SENATE BILL REPORT

E2SSB 5345

As Passed Senate, March 10, 1999

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: Education: 2/3/99, 2/17/99 [DPS-WM, DNPS].
Ways & Means: 2/23/99, 2/25/99 [DP2S].
Passed Senate, 3/10/99, 39-8.

SENATE COMMITTEE ON EDUCATION

Majority Report: That Substitute Senate Bill No. 5345 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.
Signed by Senators McAuliffe, Chair; Eide, Vice Chair; Bauer, Benton, Finkbeiner, Goings, Kohl-Welles, Rasmussen, Sellar and Zarelli.

Minority Report: Do not pass substitute.
Signed by Senator Hochstatter.

Staff: William Bridges (786-7424)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5345 be substituted therefor, and the second substitute bill do pass.
Signed by Senators Loveland, Chair; Brown, Vice Chair; Fairley, Fraser, Honeyford, Kline, Kohl-Welles, Long, McDonald, Rasmussen, Rossi, B. Sheldon, Snyder, Spanel, Thibaudeau, West and Zarelli.

Staff: Michael Groesch (786-7434)

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 of 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.

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.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on January 1, 2000, if the proposed constitutional amendment SJR 8206 is validly ratified.

Testimony For: Eighty percent of Washington school districts purchase bond insurance. The companies that insure this debt are able to make significant amounts of money with very little risk. If the state were to guarantee this debt, districts could avoid purchasing the insurance. Assuming $600 million in school debt, the cumulative five-year savings to districts would be around $1.7 million. Over ten years, the cumulative savings would be around $6 million. Washington should join the 23 other states that guarantee school debt. There is very little risk to the state because no Washington school district has ever defaulted. A constitutional amendment and new statutory section are required to create and administer the guarantee program. The State Treasurer has worked with school officials and the top bond lawyers in the state to create the guarantee program.

Testimony Against: None.

Testified: PRO: Mike Currie, Office of the Superintendent of Public Instruction; Michael Murphy, State Treasurer.