

HOUSE BILL REPORT

HB 1224

*As Reported By House Committee on:
Education*

Title: An act relating to school district indebtedness.

Brief Description: Changing provisions relating to school district indebtedness.

Sponsor(s): Representatives H. Sommers, Brough, G. Fisher and Phillips.

Brief History:

Reported by House Committee on:
Education, February 14, 1991, DP.

**HOUSE COMMITTEE ON
EDUCATION**

Majority Report: *Do pass.* Signed by 18 members: Representatives Peery, Chair; G. Fisher, Vice Chair; Brough, Ranking Minority Member; Vance, Assistant Ranking Minority Member; Berozoff; Broback; Brumsickle; Dorn; Holland; P. Johnson; Jones; Neher; Orr; Phillips; Rasmussen; Roland; H. Sommers; and Valle.

Staff: Bill Robinson (786-7140).

Background: State law permits school districts to purchase any real or personal property through conditional sales contracts, within the three-eighths of one percent non-voter debt limit. The use of contracts is common for the purchase of buses, portable buildings, and office equipment. Often the equipment vendors sell the tax-exempt contracts to leasing companies or local banks. Interest rates on such contracts often are significantly higher than current tax-exempt rates on local government bonds and notes. In order to gain access to the lower interest rates available in the tax-exempt bond market, and because changes in federal tax laws make banks less willing to purchase the tax-exempt conditional sales contracts, districts in recent years have arranged for the division of such contracts into \$5,000 pieces for sale on the bond market. These "certificates of participation" in conditional sales contracts are quite common nationally and are treated like non-voter limited tax general obligation bonds.

Although the interest rates on certificates of participation in school district contracts are attractive, the number of steps involved in their issuance and the extensive documentation required by securities laws make them expensive. It has been suggested that school districts be given clear authority to borrow directly through the issuance of bonds, as an alternative to the more costly conditional sales contracts.

Summary of Bill: School districts are permitted to issue limited tax general obligation bonds for the purchase of real and personal property without a vote of the people. The bonds are subject to the existing debt limits in state law. The bond proceeds will be deposited in the districts' capital fund, transportation fund, or the general fund, as applicable. The authorized use of the transportation fund is expanded to include payments on bonds issued for pupil transportation vehicles.

Fiscal Note: Requested January 31, 1991.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: The current practice of issuing Certificates of Participation is more expensive than issuing limited obligation bonds. This bill is not intended to increase the amount of school debt; it simply changes the type of debt from Certificates of Participation to bonds. Bonds will save administrative costs and clean up the current debt issuing process. The existing debt limits are not changed.

Testimony Against: None.

Witnesses: Dwayne Slate, Washington State School Directors' Association; Hugh Spitzer, Foster Pepper & Shefelman; Dick Kennedy, Seattle Northwest Securities Corporation; and Ron Peltola, Highline School District.