

HOUSE BILL REPORT

HB 2793

As Reported by House Committee On: Capital Budget

Title: An act relating to creating jobs by funding public capital projects.

Brief Description: Creating jobs by funding public capital projects.

Sponsors: Representatives Dunshee and Jinkins.

Brief History:

Committee Activity:

Capital Budget: 2/23/12, 2/24/12 [DPS].

Brief Summary of Substitute Bill

- Authorizes bonds backed by four separate capital budget revenue sources, including the Hazardous Substance Tax, the Solid Waste Tax, the Public Utility Tax, and the Aquatic Lands Enhancement Account.
- Makes capital appropriations for the 2011-13 biennium of \$487 million.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Dunshee, Chair; Ormsby, Vice Chair; Jinkins, Lytton, Tharinger and Wylie.

Minority Report: Do not pass. Signed by 4 members: Representatives Warnick, Ranking Minority Member; Zeiger, Assistant Ranking Minority Member; Pearson and Smith.

Staff: Susan Howson (786-7142).

Background:

Capital Budget.

Washington operates on a biennial budget cycle. The Legislature authorizes expenditures for capital needs in the state omnibus capital appropriations act (capital budget) for a two-year period and authorizes bond sales through passage of a bond bill associated with the capital

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budget to fund a portion of these expenditures. Approximately half of the capital budget is financed by these state-issued general obligation bonds, and the balance is funded by dedicated accounts, trust revenue, and federal funding sources. The primary two-year budget is passed in the odd-numbered years, and a supplemental budget making adjustments to the two-year budget often is passed during the even-numbered years. The current capital budget covers the period from July 1, 2011, through June 30, 2013.

The capital budget includes appropriations for the acquisition, construction, and repair of capital assets such as state office buildings, prisons, juvenile rehabilitation centers, residential habilitation centers, mental health facilities, military readiness centers, and higher education facilities. The capital budget also funds a variety of environmental and natural resource projects, parks and recreational facilities, public K-12 school construction, and grant and loan programs that support housing, public infrastructure, community service facilities, and art and historical projects.

State Bonds.

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. Legislation authorizing the issuance of general obligation bonds requires a 60 percent majority vote in both the House of Representatives and the Senate. 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 bond retirement funds. 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.

Washington has not recently issued any limited tax obligation bonds, that is, bonds payable solely from taxes levied for a specific purpose and not backed by either the full faith, credit, and taxing power of the state or by general state revenues. In 2002 the Legislature authorized revenue bonds backed by payments to the state under the Master Settlement Agreement with the major tobacco manufacturers. Bonds issued for transportation purposes have pledged various combinations of taxes and other revenues, such as tolls.

Washington's indebtedness is limited by Article VIII, section 1 of the state Constitution. The State Treasurer may not issue any debt that would cause the debt service (principal and interest payments) on any new bonds, plus existing bonds, to exceed 9 percent of the average of the three prior years' general state revenues. For purposes of the debt limit, debt is defined as borrowed money backed either by the full faith and credit of the state or by general state revenues. Generally speaking, the state Constitution defines general state revenues as all state tax revenues other than revenues from taxes levied for specific purposes.

Hazardous Substance Tax.

The Hazardous Substance Tax (HST) is a tax on the first possession of hazardous substances in Washington. The HST applies to first possession in the state of specified substances, including petroleum products, pesticides, and some chemicals. There are currently over 8,000 different hazardous substances identified as being subject to the HST. The term

"petroleum products" includes gasoline as well as other products such as kerosene and motor oil. Examples of taxpayers include petroleum companies, hardware stores, airlines, auto parts companies, paint manufacturers, and chemical companies. Projected fiscal year (FY) 2013 revenue from the HST is estimated at \$144 million.

A total of 47.1 percent of the tax is deposited into the State Toxics Control Account for activities such as: hazardous waste clean-up, as well as the state's responsibility for hazardous waste and solid waste planning, management, regulation, enforcement, technical assistance, and public education. A total of 52.9 percent of the tax is deposited into the Local Toxics Control Account for use by the Department of Ecology as grants or loans to local governments for (in descending priority order): remedial actions; hazardous waste plans and programs including storm water; solid waste plans and programs; methamphetamine production site assessment and clean-up; and clean-up and disposal of hazardous substances including abandoned or derelict vessels.

Solid Waste Tax.

The Solid Waste Tax (SWT) is a tax on the fees for the collection, transfer, storage, or disposal of solid waste. The SWT does not apply to collection for recycling or to hazardous/toxic waste services. Examples of taxpayers include private or commercial customers who receive solid waste collection services. The SWT proceeds are deposited into the Public Works Assistance Account and used to provide financial assistance to local governments for public works projects. Projected FY 2013 revenue from the SWT is estimated at \$36 million.

Public Utility Tax.

The Public Utility Tax (PUT) is a tax on public service businesses, including businesses that engage in transportation, communications, and the supply of energy, natural gas, and water. The PUT is in lieu of the business and occupation tax. The majority of the tax revenues are deposited in the State General Fund. A total of 20 percent of the revenues from the basic 4.7 percent tax on water distribution and 60 percent of the revenues from the basic 3.6 percent tax on sewerage collection are deposited into the Public Works Assistance Account and used to provide financial assistance to local governments for public works projects. Projected FY 2013 revenue from the PUT is estimated at \$16 million.

Aquatic Lands Enhancement Account.

