HOUSE BILL ANALYSIS
HB 1271

Title: Creating the school district credit enhancement program.

Sponsors: Representatives Murray, Mitchell, Huff, H. Sommers, Linville, Esser, McIntire, Rockefeller, O'Brien, and Haigh; by request of the State Treasurer.

Brief Summary: Authorizes the state to guarantee payment on school district general obligation debt.

Background: School districts are authorized to use indebtedness or 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 increase the security of the payment pledge for bonds, 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. School districts are able to offset the cost of the insurance by the lower interest rate on the bonds.

About 80 percent of school districts in the state of Washington purchase bond insurance to lower their interest rate. This is an added cost to the property owners in the district that could be avoided if the state were to serve as the guarantee for the payment of school district general obligation bonds. Twenty-three states currently provide various types of bond guarantee programs for school districts debt.

Summary of the bill: The full faith and credit of the state are pledged to guarantee full and timely payment of school district bonds. To qualify for the state guarantee, the bonds must be voter approved general obligation bonds of the school district and be certified by the state treasurer. To become certified, a school district, by resolution of its board of directors, must apply and the application will be reviewed and approved by the state treasurer based on rules adopted by the state finance committee. The certificate of guarantee is valid of one year.

The county treasurer must make payment on all school district bonds on the scheduled payment date. If the county treasure is not able to make the scheduled payment, it must notify the bond paying agent and the state treasurer. The state treasurer will make the scheduled payment 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 and any interest charges and penalty fees, up to 5 percent. 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 so long as all other debt obligations have been fully provided for. If a school district has bond obligations 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.

The state finance committee may adopt rules to carry out the school district credit enhancement program and the Legislature must appropriate sufficient amounts to make the payments for the school district credit enhancement program. The school district credit enhancement program account is created in the state treasury and all fees and money collected by the program will be paid into the account. The account does not require an appropriation or allotment for expenditures from the account and the account may retain all interest earnings.

Appropriation: None

Fiscal Note: Not requested

Effective Date: The bill takes effect on January 1, 2000 if the proposed constitutional amendment (HJR 4203) is approved the voters at the next general election. If the constitutional amendment is not passed, this bill is void.