiscal Agent, or Paying Agent Requirement

A trustee, fiscal agent or paying agent is required for all transactions. The role necessary will be determined by the nature of the transaction.

C. Monthly Reporting

Once a transaction has been completed, the Authority requires, on a monthly basis and within five days of month end, a report detailing the principal amount of the bonds outstanding, including the principal and interest payments. The assigned Trustee, Fiscal Agent, or Paying Agent will prepare this report.

D. Public Sale

In order to ensure financial stability and to track the performance of its bonds, the Authority requires each publicly sold bond issue to have a long-term investment grade debt rating from one or more of the following firms: Standard & Poor's, Moody's Investors Service, Fitch Ratings or a comparable nationally recognized rating agency satisfactory to the Authority. A long-term investment grade debt rating is defined as BBB- or higher by Standard & Poor's and Fitch Ratings and Baa3 or higher by Moody's Investors Service. A rating withdrawal by the borrower will not be permitted during the life of the bonds.

The required rating may be based upon the financial strength of the educational institution or achieved with the use of credit enhancement.

As determined to be appropriate by the Authority, bond issues rated on the strength of the institution without credit enhancement may require as security one or any combination of (a) through (e) below or other security, including pledges or negative pledges:

- a) A first lien against any unexpended proceeds of the bonds;

- b) A first lien against moneys in the special fund or funds created by the authority for their payment;
- c) A first or subordinate lien against the revenue and receipts of the participant or participants which revenue is derived in whole or in part from the project financed by the authority;
- d) A first or subordinate security interest against any real or personal property, tangible or intangible, of the participant or participants, including, but not limited to, the project financed by the authority; or
- e) Any other real or personal property, tangible or intangible.

The Authority, in consultation with the Finance Team, will determine the security required for those bonds rated on the strength of the institution without credit enhancement.

If the borrower itself does not have an investment grade rating, the bond issue can be supported with a credit enhancement. Typically, that could be either a bank letter of credit or bond insurance.

E. Requirements for Privately Placed/Unrated Bonds

As an instrumentality of the State of Washington, the Authority issues “unrated bonds” only when privately placed in order to protect investors and to maintain its reputation.

Since the Authority issues a range of bonds to a variety of investors in a changing marketplace, it is impossible to establish a single unchanging set of procedures to assure compliance with these essential principles. Rather, the Authority delegates to the Executive Director of the Authority the discretion, to be exercised by reference to this Facility Financing Policy Guide as adopted by the Authority, to assure that these essential principles with respect to unrated bonds are met on each transaction.

Projects proposed to be financed with unrated bonds will be evaluated for potential risk to the investors and to the reputation of the State.

The Authority will adhere to the following additional policies when issuing unrated bonds which are privately placed.

1. Bond Ownership

An unrated bond can have only one owner at a time. An unrated bond cannot be sold to another owner unless either:

- A bond rating is obtained, which is acceptable to the Authority and would be sufficient to permit a public offering; or
- The bond is sold in a secondary offering that meets all the requirements for a private placement.

Only the following types of owners will be considered for the placement of unrated bonds:

- A lending institution which is subject to regulation by a national or state regulatory body; or
- A Securities Exchange Commission (SEC) registered entity; or
- A financial or other institution, governmental agency, or individual approved by the Authority, that demonstrates the capability to analyze sufficiently the risk involved in the transaction and is not purchasing for more than one account or with a view to distributing the bonds.

2. Sophisticated Investor Letter

A “sophisticated investor” letter or “certificate of purchaser,” in a form acceptable to the Authority must be provided by each investor, in which the investor acknowledges having sufficient knowledge and experience to properly evaluate the investment being offered.

3. Bond Funds

Bond funds must be SEC registered to qualify as purchasers of unrated bonds. The bond fund must certify at closing that the unrated bonds purchased are less than two percent of the total bond fund and that after purchase; the bond fund has no more than five percent of its portfolio invested in unrated bonds of the Authority.

