HOUSE BILL REPORT
HB 3099

As Reported By House Committee On:
Capital Budget

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: Representatives Dunshee, Barlean, Murray, Reardon, Koster and Lovick.

Brief History:
Committee Activity:
Capital Budget: 2/8/00 [DPS].

Brief Summary of Substitute Bill

- The authority of "swap" agreements is extended five years to June 30, 2005.
- "Swap" agreements can no longer be used for investing government funds.

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 Substitute 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.

Substitute Bill Compared to Original Bill: The eligibility for local government entities to use payment agreements is not increased from $100 million to $200 million of outstanding debt or annual revenues.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: 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.