Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Capital Budget Committee

HJR 4222

Brief Description: Resolving to define "interest" in the state Constitution.

Sponsors: Representatives Ormsby, Warnick, Blake, Anderson, Maxwell, Jacks, Wallace and Kenney; by request of State Treasurer.

Brief Summary of Bill

- Changes the calculation of outstanding bond interest payments used to determine the state debt limit in the state constitution.

Hearing Date: 2/1/10

Staff: Nona Snell (786-7153).

Background:

The state constitution limits the state's general obligation debt by restricting the State Treasurer's authority to issue bonds that are subject to the debt limit if the annual payment for principal and interest, along with payments for existing debt, exceeds 9 percent of the average annual general state revenue for the preceding three years.

The Constitution defines debt as bonds, notes or other evidences of indebtedness that are secured by the full faith and credit of the state or are required to be repaid from general state revenues. Debt does not include obligations for the payment of current state government expenses; voter approved debt; and debt secured with motor vehicle license fees, motor vehicle fuel taxes, and interest on the Permanent Common School Fund.

Tax-exempt bonds provide one source of funds that state and local governments use to finance capital projects. As part of the American Recovery and Reinvestment Act of 2009, Congress implemented the Build America Bond (BAB) program to provide funding for state and local governments by lowering borrowing costs. The BABs are taxable bonds that allow a direct federal payment subsidy to state and local governments equal to 35 percent of the interest

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payments for projects that would be eligible for tax-exempt purposes. The BAB program may not be used for refinancing debt.

The investment market for taxable bonds is larger than the market for tax-exempt bonds. The larger number of investors increases competition and results in a net interest rate for BABs that is 0.50 percent to 0.75 percent lower than the tax-exempt rate.

The BAB program is scheduled to expire on December 31, 2010. However, proposals to extend the program are under consideration by Congress.

The next general election held in the State is November 2, 2010.

Summary of Bill:

The state constitution is amended by changing the interest calculation on debt, used to determine the debt limit, by subtracting federal subsidies.

The Secretary of State must submit this Joint House Resolution to the voters in the next general election.

Appropriation: None.

Fiscal Note: Not requested.