

HOUSE BILL REPORT

SHB 3099

As Amended by the Senate

Title: An act relating to extending provisions on interest rates on government bonds.

Brief Description: Allowing state and local governments to continue to lower their exposure to interest rate fluctuations with respect to financial obligations.

Sponsors: By House Committee on Capital Budget (originally sponsored by Representatives Dunshee, Barlean, Murray, Reardon, Koster and Lovick).

Brief History:

Committee Activity:

Capital Budget: 2/8/00 [DPS].

Floor Activity:

Passed House: 2/11/00, 96-0.

Senate Amended.

Passed Senate: 3/2/00, 44-0.

<p>Brief Summary of Substitute Bill</p> <ul style="list-style-type: none">· The authority of "swap" agreements is extended five years to June 30, 2005.· "Swap" agreements can no longer be used for investing government funds.
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HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 18 members: Representatives Alexander, Republican Co-Chair; Murray, Democratic Co-Chair; Edmonds, Democratic Vice Chair; Esser, Republican Vice Chair; Anderson; Barlean; Bush; Constantine; Dunshee; Hankins; Koster; Lantz; Mastin; Miloscia; O'Brien; Ogden; Schoesler and Woods.

Staff: Bill Robinson (786-7140).

Background:

Most of the construction or acquisition of capital facilities by state and local governments is financed by long-term debt instruments including revenue bonds, general obligation bonds, lease purchase agreements, and other contractual arrangements. All of these arrangements contain obligations to make payments on the amount borrowed plus interest. The interest rate, which is generally a fixed rate, is determined by the financial markets at the time the obligation is incurred.

In 1993 the Legislature authorized state and local governments with debt or annual revenues in excess of \$100 million to participate in "swap" agreements. "Swaps" are contracts where the parties trade their respective interest payment obligations on a specified amount of debt for a specified period of time. The transactions virtually always involve trading a fixed rate obligation for a variable rate obligation. These swap agreements do not alter or impair the basic obligation to pay the bond holders. One party agrees to make the payments owed by the other party and vice versa for a given period of time. The advantages of such trades include long-term and short-term interest rate cost savings and stability of payment obligations.

The first authorization for swap agreements was limited to two years and expired in 1995. In 1995 the Legislature extended the authorization five additional years to June 30, 2000. Several local governments have used these agreements and have reported substantial savings to their debt management program. There is a desire to extend this authority for an additional five years.

Summary of Bill:

The authority for state and local governments to use debt payment "swap" agreements is extended five years from June 30, 2000 to June 30, 2005. Debt payment agreements may continue to be used for restructuring government debt but can no longer to be used for investing government funds.

EFFECT OF SENATE AMENDMENT(S): The senate amendment removes the ten-year limit on the duration of lake management districts and the maximum term of lake management district bonds. Existing law authorizes counties to create lake management districts for a period of up to ten years for the purpose of financing improvements and maintenance through special assessments. The maximum term of lake management district bonds is ten years.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect on July 1, 2000.

Testimony For: (Original bill) This authority makes government more efficient and needs to be extended so it does not expire in July of this year. Over 15 local government entities have used this mechanism and all have saved money on the transactions. Snohomish Public Utilities District was able to save its rate payers \$7 million on one bond issue alone.

Testimony Against: None.

Testified: Representative Dunshee, prime sponsor; Al Aldrich, Snohomish Public Utilities District; Glen McPherson, Chief Financial Officer, Snohomish Public Utilities District; Bob Campbell, Lehman Brothers Inc.; and Bill Doyle, Orrick, Herrington & Sutcliffe.