

# FINAL BILL REPORT

## E2SSB 5345

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C 273 L 99

Synopsis as Enacted

**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).

**Senate Committee on Education**

**Senate Committee on Ways & Means**

**House Committee on Capital Budget**

**Background:** School districts are authorized to issue general obligation bonds. Voters authorize bond levies to repay the bonds. The bonds are sold to investors with the pledge that the district will repay the debt by assessing taxes on property within the school district. To make these bonds attractive to investors, school districts will often purchase bond insurance to guarantee payments. In exchange for this additional security, investors are willing to accept a lower interest rate on the bonds.

According to the State Treasurer, 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 district debt. These guarantees are used in lieu of bond insurance.

**Summary:** 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.

Full Faith and Credit of State to Guarantee Bonds. 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 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.

Procedure for the Payment of Unpaid Bonds. 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 makes 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.

**Votes on Final Passage:**

Senate	39	8	
House	95	0	(House amended)
Senate	36	10	(Senate concurred)

**Effective:** January 1, 2000 (if SJR 8206 is ratified)