The Aquatic Lands Enhancement Account (ALEA) was created in 1984 to ensure that money generated from aquatic lands was used to protect and enhance those lands. Aquatic lands are all tidelands, shore lands, harbor areas, and the beds of navigable waters. The ALEA is supported almost entirely by revenue generated by the Department of Natural Resources' management of state-owned aquatic lands. Revenue sources include leases on state-owned waterfront sites and sale of harvest rights for geoduck clams. Typical projects funded from ALEA revenues include removing bulkheads to restore natural beach functions, restoring an estuary, replacing a waterfront boardwalk, restoring shoreline for salmon habitat, and developing a waterfront park. Projected FY 2013 revenue is estimated at \$16 million.

Summary of Substitute Bill:

The State Finance Committee is authorized to issue a total of \$485 million in limited tax obligation bonds and revenue bonds that are supported by a common reserve fund and are backed by the specified dedicated taxes and revenues. These bonds are payable solely from the revenues to the specified accounts and are not backed either by the full faith and credit of the state or by general state revenues. For these reasons, the bonds are not subject to the debt limit.

Hazardous Substance Tax.

The State Finance Committee is authorized to issue limited tax obligation bonds to finance \$215 million in projects related to environmental cleanup and restoration. The Hazardous Substance Tax (HST) is levied solely for the purpose of environmental cleanup and restoration, and it is pledged for repayment of these bonds. The HST is deposited in the Environmental Cleanup and Restoration Account. Moneys in the Account not required for debt service payments are transferred to the State and Local Toxics Control Accounts.

Solid Waste Tax.

The State Finance Committee is authorized to issue limited tax obligation bonds to finance \$163.4 million in projects related to state aid for local government construction. The Solid Waste Tax (SWT) is levied solely for the purpose of funding a program of state aid for local government capital construction, and it is pledged for repayment of these bonds. The SWT is deposited in the Local Government Capital Construction Assistance Account. Moneys in the Account not required for debt service payments are transferred to the Public Works Assistance Account.

Public Utility Tax.

The State Finance Committee is authorized to issue limited tax obligation bonds to finance \$68.9 million in projects related to water quality and safe drinking water. The Public Utility Tax (PUT) is levied solely for the purposes of funding construction of projects related to water quality and safe drinking water, and it is pledged for repayment of these bonds. The PUT is deposited in the Water Quality and Safe Drinking Water Account. Moneys in the Account not required for debt service payments are transferred to the Public Works Assistance Account.

Aquatic Lands Enhancement Account.

The State Finance Committee is authorized to issue revenue bonds to finance \$39.7 million in projects related to forest to shore restoration. The Aquatic Lands Enhancement Account is pledged for repayment of these bonds.

Common Provisions.

The State Treasurer must deposit bond proceeds from each issuance into newly created construction bond proceed accounts. In addition, the State Treasurer must withdraw from each revenue stream the amounts necessary to make the principal and interest payments on the bonds and deposit these amounts into newly created bond retirement accounts.

Consolidated Reserve Account.

The 2012 Jobs Act Credit Enhancement Reserve Account (Reserve Account) is created in the state treasury as a common reserve account for all bonds issued in this act. The State Treasurer must transfer \$19.7 million from the Public Works Assistance Account and \$15.7

million from the Local Toxics Control Account into the Reserve Account no later than June 30, 2012. The amount on deposit in the Reserve Account must be maintained in an amount equal to maximum annual debt service on all outstanding bonds. By July 1 of each year, the State Treasurer must transfer sufficient amounts from Public Works Assistance Account loan repayments so that the Reserve Account balance is equal to annual debt service on all outstanding bonds.

Capital Appropriations.

New capital budget appropriations of \$487 million are made for the 2011-13 biennium for the purposes specified above.

Substitute Bill Compared to Original Bill:

The substitute bill makes technical corrections, adds a new water quality project, and changes the appropriation for various capital projects.

Appropriation: A total of \$487 million. Please see the bill.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony:

Please refer to the February 23, 2011, recording of the Public Hearing.

Persons Testifying: (In support) Representative Dunshee, prime sponsor; George Rohrbacher, Washington Wildlife and Recreation Coalition; Wayne Doty, State Board of Community and Technical Colleges; Harry Hoffman, Housing Development Consortium Seattle-King County; Marty Kooistra, Habitat for Humanity Housing Development Consortium; Jeff Johnson and Rebecca Johnson, Washington State Labor Council; David Myers, Washington State Building and Construction Trades Council; Lonnie Johns-Brown, National Organization of Women; Sharon Ness, United Food and Commercial Workers International Union–Washington State Council; Fritz Feiten, Ameresco; Matt Wegworth, McKinstry Company; Jim King, Citizens for Park and Recreation; Mark Jenefsky, Bazan Architects; Majken Ryherd, Silicon Energy; Chris Stearns, Thurston Public Utilities District; Bill Clarke, Washington Public Utility Districts Association; Rick Slunaker, Associated General Contractors; Bob Guenther, International Brotherhood of Electrical Workers Local 77; Bill Robinson, The Nature Conservancy; Scott Sigman, Coastal Conservation Association; and Ashley Probart, Association of Washington Cities.

(In support with amendment) Doug Levy, Washington Recreation and Park Association.

(With concerns) Johan Hellman, Washington Public Ports Association.

(Opposed) Greg Hanon, Washington State Petroleum Association.

(Other) Scott Merriman, Association of Counties.

Persons Signed In To Testify But Not Testifying: None.