HOUSE BILL REPORT
E2SSB 5345

As Reported By House Committee On:
Capital Budget

Title: An act relating to the Washington state school district credit enhancement program.

Brief Description: Creating the school district credit enhancement program.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Bauer, McCaslin, Snyder, Loveland, McAuliffe, Winsley and Oke; by request of State Treasurer).

Brief History:

Committee Activity:

Capital Budget: 3/22/99, 4/1/99 [DPA].

Brief Summary of Engrossed Second Substitute Bill
(As Amended by House Committee)

- Authorizes the state to guarantee payment on school district general obligation debt.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass as amended. Signed by 16 members: Representatives Mitchell, Republican Co-Chair; Murray, Democratic Co-Chair; Edmonds, Democratic Vice Chair; Esser, Republican Vice Chair; Anderson; Barlean; Constantine; Dunshee; Hankins; Koster; Lantz; Mastin; Miloscia; O'Brien; Ogden and Schoesler.

Staff: Bill Robinson (786-7140).

Background:

School districts are authorized to use indebtedness or to issue bonds to pay for school construction projects. Voter approval is required for the issuance of general obligation bonds to give the district the additional property taxing authority to pay the principal and interest payments on the bonds. The bonds are sold to investors with the pledge that the district will repay the debt by assessing the tax on the property in the school district. To make these bonds more attractive to investors, school districts will often purchase bond insurance from a major financial institution to guarantee payment. In exchange for the added security and higher bond rating provided by bond insurance, investors are willing to accept a lower interest rate on the bonds.

According to the State Treasurer, about 80 percent of school districts in the state of Washington purchase bond insurance. Twenty-three states currently provide various types of bond guarantee programs for school districts debt. These guarantees are used in lieu of bond insurance.

Summary of Amended Bill:

A new chapter is added to RCW Title 39, Public Contracts and Indebtedness, creating a school district credit enhancement program under the authority of the State Treasurer.

<u>Full Faith and Credit of State to Guarantee Bonds</u>. The full faith and credit of the state are pledged to guarantee full and timely payment of bonds of participating school districts. To qualify for the state guarantee, the bonds must be voter-approved general obligation bonds and must be certified by the State Treasurer. To become certified, a school district, by resolution of its board of directors, must apply for the certification and be approved by the State Treasurer based on rules adopted by the State Finance Committee. The certificate of guarantee is valid for one year.

<u>Procedure for the Payment of Unpaid Bonds</u>. If a school district has outstanding, unpaid bonds, the county treasurer must make the scheduled payments. If the county treasurer is not able to make the scheduled payments, it must notify the bond paying agent and the State Treasurer. The State Treasurer must make the scheduled payments on behalf of the school district and the amount of the state payment becomes an obligation of the district. The school district is obligated to reimburse the state for any amounts the state paid on its behalf, including any interest charges, as well as penalty fees up to 5 percent of the amount paid by the state. If the school district is not able to reimburse the state within one year, the State Treasurer may pursue legal action against the school district to meet its repayment obligation. The State Treasurer may also direct the county officials to restructure its collection of taxes to pay the obligation to the state if all other debt obligations have been fully provided for. If a school district has bonds paid by the state under this program, the district cannot issue additional bonds guaranteed by the program until all payment obligations to the state are satisfied and the State Treasurer and the Superintendent of Public Instruction certify that the district is fiscally solvent.

Contingent Appropriation to Make Bond Payments. The Legislature must appropriate sufficient amounts as may be required to make payments under the school district credit enhancement program.

Exclusion From 7 Percent Debt Limit. Any state indebtedness incurred under the school district credit enhancement program is excluded from the statutory 7 percent debt limit.

Amended Bill Compared to Engrossed Second Substitute Bill: Clarifies that school district debt guaranteed by the state remains debt of the district and does not become state debt.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Amended Bill: The bill takes effect on January 1, 2000, if the proposed constitutional amendment SJR 8206 is ratified by the voters.

Testimony For: The public school districts in this state should benefit from the good bond rating of the state through the credit enhancement program. Bond insurance for voter approved school debt is an unnecessary cost. There has never been a default on a school district bond, so the risk associated with the insurance policy is nil.

Testimony Against: None.

Testified: Mike Murphy, State Treasurer.