SENATE BILL REPORT
HB 1196

As of April 2, 2003

Title: An act relating to payment agreements.

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

Sponsors: Representatives Simpson and Cairnes.

Brief History:
Committee Activity: Government Operations & Elections: 4/4/03.

SENATE COMMITTEE ON GOVERNMENT OPERATIONS & ELECTIONS

Staff: Ronda Larson (786-7429)

Background: Current law gives hospital districts the power to levy taxes, enter into bonds, take out loans and enter into any contract to carry out their statutory powers. The law does not, however, explicitly authorize hospital districts to enter into contracts for debt-swapping, whereby they would exchange debt with a fixed interest rate for debt with a variable rate. Current law gives such explicit authority only to cities, counties, port districts, public utility districts, and a few state entities, as long as such entities have at least $100 million of existing principal debt or $100 million in gross revenues the previous year. Five hospital districts currently have over $100 million in gross revenues and would qualify to use payment agreements if current law allowed it.

State and local governmental entities, including hospital districts, finance much of their construction and purchasing of buildings through long-term debt instruments. For example, they issue general obligation bonds, take out loans, and enter into lease-purchase agreements. Like a home mortgage, the debt instruments obligate the governmental entity to make payments that include interest. The interest rate is generally fixed. The rate is set by the going rate in financial markets at the time the entity becomes indebted.

Just as homeowners can refinance a mortgage to get a better interest rate, current law empowers a limited number of governmental entities to exchange their fixed-rate debt for debt with a variable interest rate. In such arrangements, one party agrees to make the payments owed by the other party and vice versa for a certain period of time. This enables a party with fixed-rate debt to take advantage of lower interest rates available on the variable-rate debt. In turn, the other party reduces its exposure to the risk of rising interest rates.

Ideally, an entity should have a balance of fixed-rate and variable-rate debt. For entities that have large amounts of variable-rate debt, an exchange for fixed-rate debt offers more conservative debt management. In contrast, for entities that have large amounts of fixed-rate debt, an exchange for variable-rate debt can yield significant cost savings. The saving occurs because over time, variable interest rates tend to be lower than fixed rates.

The debt of public hospital districts consists almost entirely of fixed-rate debt.

Summary of Bill: Hospital districts are given the power to enter into payment agreements that swap their fixed-rate debt with variable-rate debt and vice versa. As with entities currently so empowered, a hospital district can only take advantage of such payment agreements if the district has over $100 million in outstanding principal debt or $100 million in gross revenues the previous year.

Appropriation: None.

Fiscal Note: Not requested.

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