

HOUSE BILL REPORT

HB 1398

As Reported by House Committee On: Capital Budget

Title: An act relating to the University of Washington's and Washington State University's local borrowing authority.

Brief Description: Expanding the University of Washington's and Washington State University's local borrowing authority.

Sponsors: Representatives Fromhold, Wallace, Anderson, McDonald, Pedersen and Chase; by request of University of Washington.

Brief History:

Committee Activity:

Capital Budget: 1/30/07, 2/6/07 [DPS].

Brief Summary of Substitute Bill

- Expands the University of Washington's and Washington State University's local borrowing authority by allowing the universities to bond against all nonappropriated funds.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 21 members: Representatives Fromhold, Chair; Ormsby, Vice Chair; Schual-Berke, Vice Chair; McDonald, Ranking Minority Member; Newhouse, Assistant Ranking Minority Member; Blake, Chase, Dunshee, Eickmeyer, Flannigan, Goodman, Hankins, Kelley, McCune, Orcutt, Pearson, Pedersen, Sells, Skinner, Strow and Upthegrove.

Minority Report: Do not pass. Signed by 1 member: Representative Hasegawa.

Staff: Susan Howson (786-7142).

Background:

The Board of Regents at the state research universities are authorized to issue bonds and other debt for research and enterprise facilities. Research facilities are largely supported by federal

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grants and contracts, as well as other nonstate sources. Enterprise facilities generate revenue from their operations, and these facilities are not subject to legislative appropriation. Such facilities include student housing and dining halls, parking structures, intercollegiate athletics, hospitals, and other student services.

The research universities are not authorized to issue bonds for academic and administrative facilities, but may execute other long-term financial commitments for such facilities. These other long-term financial commitments include long-term leases and lease-to-own contracts that take advantage of tax-exempt financing under the federal tax code (commonly referred to as 63-20 projects). These allowable long-term financial commitments are typically more costly than bond financing.

Summary of Substitute Bill:

The authority of the University of Washington and Washington State University to issue bonds is expanded to any university purpose. Any nonappropriated funds may be obligated for the repayment of such bonds. This debt will not count against the state's constitutional debt limit and will not be backed by the full faith and credit of the state. The universities must report annually to the appropriate committees of the Legislature and the State Treasurer on the use of this bonding authority.

Substitute Bill Compared to Original Bill:

Language was removed that required bonds to be rated no lower than the lowest subcategory of the single "A" rating category by at least one nationally recognized credit rating agency. The scope of the annual reporting requirement was expanded to include additional summary level information.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed, except for section 4, relating to the refinancing of real and personal property acquired by the University of Washington between August and October 2006, which contains an emergency clause and takes effect May 1, 2007.

Staff Summary of Public Testimony:

(In support) This bill will allow the university to manage debt in a most cost effective way. The benefit of doing this is cost savings and cost management. With the ability to offer bondholders the total of the university's nonappropriated funds, the university can get a higher bond rating and lower interest costs. Currently the university can only use individual pockets of revenue to support bonds. This authority would allow for a direct issue of bonds for

administrative or academic facilities supported by nonappropriated funds. The requirement of at least a single "A" rating is restrictive and not necessary.

(Opposed) None.

Persons Testifying: Harlan Patterson, University of Washington; Mike Murphy, State Treasurer; and Larry Ganders, Washington State University.

Persons Signed In To Testify But Not Testifying: None.