

HOUSE BILL REPORT

HB 1495

As Reported By House Committee On:
Capital Budget

Title: An act relating to refunding obligations.

Brief Description: Regarding refunding bonds.

Sponsors: Representative Fisher.

Brief History:

Committee Activity:

Capital Budget: 2/18/99, 2/25/99 [DP].

Brief Summary of Bill

- Allows a government entity to refund general obligation bonds with revenue bonds.
- Redefines refunding bonds to conform with Internal Revenue Code definition.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass. Signed by 14 members: Representatives Mitchell, Republican Co-Chair; Murray, Democratic Co-Chair; Esser, Republican Vice Chair; Alexander; Anderson; Barlean; Bush; Hankins; Koster; Lantz; Miloscia; O'Brien; Ogden and Schoesler.

Staff: Bill Robinson (786-7140)

Background:

State and local governments are authorized to issue and sell several types of bonds according to a uniform procedure in state and federal law. One of the types of bonds issued by governments is called refunding bonds. Refunding bonds are bonds issued to refinance high cost debt or restructure debt. This usually occurs when a government entity is able to issue bonds at a lower interest rate to redeem, or pay off, bonds that have a higher interest rate. There are two types of refunding bonds:

advance refunding and current refunding. Advance refunding bonds are issued one year or more before the original bonds mature, and current refunding bonds are issued to replace bonds that are eligible for redemption. Although both types of refunding bonds are issued in this state, current law defines advance refunding but makes no reference to current refunding. The current definition of advance refunding bonds is also inconsistent with the federal Internal Revenue Code.

Governments are also authorized to issue revenue bonds. Revenue bonds are any bonds that are payable from a designated revenue source or special assessment. Revenue bonds are not a general obligation debt of the issuing entity. Payment is only secured by the specific revenues pledged to pay the interest and principal on the bonds.

Summary of Bill:

The distinction between advance refunding and current refunding is eliminated. The term "refunding bonds" is redefined to conform with the Internal Revenue Code. Any public body is authorized to refund general obligation bonds with revenue refunding bonds, and local governments, rather than just the state, are authorized to refund revenue bonds with general obligation bonds.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: The state bond refunding act has not been changed since the 1970s, and it needs to be updated to conform to the new Internal Revenue Code and current practices. It is important to allow a local government to issue general obligation bonds to finance a revenue producing project, such as a municipal golf course, until the project has developed a financial record to finance its debt with revenue bonds. The ability to refund bonds and restructure debt is a significant cost savings measure for government, and this simple clarification will benefit local governments.

Testified: Rep Fisher, prime sponsor; Stan Finkelstein, Association of Washington Cities; and Hugh Spitzer, Foster Pepper & Shefelman.