

HOUSE BILL REPORT

SSB 5837

As Reported By House Committee On:
Local Government
Capital Budget

Title: An act relating to state and local government finance.

Brief Description: Financing state and local government.

Sponsors: Senate Committee on Government Operations
(originally sponsored by Senators Quigley, Moore, Pelz,
A. Smith, Prentice, Bauer, Hargrove, Sheldon, Erwin, Niemi,
Jesernig and Talmadge).

Brief History:

Reported by House Committee on:
Local Government, March 30, 1993, DPA;
Capital Budget, April 5, 1993, DPA(LG/CB)A.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: Do pass as amended. Signed by 11 members:
Representatives H. Myers, Chair; Bray, Vice Chair; Reams,
Assistant Ranking Minority Member; Dunshee; R. Fisher; Horn;
Rayburn; Romero; Springer; Van Luven; and Zellinsky.

Minority Report: Without recommendation. Signed by 1
member: Representative Edmondson, Ranking Minority Member.

Staff: Steve Lundin (786-7127).

Background: The state and local governments finance their
capital activities using a number of financial obligations,
that include issuing general indebtedness and non-general
indebtedness, such as revenue bonds, and entering into
leases, installment purchase agreements, and similar
agreements.

Many of these financial obligations include the requirement
that interest payments be made. The interest that is
associated with financial obligations may be in the form of
fixed interest rate, where the interest rate remains
constant during the term of the obligations, or variable
interest rates, where the interest rate varies in response
to some factor during the term of the obligations.

Financial markets have developed a concept referred to as "swaps" where two parties enter into an agreement to exchange the obligation of making interest payments on underlying financial obligations. A swap is a side agreement to the underlying financial obligation and does not impair or alter the underlying financial obligation. Under this concept one party agrees to make the interest payments under financial obligations incurred by a second party and the second party makes other interest payments to the first party. For example, one party that has issued bonds with a fixed interest rate exchanges the requirement to make these interest payments with a second party in return for the first party making variable interest payments to the second party, or visa versa.

Statutes do not expressly authorize the state or local governments to enter into these agreements.

Summary of Amended Bill: For a two-year period, certain governmental entities are authorized to enter into agreements with certain other parties to exchange payments based on interest rates in underlying financial obligations, or ceilings or floors on these payments, or options to make these agreements, for the purpose of managing or reducing exposure to fluctuations or levels of interest rates. These agreements are referred to as "payment agreements."

The governmental entities that are authorized to enter into payment agreements are: (1) any city, county, port district, or public utility district that has or will have at the time of entering into a payment agreement outstanding obligations in an aggregate principal amount of at least \$100 million or had at least \$100 million in gross revenues in the preceding calendar year; and (2) the State Finance Committee, the Washington Health Care Facilities Authority, the Washington Higher Education Facilities Authority, the Washington State Housing Finance Commission, and any state institution of higher education, if the State Finance Committee approves the payment agreement for the institution of higher education.

Prior to entering a payment agreement, the governmental entity must make a finding in an ordinance or resolution that the transaction will reduce the amount or duration of its exposure to interest rate changes, reduce the cost of borrowing, or increase the rate of return on investments made in connection with the obligation. The governmental entity must obtain a written certification from a qualified and disinterested financial advisor that its findings are reasonable.

The entities that may enter into a payment agreement with a governmental entity must have a rating from at least two nationally recognized credit rating agencies that is within either: (1) the two highest long-term investment grade rating categories; or (2) the three highest long-term investment grade rating categories, if the obligation of the other party is collateralized by direct obligations of or obligations guaranteed by the United States of America.

The term and notional amount of the payment agreement may not exceed the term and principal amount of the underlying obligation. If otherwise permissible, any rates or taxes that secure the underlying obligation may be adjusted to reflect the requirements of a payment agreement.

The authority to enter new payment agreements expires on July 1, 1995, except to replace an existing payment agreement, if the subsequent payment agreement is based upon the same underlying obligation.

Amended Bill Compared to Substitute Bill: Any local government that has \$100 million or more in gross revenues over the preceding calendar year may enter into a swap agreement. An emergency clause is added.

Fiscal Note: Not requested.

Effective Date of Amended Bill: This bill contains an emergency clause and takes effect immediately.

Testimony For: This will give the state and other local governments flexibility to obtain the benefits of better interest rates. If this were in effect at the time of building the Department of Ecology building, this could have saved the state \$1.14 million. This is a two-year experiment. This is drawn very conservatively.

Testimony Against: None.

Witnesses: Senator Quigley, prime sponsor; Tim Kerr, Office of the State Treasurer; and Richard Dyer, Clark County Public Utilities.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass as amended by Committee on Local Government as such amendment is amended by Committee on Capital Budget. Signed by 12 members: Representatives Wang, Chair; Ogden, Vice Chair; Sehlin, Ranking Minority Member; Morton, Assistant Ranking Minority Member;

R. Fisher; Heavey; Jacobsen; Jones; Romero; Silver; Sommers; and Thomas.

Minority Report: Do not pass. Signed by 1 member: Representative Brough.

Staff: Bill Robinson (786-7140).

Summary of Recommendation of Committee on Capital Budget Compared to Recommendation of Committee on Local Government: The Capital Budget Committee added a requirement that the State Finance Committee report to the Legislature on payment agreements.

Fiscal Note: Not requested.

Effective Date: This bill contains an emergency clause and takes effect immediately.

Testimony For: This will give the state and other local governments flexibility to obtain the benefits of better interest rates. If this were in effect at the time of building the Department of Ecology building, this could have saved the state \$1.14 million. This is a two-year experiment. This is drawn very conservatively.

Testimony Against: None.

Witnesses: Tim Kerr, Office of the State Treasurer.