

SENATE BILL REPORT

SSB 6721

As Passed Senate, February 18, 2002

Title: An act relating to research by state universities.

Brief Description: Authorizing the University of Washington and Washington State University to make financing arrangements for research facilities.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators West, Brown, Snyder and Kohl-Welles; by request of University of Washington).

Brief History:

Committee Activity: Ways & Means: 2/5/02, 2/12/02 [DPS].

Passed Senate: 2/18/02, 45-3.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6721 be substituted therefor, and the substitute bill do pass.

Signed by Senators Brown, Chair; Regala, Vice Chair; Fairley, Vice Chair; Fraser, Hewitt, Honeyford, Kline, Kohl-Welles, Parlette, Poulsen, Rasmussen, Roach, Rossi, Sheahan, B. Sheldon, Snyder, Spanel, Thibaudeau, Winsley and Zarelli.

Staff: Karen Barrett (786-7711)

Background: University governing boards may, in the case of certain land, buildings, facilities and equipment, borrow or pledge money, enter into long-term lease/purchase contracts, and issue revenue bonds, certificates of participation for equipment and refinance said debt instruments without prior state approval. This authority is limited in scope to property for stand-alone enterprises like campus parking, dormitories, food services, infirmaries and hospitals; for recreational centers; and for student services of all kinds including registration, financial aid, testing, employment and advising (among others).

Revenue that may be pledged or used to service this debt is restricted to rents, student services and activity fees, other fees, charges, and that income derived through the ownership, operation and use of land, buildings, facilities and property which is (a) not subject to legislative appropriation, and (b) does not constitute general revenues for Washington as defined in the state Constitution. Typically, the bond-holders are secured by the university's revenue from the facility financed; these are not general obligations of the state. Financial arrangements must be made for a public purpose; benefits are not intended to accrue to private parties.

In the case of finance contracts, notice must be given to the Treasurer, Governor (ex officio) and Lieutenant Governor "who comprise the State Finance Committee" not less than 60 days prior to transacting such business and any information those members may request. Falling outside established mechanisms that limit state indebtedness, these transactions cannot proceed

if the aggregate principal amount payable on behalf of agencies exceeds a threshold set from time to time by the state finance committee. For the 2001-2003 biennium, such finance contract activity is capped at \$695 million.

The University of Washington (UW) and Washington State University (WSU) are considered research institutions which means that their faculty and students conduct a significant amount of basic and applied scientific study in addition to traditional academic programs. The UW receives about \$700 million in research grants annually, while WSU receives about \$100 million annually. When a university receives research grants, it also receives an additional sum to cover costs associated with the grant activity. Negotiated on a contract basis, generally about half of indirect costs actually recovered (ICR) are applied to department, college and university-wide administrative expenses and half to support facilities—that is, the maintenance, utilities, and alterations to customize space for research personnel, research equipment, and interest payments if such capital improvements are financed over a long-term period.

Summary of Bill: The authority for regents of the University of Washington and Washington State University is expanded to borrow or pledge all or a portion of money derived from the conduct of, or support of persons who, perform basic and applied scientific research for facilities equipped and furnished to house such activity.

These business transactions do not require prior notice or approval by the State Finance Committee nor are subject to limits placed on indebtedness using long-term finance contracts by state agencies.

Each named university may proceed as its trustees deem prudent. Both the University of Washington and Washington State University may leverage local funds not subject to appropriation and not constituting state general revenues to acquire, construct, equip, rehabilitate or lease on a long-term basis basic and applied scientific research space. An annual report of such activity is required.

The regents must consider the maintenance and operating costs of research facilities and related equipment so financed. State appropriations may not be used for maintenance and operating expenses unless specifically authorized by the Legislature.

Rights to research property may be secured using long-term finance contracts in advance of each institutions' needs provided that (a) rental income is received by the university, or (b) the lease to a third party creates an opportunity for public-private research partnerships.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: The prospect for growth in state investment in facilities principally for university research is not good. As such, measures are needed to help state research universities meet their present and future space needs. The University of Washington seeks this authority to secure property and partner, in a timely manner, to expand its capacity to

conduct basic scientific research. Tools like this are endorsed by the Governor's competitiveness council. President Bush and the U.S. Congress are making substantial budget commitments to basic and applied research through federal agencies like the National Institutes of Health. The University of Washington (UW) is positioned nationally to compete for such awards but its program in Seattle is limited by physical space. This bill enables regents to act promptly and pledge resources without having to wait for lawmakers to convene in session to consider and approve self-supporting capital projects. The delegation of this finance authority is intentionally limited for the purpose of research. This is not a new concept. Leading public research institutions around the nation have similar powers. The market for capital will, in and of itself, bring discipline to this process. The UW has an excellent credit track record. Bond houses, rating agencies, and insurance underwriters alike will expect projects to pencil out with adequate reserves and coverage for amounts being borrowed.

Testimony Against: None.

Testified: Senator West, prime sponsor; Harlan Patterson, University of Washington; Scott Davies, University of Washington; Paul Vronsky, Associated Students of the University of Washington.