

**SENATE BILL REPORT**

**SB 5192**

**AS OF FEBRUARY 4, 1991**

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

**SPONSORS:** Senators Bailey and Rinehart.

**SENATE COMMITTEE ON EDUCATION**

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

**Hearing Dates:** February 5, 1991

**BACKGROUND:**

State law permits school districts to purchase any real or personal property through conditional sales contracts, within the three-eighths of 1 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, rather than 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.

Voter approval is not needed for limited tax obligation bonds.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** none requested