

# SENATE BILL REPORT

## SJR 8225

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As of January 26, 2010

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

**Sponsors:** Senators Fraser, Brandland and Prentice; by request of State Treasurer.

**Brief History:**

**Committee Activity:** Ways & Means: 1/27/10.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Brian Sims (786-7431)

**Background:** The state constitution limits the state's general obligation debt. The State Treasurer must not issue bonds subject to the debt limit if the annual payment for principle and interest, along with such payments for existing debt-limit bonds, would exceed 9 percent of the average annual general revenue for the preceding three fiscal years.

The federal government subsidizes eligible state and local government borrowing by exempting the interest payments to bond holders from federal income tax. These are called tax-exempt bonds. To ease credit markets for state and local government, congress enacted a new form of federal subsidy called Build America Bonds (BABs) as part of the American Recovery and Reinvestment Act of 2009. This subsidy is a direct payment to state and local governments equal to 35 percent of the interest payments on taxable bonds issued for projects that would be eligible for tax-exempt purposes. The 35 percent direct subsidy would result in a net interest rate that would equal the tax-exempt interest rate an investor would accept if that investor had a marginal tax rate of 35 percent. However, the pool of investors for taxable bonds is considerably larger than the pool of investors 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.

BABs provisions are scheduled to expire at the end of 2010. However, proposals to extend the program or make it permanent are under consideration by congress.

The constitutional debt limit definition of interest payments does not account for federal subsidies.

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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.*

**Summary of Bill:** The definition of interest payments for calculating the state debt limit is changed to subtract direct federal subsidies.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Subject to approval by the voters.