

HOUSE BILL REPORT

HB 3172

As Amended by the Senate

Title: An act relating to payment agreements.

Brief Description: Providing for payment agreements.

Sponsors: By Representatives Dunshee, Sommers and Sehlin.

Brief History:

Committee Activity:

Capital Budget: 2/5/04 [DP].

Floor Activity:

Passed House: 2/14/04, 95-0.

Senate Amended.

Passed Senate: 3/3/04, 48-0.

Brief Summary of Bill

- The authority of state and local governments to enter into payment or "swap" agreements is extended indefinitely. Large city transportation authorities are given authority to enter into payment agreements.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass. Signed by 24 members: Representatives Dunshee, Chair; Hunt, Vice Chair; Alexander, Ranking Minority Member; Priest, Assistant Ranking Minority Member; Armstrong, Benson, Blake, Bush, Chase, Flannigan, Hankins, Hinkle, Kirby, Lantz, Mastin, Morrell, Murray, Newhouse, O'Brien, Orcutt, Schoesler, Simpson, G., Veloria and Woods.

Staff: Charlie Gavigan (786-7340).

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 usually 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 first authorization for swap agreements was limited to two years and set to expire in 1995. In 1995 the Legislature extended the authorization five additional years to June 30, 2000. The authority for state and local governments to use debt payment "swap" agreements was again extended five years to June 30, 2005.

Summary of Bill:

The termination of the authority for state and local governments to use certain debt payment agreements, or "swap" agreements, is repealed. State and local governments, with the addition of city transportation authorities, can continue to enter into these agreements after June 30, 2005.

EFFECT OF SENATE AMENDMENT(S):

The striking amendment allows regional transit authorities to also participate in payment (swap) agreements.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: This authority makes government debt management more efficient and should be continued. Several larger local government entities have used this mechanism and have saved money on the transactions (amounting to millions of dollars in savings). By giving the Seattle Monorail this authority, it will save \$30 to \$60 million over the life

of the project. Any risks associated with this authority have been minimized and well managed since these were first authorized in 1993.

Testimony Against: None.

Persons Testifying: Ken Johnson and Alex Johnston, Bank of America; and Tom Parker, Monorail Project.

Persons Signed In To Testify But Not Testifying: None.