4. Requirements for Transfer

In order to transfer ownership from a single owner to another single owner, a resale or transfer of ownership must be in compliance with the policies, requirements, and terms imposed by the Authority upon the initial bond owner.

In order to transfer bonds from a single owner to multiple owners, the bonds must have a credit enhancement or conform to the rating policies of the Authority.

F. Derivatives and Interest Rate Swaps

In connection with the issuance of bonds or other obligations, borrowers may enter into certain “payment agreements” including interest rate swaps, ceilings or floors (collectively, “Swaps”), on either a current or forward basis. Swaps can be entered into for the purpose of managing or reducing the borrower’s exposure to fluctuations in interest rates or for lowering the net cost of borrowing on Authority bonds.

Borrowers may enter into Swaps at bond closing or at another time. The Authority is not a party to such agreements and has no financial or other interest in such payment agreements, except in situations where the agreement is integrated with the bonds for tax

purposes, e.g., to establish a fixed bond yield on swapped variable rate bonds or to allow certain payments to be taken into account in calculating bond yield. In the latter case, a) the terms of the Swap and the process for entering into the Swap must be reviewed and approved in advance by the Authority's bond counsel, and (b) the Authority must identify the Swap, in memo form only, on the books and records that it will maintain for the bonds within three days after the date on which the Swap was entered into. Since the Authority is not a party to, or beneficiary of the Swap, it will make no record of the economic impact of the Swap on its books. The borrower should consult its accounting experts to determine the proper treatment of the Swap on its financial statements.

Where there are no federal tax law issues affecting bond yield, the Authority should not manage or dictate the terms of the Swap, though it may suggest to the borrower that a financial advisor provide the borrower with independent financial advice.

IX. Finance Team

The Authority expects the finance team to work together collaboratively to structure and sell the Authority's bond issues. The finance team may include, but is not limited to Authority Staff, Authority Bond Counsel, Borrower's Counsel, Bond Underwriter, Lender, Financial Advisor to the Authority, Financial Advisor to the Borrower, and the Trustee, Fiscal Agent, or Paying Agent.

The Authority uses its own appointed bond counsel, financial advisor, and fiscal agent/paying agent for each transaction and does not use other firms to serve those functions. The borrower is required to pay the fees for these services.

The following specific guidance relates to the Authority's Bond Counsel, Financial Advisors, Investment Bankers/Underwriters and the Trustee, Fiscal Agent or Paying Agent.

A. Bond Counsel

Pursuant to the Act and the Rules, the Authority maintains a roster of attorneys who possess the requisite special expertise and professional standing to provide bond counsel opinions which would be accepted by the underwriters, bond holders, rating agencies, and other members of the financial community, and which would further the public interest in obtaining the lowest possible interest rates on bonds issued by the Authority.

At least once every two calendar years, the Authority will select an attorney or attorneys to serve as bond counsel through a Request for Proposals. This process is outlined in the Rules.

The Authority also requires that the borrower be represented by legal counsel.

B. Financial Advisor

The Authority may select a firm or firms to serve as financial advisor to the Authority. The Authority will issue a Request for Proposals every two years and consider proposals from eligible firms to be selected as financial advisor to the Authority.

The Authority reserves the right to appoint special financial advisors with respect to a particular bond issue or issues, or for special programs. The Authority also reserves the right not to have a financial advisor serve for a particular transaction or for special programs.

The Authority has wide discretion in selecting financial advisors it considers to be most appropriate to provide the services, but in exercise of this discretion, the Authority considers all proposals, the stated criteria, and the public interest in achieving the issuance of bonds on terms most favorable to the Authority.

Certain services of the Authority's Financial Advisor, if any, may be extended to borrowers in the course of a financing, but the Authority's Financial Advisor may not serve as a financial advisor to the borrower.

The borrower may or may not have a financial advisor. In the event that the borrower has its own financial advisor, the borrower's financial advisor will work closely with the Authority and the Authority's financial advisor (if any) in order to meet all deadlines and achieve timely closing of all transactions.

