

HOUSE BILL REPORT

SSB 5181

As Passed House:
May 25, 2011

Title: An act relating to limitations on state debt.

Brief Description: Concerning limitations on state debt.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Parlette, Kilmer, Zarelli, Murray, Litzow, Rockefeller, Stevens, Becker, Baumgartner and Hill).

Brief History:

Committee Activity:

None.

First Special Session

Floor Activity:

Passed House: 5/25/11, 79-14.

Brief Summary of Substitute Bill

- Creates a Commission on State Debt to assist the Legislature in examining the kinds of debt incurred by the state, and the limitations on the amount and use of debt.
- Requires the State Finance Committee to recommend a working debt limit that is lower than the constitutional debt limit.

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 8, section 1 of the Washington Constitution (Constitution) limits the issuance of general obligation bonds. The State Treasurer may not issue any bonds that would cause the

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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.

The Governor and the Legislature have adopted an unofficial working debt limit to guide capital budget development. The working debt limit was 8.5 percent for the 2003-05, 2005-07, and 2007-09 biennia, and 8.75 percent for the 2009-11 biennium. It is 8.75 percent for the 2011-13 biennium.

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.

Summary of Bill:

Commission on State Debt.

A Commission on State Debt (Commission) is created to assist the Legislature in examining the kinds of debt incurred by the state, and the limits on the amount and use of debt.

The twelve-member Commission is chaired by the State Treasurer, and also includes the Director of the Office of Financial Management, four legislative members, and six independent members.

The four legislative members are one member from each of the two largest caucuses in the Senate, appointed by the President, and one member from each of the two largest caucuses in the House of Representatives, appointed by the Speaker.

The six independent members are three members appointed by the State Treasurer and three members appointed by the Governor. The appointments are made in consultation with the State Finance Committee. The independent members must have experience in public or private finance, local government, or related academic or legal backgrounds, and must not have a financial interest in debt-financed state expenditures.

The members are not compensated for their services, but are reimbursed for travel expenses.

The Commission is staffed by the Office of the State Treasurer, the Office of Financial Management, and legislative capital budget staff.

The Commission must examine:

- trends in the use of all kinds of state obligations, and the impact of debt service payments on operating budget expenditures;
- major uses of state debt, the debt service expenditures associated with those major uses, and a comparison of the debt service expenditures and other operating budget expenditures that address similar policy objectives; and
- existing policies and limits on the use of various kinds of debt and how those policies and limits compare with other states with similar or higher credit ratings.

The Commission must recommend improvements in policies and limits, including possible amendments to the state constitutional debt limit that will stabilize the capacity to incur new debt, reduce the growth in debt service payments, and maintain and enhance the state's credit rating.

The Commission must consult affected stakeholders, and report its findings and recommendations to the State Finance Committee and appropriate legislative committees by December 1, 2011.

Working Debt Limit.

The State Finance Committee must recommend a working debt limit for purposes of budget development for capital bond appropriations that is lower than the constitutional debt limit. The working debt limit must be updated periodically following the Economic and Revenue Forecast Council's forecasts, and may be modified in response to extraordinary economic conditions.

The State Finance Committee must recommend the following working debt limits:

- 8.5 percent for the 2015-2017 biennium;
- 8.25 percent for the 2017-2019 biennium;
- 8 percent for the 2019-2021 biennium; and
- 7.75 percent for the 2021-2023 biennium and thereafter.

The State Finance Committee may reduce or delay the issuance of bonds if an issuance would result in exceeding the recommended working debt limit.

The Governor and the Legislature must develop capital bond budgets within the recommended working debt limit.

Appropriation: The sum of \$150,000, or as much thereof as may be necessary, is appropriated for fiscal year 2012 from the State Treasurer's Service Fund to the Office of the State Treasurer for the purpose of the bill.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.