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**Local Government Committee**

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**HB 1196**

**Brief Description:** Including hospital districts in the definition of "local government" for chapter 39.96 RCW.

**Sponsors:** Representatives Simpson and Cairnes.

**Brief Summary of Bill**

- Authorizes a hospital district to enter into payment agreements for the purpose of reducing its exposure to fluctuations in interest rates.

**Hearing Date:** 2/5/03

**Staff:** Amy Wood (786-7127).

**Background:**

Construction and acquisition of capital facilities by state and local governments is financed using a number of financial obligations, 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 may be either a fixed interest rate or a variable interest rate. The interest 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 two parties enter into an agreement to exchange the obligation of making interest payments on underlying financial obligations. These swap agreements do not alter or impair the underlying financial obligation. Under this concept, one party agrees to make the interest 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 payments.

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. In 2000, the Legislature again extended the authorization five additional years to June 30, 2005.

The government entities that are authorized to enter into payment agreements are: (1) any city, county, port district, or public utility district with debt or annual revenues in excess of \$100 million; and (2) the State Finance Committee, the Washington Health Care Facilities Authority, the Washington Higher Education Facilities Authority, the Washington State Housing Finance Commission, and any state institution of higher education upon approval by the State Housing Finance Commission.

Prior to entering into a payment agreement, the governmental entity must making a finding by ordinance or resolution that the transaction will reduce the amount or duration of its exposure to interest rate changes, or reduce the cost of borrowing. The government entity must obtain a written certification from a qualified and disinterested financial advisor that its findings are reasonable.

The entities that may enter into a payment agreement with a governmental entity must have a rating from at least two nationally recognized credit rating agencies that is within either (1) the two highest long-term investment grade rating categories; or (2) the three highest long-term investment grade categories, if the obligation of the other party is collateralized by direct obligations of or obligations guaranteed by the United States of America. The term and notional amount of the payment agreement may not exceed the term and principle amount of the underlying obligation.

**Summary of Bill:**

Hospital districts are authorized to enter into payment agreements in accordance with the provisions of chapter 39.96 RCW.

**Appropriation:** None.

**Fiscal Note:** Not Requested.

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