HOUSE BILL REPORT
HB 2494

As of Second Reading

Title: An act relating to limitations on state debt.

Brief Description: Implementing the recommendations of the commission on state debt.

Sponsors: Representatives Dunshee and Warnick; by request of Commission on State Debt.

Brief History:
Committee Activity:
Capital Budget: 1/24/12.

Brief Summary of Bill

- Creates a Debt Advisory Council, composed of seven members, to advise the Governor and Legislature on state debt levels and the working debt limit.
- Changes the working debt limit to 8 percent during non-recessionary periods.
- Requires enhanced reporting of debt service impacts in agency 10-year capital planning and the capital appropriations bill.

HOUSE COMMITTEE ON CAPITAL BUDGET

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, credit, and taxing power of the state towards payment of debt service (principal and interest payments).

Article VIII, section 1 of the Washington Constitution (Constitution) limits the issuance of general obligation bonds. The State Treasurer cannot issue any bonds that would cause the debt service on any new plus existing bonds to exceed 9 percent of the average of the prior three years' general state revenues. Generally speaking, the Constitution defines general state revenue as all unrestricted state tax revenues.

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.

A working debt limit below the 9 percent constitutional limit is used for developing the general obligation bond portion of capital budgets. The working debt limit has been 8.75 percent since the 2009-11 biennium. Legislation enacted in 2011 Substitute Senate Bill 5181 required the working debt limit to phase down to 7.75 percent by Fiscal Year (FY) 2022, starting in FY 2016. The State Finance Committee, composed of the Governor, Lieutenant Governor, and State Treasurer, may recommend modified working debt limits in response to extraordinary economic conditions.

Substitute Senate Bill 5181 also established a Commission on State Debt (Commission) to recommend possible changes to the constitutional debt limit and other debt policy in order to:

- stabilize the capacity to incur new debt in support of sustainable and predictable capital budgets;
- reduce the growth in debt service payments to an appropriate level that no longer exceeds the long-term growth in general fund expenditures; and
- maintain and enhance the state's credit rating.

The Commission reported its findings and recommendations in December 2011. Recommendations include changes to constitutional and statutory working debt limits, creation of a Debt Advisory Council, and enhancements to debt service reporting.

Summary of Bill:

A Debt Advisory Council (DAC) composed of seven members is established, including the State Treasurer (non-voting), the Director of the Office of Financial Management (OFM), the Secretary of Transportation, and four legislators, each selected from the two majority caucuses of the House of Representatives and the Senate. The DAC advises the Governor and Legislature on the level of state debt for appropriation purposes. The DAC recommendations must be approved by an affirmative vote of at least four members. Staffing of the DAC must be provided by the Office of the State Treasurer.

The working debt limit is 8 percent during non-recessionary periods and may increase to 8.5 percent during recessionary periods as defined by the DAC. The DAC must recommend the timing of returning the working debt limit to 8 percent within eight years following a recessionary period.

The Director of OFM must prepare enhanced reporting of debt service requirements for the Governor's budget requests.

Capital appropriation bills must also include enhanced reporting of debt service requirements resulting from new debt-financed appropriations and alternative financing contracts.

Requirements of the State Treasurer to determine general state revenues for purposes of determining the constitutional debt limit are modified to correspond to changes to the constitutional debt limit proposed in separate legislation (House Joint Resolution 4226).

All provisions in the bill, except the enhanced reporting of debt service requirements, are null and void if the proposed amendment to the constitutional debt limit (House Joint Resolution 4226) is not ratified by the voters.

Appropriation: None.

Fiscal Note: Available.

Effective Date: This bill takes effect 90 days after adjournment of the session in which the bill is passed, except for section sections 1 through 3, 6, and 7, relating to the establishment of a Debt Advisory Council and modifications to the working debt limit which takes effect July 1, 2014, if House Joint Resolution 4226 is ratified by the voters at the next general election.

Staff Summary of Public Testimony:

(In support) The recommendations of the Commission on State Debt are intended to smooth out debt capacity and help us manage debt below the constitutional debt limit. This will allow the state to take advantage of low prices and boost employment during recessions. The creation of a Debt Advisory Council will allow legislators to have better information regarding capital and transportation debt, and provide a forum and process for considering debt policy.

(In support with concerns) Funding for K-12 construction should be the first priority for bond expenditures. Local voters must approve local bonds to be eligible for the School Construction Assistance Program. For that reason, language should be included in the bill that states public school construction is the highest priority in the capital budget. Local voters have an expectation that if they approve local bonds the state match will be there.

(With concerns) Smoothing out the debt capacity is good policy, but we should not reduce capacity. The return on investment for construction projects is much better than operating budget expenditures. Washington has a good bond rating because our debt is well-managed. A super committee could tie the Legislature's hands and could have too much authority.

(Opposed) This legislation is a solution looking for a problem. Economists could find no evidence of a debt problem in this state.

Persons Testifying: (In support) Jim McIntire, State Treasurer.

(In support with concerns) Alexandre Chateaubriand, Washington State School District Association.

(With concerns) Yoshe Revelle; and Stan Bowman, American Institute of Architects Washington Council.

(Opposed) Cody Arledge, Sheet Metal Workers #66.

Persons Signed In To Testify But Not Testifying: