

HOUSE BILL REPORT

HJR 4226

As Reported by House Committee On:
Capital Budget

Brief Description: Amending the Constitution to include 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, 4/4/12 [DPS].

Brief Summary of Substitute Bill

- Directs the Secretary of State to submit a constitutional amendment relating to the debt limit to the voters for approval and ratification, or rejection, in the next general election to be held in the state.
- Changes the constitutional debt limit from 9 percent to 8 percent in three phases over 20 years, starting on July 1, 2014.
- Modifies the debt limit calculation to extend the average annual general revenue from a three-year to a six-year average.
- Modifies the definition of general state revenues to include state property taxes.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Dunshee, Chair; Warnick, Ranking Minority Member; Zeiger, Assistant Ranking Minority Member; Asay, Lytton, Smith, Tharinger and Wylie.

Minority Report: Do not pass. Signed by 2 members: Representatives Ormsby, Vice Chair; Jinkins.

Staff: Susan Howson (786-7142).

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.

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 state 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. General state revenues do not include state property taxes even though they are deposited in the State General Fund.

Legislation enacted in 2011 (Substitute Senate Bill 5181) 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 Substitute Bill:

For debt incurred on and after July 1, 2014, the constitutional debt limit is: 8.5 percent of the average of the prior six years' general state revenues from fiscal year (FY) 2015 through FY 2017; 8.25 percent of the average of the prior six years' general state revenues from FY 2017 through FY 2034; and 8 percent of the average of the prior six years' general state revenues from FY 2035 and thereafter. The definition of general state revenues includes state property taxes deposited in the State General Fund.

The constitutional amendment must be submitted to voters at the next general election. The Secretary of State must publish notice of the constitutional amendment at least four times during the four weeks preceding the election in every legal newspaper in the state. The ballot title is "The Legislature has proposed a constitutional amendment on implementing the Commission on State Debt recommendations regarding Washington's debt limit. This amendment would, starting July 1, 2014, phase-down the debt limit percentage in three steps from 9 to 8 percent and modify the calculation date, calculation period, and the term general state revenues."

Substitute Bill Compared to Original Bill:

The substitute bill reduces the debt limit percentage in three phases: from 9 percent to 8.5 percent from FY 2015 through FY 2017; 8.25 percent from FY 2017 through FY 2034; and 8 percent from FY 2035 and thereafter.

Appropriation: None.

Fiscal Note: Available.

Staff Summary of Public Testimony:

(In support) The recommendations of the Commission 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.

(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.

(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, Office of the State Treasurer.

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

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

Persons Signed In To Testify But Not Testifying: None.