HOUSE BILL REPORT

SSB 5937

As Passed House
April 7, 1993

Title: An act relating to inclusion in the statutory seven percent debt limitation of indebtedness for which the state treasury is reimbursed for the principal and interest payments on the indebtedness.

Brief Description: Including certain indebtedness in the calculation of the seven percent debt limitation.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Quigley, Snyder, Gaspard, von Reichbauer, Vognild, A. Smith, Rinehart, McAuliffe, Drew, Hargrove, Sheldon, Loveland, Haugen, Erwin, Sutherland, Jesernig, Skratek, Spanel, Niemi, Roach, Hochstatter and Deccio).

Brief History:
Reported by House Committee on:
Capital Budget, March 18, 1993, DPA;
Passed House - Amended, April 7, 1993, 98-0.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass as amended. Signed by 13 members: Representatives Wang, Chair; Ogden, Vice Chair; Sehlin, Ranking Minority Member; Morton, Assistant Ranking Minority Member; Brough; R. Fisher; Jacobsen; Jones; Ludwig; Romero; Silver; Sommers; and Thomas.

Staff: Bill Robinson (786-7140).

Background: The state constitution, when ratified by a vote of the people in 1889, authorized the state to meet casual deficits or failure of revenues by contracting debt up to a limit of $400,000 without a vote of the people. The state could issue debt beyond the limit after receiving a favorable vote by a majority of the voters at a general election.

In 1972, the voters approved a constitutional amendment authorizing the Legislature to issue debt without voter approval, provided that principal and interest payments in any year did not exceed 9 percent of the average of the prior three years general state revenues. The amendment defined general state revenues and identified specific types of debt that are outside the debt limit and, therefore unlimited. These types of debt are voter approved debt, debt payable from gas taxes and motor vehicle license fees, bonds payable from the permanent common school fund, and bonds issued to meet temporary deficiencies in the state treasury. Voter approved debt requires a majority vote at either a state general or special election.

In 1979, the state Legislature adopted a statutory limit on the amount of state debt. The statutory debt limit is 7 percent of the average of the prior three years general state revenues. In 1983, under threat that the state might exceed the 7 percent limit, the Legislature excluded reimbursable bonds from the statutory debt limit. These bonds are called "reimbursable bonds" because revenue sources other than general state revenues are used to reimburse the general fund for the principal and interest costs on the bonds. These sources include such revenue items as hospital patient fees, student tuition, and hotel and motel taxes.

In 1991, the governor’s capital budget recommended increasing the 7 percent debt limit to 8 percent to meet the increasing level of borrowed money to finance new initiatives in the budget. The Legislature avoided raising the state debt limit by funding a major portion of the higher education and public school construction budget from reimbursable bonds which technically fall outside of the debt limit. The school bonds are reimbursed from the state property tax and the higher education bonds are reimbursed from student tuition. The use of these types of reimbursable bonds has reduced the effectiveness of the statutory debt limit.

Summary of Bill: The general exclusion of reimbursable bonds from the statutory 7 percent debt limit is eliminated on July 1, 1993. After that date certain bonds are specifically excluded from the 7 percent debt limit. Bonds are excluded if the state treasury is reimbursed from money outside the state treasury, higher education building fees, indirect costs recovered from federal grants and contracts, and fees and charges associated with hospitals operated or managed by state universities. Higher education student operating fees are included in the 7 percent limit if the fees are in the state treasury or in a local fund.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect July 1, 1993.

Testimony For: The state needs to restore the original intent of the debt limit by eliminating the technicality that allows state general fund bond payments to be excluded from the limit. Doing so will have the effect of putting more discipline into the capital budget process.

Testimony Against: None.

Witnesses: Senator Quigley (prime sponsor).