C. Trustee, Fiscal Agent, or Paying Agent

A trustee, fiscal agent, or paying agent is required for all transactions. The school may select the trustee with the concurrence of Authority staff. The Authority will appoint the fiscal agent or paying agent for privately placed bonds based upon the existing contractual relationship with an agent.

D. Investment Bankers / Bond Underwriters

1. Roster

Pursuant to the Act and the Rules, the Authority will create and maintain a roster of underwriters who the Authority believes possess the requisite special expertise and professional standing to provide bond marketing services which would be accepted by bond holders and other members of the financial community, and which would be in furtherance of the public interest in marketing the Authority's bonds at the lowest possible cost in the state of Washington as well as nationally.

Any underwriter may apply to have its name placed on the roster. In order to be added to the roster, the underwriter must meet all of the following minimum standards:

- A demonstrated, current competence and experience in the structuring and sale of higher education facility bond financings;
- At least two higher education facility bond issues within the prior three calendar years managed or co-managed by the firm or its key underwriting personnel;
- Be a registered member of the Financial Industry Regulatory Authority, Inc. (FINRA); and
- Other criteria that the Authority may adopt from time to time, which establish a firm's ability to prepare for issuance, underwrite, and market bonds to be issued by the Authority.

The Authority reserves the right to remove an underwriter from the roster based upon new information, changed circumstances or status.

2. Selection

Whenever the borrower needs the services of an underwriter, it will provide all underwriters on the roster with a notice of its intentions and invite each of them to submit an itemization of its fees and other charges for providing underwriting services on the issue. The borrower will have wide discretion in selecting the underwriter it considers to be most appropriate to provide the services. The borrower will supply the Authority with written verification that it has complied with the provisions of the Rules, and will obtain the Authority's prior approval of the actual selection of the underwriter. Upon request, the Authority's Financial Advisor, if any, will assist the borrower with the underwriter selection process.

To provide balanced management knowledge and sale distribution and to assure the most realistic bond terms and interest, the Authority reserves the right to name investment banking firms as co-managers or selling group members for the Authority bond issue.

For private placements, the borrowers may select a firm from the roster as placement agent for its proposed financing, subject to review and approval by the Authority (Section VIII E).

X. Streamlined Tax-Exempt Placement (STEP)

The Authority has designed its STEP Program to provide a streamlined mechanism for issuing privately placed bonds with banks in a cost effective manner. STEP is a form of private placement that uses standardized bond documents, thereby reducing the time and cost of issuing tax-exempt bonds and making tax-exempt bond financing financially feasible for small borrowing needs.

In this special private placement program, the lender makes credit decisions as with a commercial loan. By running the loan through the Authority, the interest on the loan is tax-exempt. While there is no trustee involved in a STEP transaction, a fiscal agent or paying agent is required.

A. Basic Program Features

The borrower and lending institution must be willing and able to use the standardized bond documents developed for the program. The participating lending institutions will use their own documents for the loan transaction.

The borrower, the project, and the participating lending institution must meet all other Authority policies; including the Authority's unrated bond policy (Section VIII E).

The program is structured to eliminate the potential for arbitrage rebate and thus, any need to monitor for or report on rebatable arbitrage.

B. Fees

Initial costs to the borrower include:

- An application fee of \$5,000 is to be submitted with the application;
- An issuance fee of the amount in excess of \$5,000 when calculated by multiplying the bond amount by .125%, due at bond closing.
- Fiscal Agent or Paying Agent fees in accordance with existing contract;

Costs of bond counsel and financial advisor (if any) on STEP transactions are reduced in accordance with their current contracts. The borrower is responsible for paying the costs of bond counsel and financial advisor to the Authority.

The Authority charges an ongoing Annual Fee of 6 basis points (.06%) on the outstanding balance of the bonds. This fee is collected as part of the regular bond payment and remitted to the Authority semi-annually in advance.