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**Capital Budget Committee**

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**HB 3383**

**Brief Description:** Regarding state general obligation bonds and related accounts.

**Sponsors:** Representatives Fromhold and McDonald.

**Brief Summary of Bill**

- Authorizes the issuance of \$50 million in state general obligation bonds for federally-matched flood hazard mitigation projects and other projects throughout the Chehalis River basin.
- Authorizes the issuance of \$100 million in state general obligation bonds for the purpose of providing skill centers' capital improvements consisting of the pre-design, design, acquisition, construction, modification, renovation, expansion, equipping, and other capital improvements to support satellite or branch campus programs for under-served rural areas or high-density areas.
- Authorizes the issuance of \$35 million in state general obligation bonds to support appropriations in the 2008 Supplemental Capital Budget.

**Hearing Date:** 3/6/08

**Staff:** Susan Howson (786-7142).

**Background:**

Washington periodically issues general obligation bonds to finance projects authorized in the capital and transportation budgets. General obligation bonds pledge the full faith and credit and taxing power of the state towards payment of debt service. Legislation authorizing the issuance of bonds requires a 60 percent majority vote in both the House of Representatives and the Senate. The State Finance Committee, composed of the Governor, the Lieutenant Governor, and the State Treasurer, is responsible for supervising and controlling the issuance of all state bonds.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

Bond authorization legislation generally specifies the account or accounts into which bond sale proceeds are deposited, as well as the source of debt service payments. When debt service payments are due, the State Treasurer withdraws the amounts necessary to make the payments from the State General Fund and deposits them into the bond retirement funds.

Washington's indebtedness is limited by both a statutory and a constitutional debt limit. The State Treasurer may not issue any bonds that would cause the debt service on the new, plus existing bonds, to exceed 7 percent of general state revenues averaged over three years in the case of the statutory limit, and 9 percent under the constitutional limit. For purposes of the debt limit, "general state revenues" is defined in the State Constitution and by statute.

There are several categories of state general obligation debt that are excluded from the 9 percent constitutional debt limit including: (1) voter-approved debt; (2) bonds payable from the gas tax and motor vehicle license fees; (3) bonds payable from income received from the investment of the Permanent Common School Fund; (4) debt issued to meet temporary deficiencies in the State Treasury and debt issued to pay current expenses of state government; (5) debt issued in the form of bond anticipation notes; (6) debt payable solely from revenues of particular public improvement (revenue debt); (7) debt that has been refunded; and (8) state guarantee of voter-approved general obligation debt of school districts.

At statehood, the Enabling Act granted certain lands to the state to be held in trust for various public purposes. Article 9 of the State Constitution reflects the Enabling Act by establishing the Permanent Common School Fund and the Common School Construction Fund. There are also five other permanent funds.

The Department of Natural Resources transfers proceeds from the sale of stone, minerals, or property other than timber and crops for school and state land to the Washington State Investment Board for investment in the Permanent Common School Fund. Earnings of the Permanent Common School Fund are deposited in the Common School Construction Fund, which is appropriated for K-12 school construction.

In December 2007 a series of storms caused flood damage in southwest Washington. On December 8, the President declared a major disaster in the counties of Grays Harbor, Kitsap, Lewis, Mason, Pacific and Thurston. Federal funding assistance was made available following this declaration.

### **Summary of Bill:**

The State Finance Committee is authorized to issue \$50 million in state general obligation bonds for federally-matched flood hazard mitigation projects and other projects throughout the Chehalis River basin and \$35 million in state general obligation bonds to support appropriations in the 2008 Supplemental Capital Budget.

The State Finance Committee is also authorized to issue \$100 million in state general obligation bonds to finance capital improvements related to skill centers. The State Treasurer is required to withdraw funds from that portion of the Common School Construction Fund derived from the investment income on the Permanent Common School Fund to make the principal and interest payments on the bonds. The proceeds from the sale of skill center bonds must be deposited into the Skill Centers Building Account, an appropriated account created in the bill. The bill exempts the skill center bonds authorized in the bill from the 7 percent statutory debt limit. The

Superintendent of Public Instruction is required to adopt rules that set a 10 percent minimum local project contribution threshold for major skill center projects, unless there is a rationale not to do so, given economic conditions or other compelling circumstances.

The State Treasurer is required to withdraw from state general revenues the amounts necessary to make the principal and interest payments on the bonds authorized in the bill and to deposit these amounts into the Bond Retirement Account.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** The bill contains an emergency clause and takes effect immediately.