

SENATE BILL REPORT

HB 1224

AS REPORTED BY COMMITTEE ON EDUCATION, APRIL 4, 1991

**Brief Description:** Changing provisions relating to school district indebtedness.

**SPONSORS:** Representatives H. Sommers, Brough, G. Fisher and Phillips.

**HOUSE COMMITTEE ON EDUCATION**

**SENATE COMMITTEE ON EDUCATION**

**Majority Report:** Do pass.

Signed by Senators Bailey, Chairman; Erwin, Vice Chairman; Craswell, Metcalf, Murray, Oke, Pelz, and Rinehart.

**Staff:** Leslie Goldstein (786-7424)

**Hearing Dates:** April 3, 1991; April 4, 1991

**BACKGROUND:**

State law permits school districts to purchase any real or personal property through conditional sales contracts within the 3/8 of 1 percent nonvoter 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 nonvoter 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:**

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.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** none requested

**TESTIMONY FOR:**

School districts would be able to save some money when financing transactions within the existing debt limit. The existing debt limits are not changed. Bonds are less costly to use than conditional sales contracts.

**TESTIMONY AGAINST:** None

**TESTIFIED:** PRO: Dwayne Slate, WA State School Directors Assn.; David Sitterson, DBS Consulting; John Rose, Seattle NW Securities Corporation; Jack Eaton, Lake Washington School District