

HOUSE BILL REPORT

HB 1487

As Reported by House Committee On:
Capital Budget

Title: An act relating to payment agreements.

Brief Description: Concerning payment agreements.

Sponsors: Representatives Ormsby, Dunshee, Serben and Crouse.

Brief History:

Committee Activity:

Capital Budget: 2/2/05, 2/10/05 [DP].

Brief Summary of Bill

- Adds public facilities districts to the list of local governmental entities that may use "swap" agreements.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass. Signed by 25 members: Representatives Dunshee, Chair; Ormsby, Vice Chair; Jarrett, Ranking Minority Member; Hankins, Assistant Ranking Minority Member; Blake, Chase, Cox, Eickmeyer, Ericks, Flannigan, Green, Hasegawa, Holmquist, Kretz, Kristiansen, Lantz, McCune, Moeller, Morrell, Newhouse, O'Brien, Roach, Serben, Springer and Strow.

Staff: Susan Howson (786-7142).

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 was set to expire on June 30, 1995. In 1995 and 2000, the Legislature extended the authorization in five year increments to June 30, 2005.

In 2004, the expiration date for authorization of state and local governments to use "swap" agreements was repealed. State and local governments, with the addition of city transportation authorities, were authorized to enter into these agreements after June 30, 2005.

Summary of Bill:

Public facilities districts are added to the list of local governmental entities that may use "swap" agreements.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: Swap agreements are an effective tool in debt management. Adding public facilities districts to the list of entities eligible to use interest rate swap agreements would benefit the public facilities districts.

Testimony Against: None.

Persons Testifying: Tom Parker, Spokane Public Facilities; and Bob Campbell, Lehman Brothers.

Persons Signed In To Testify But Not Testifying: None.