

# SENATE BILL REPORT

## SB 5181

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As Reported by Senate Committee On:  
Ways & Means, May 24, 2011

**Title:** An act relating to a limitation on state debts.

**Brief Description:** Creating a statutory limitation on state debts.

**Sponsors:** Senators Parlette, Kilmer, Zarelli, Murray, Litzow, Rockefeller, Stevens, Becker, Baumgartner and Hill.

**Brief History:**

**Committee Activity:** Ways & Means: 2/22/11, 5/24/11 [DPS, w/oRec].

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 5181 be substituted therefor, and the substitute bill do pass.

Signed by Senators Murray, Chair; Kilmer, Vice Chair, Capital Budget Chair; Zarelli, Ranking Minority Member; Parlette, Ranking Minority Member Capital; Baumgartner, Brown, Conway, Fraser, Hatfield, Hewitt, Holmquist Newbry, Honeyford, Kastama, Keiser, Kohl-Welles, Pridemore, Regala, Rockefeller, Schoesler and Tom.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Pflug.

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

**Background:** The state Constitution limits the issuance of state general obligation bonds. The State Treasurer may not issue a debt-limit general obligation bond if the amount of interest and principal payments in any year, along with such payments for existing debt limit bonds, would exceed 9 percent of the average of the annual general state revenue collections for the previous three fiscal years.

**Summary of Bill (Recommended Substitute):** A commission is established to examine the use of debt in Washington State and make recommendations on debt policy and debt limitations. Commission members include the State Treasurer; the Director of the Office of Financial Management; four legislators, one from each of the four major caucuses; and six

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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.*

independent experts, three appointed by the Governor and three appointed by the State Treasurer. The commission's report is due December 1, 2011.

The State Finance Committee is directed to set a working debt limit for budget development purposes. That working limit phases down to 7.75 percent by Fiscal Year 2022 starting in Fiscal Year 2016. The Committee may adjust that working debt limit due to extraordinary economic conditions. The Committee is authorized to delay or reduce bond issuance in order to not exceed the recommended working debt limit.

The amount of \$150,000 from the State Treasurer's Service Fund is appropriated for the support of the commission's work.

**EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute):** A commission is established to examine the use of debt in Washington State and make recommendations on debt policy and debt limitations. Commission members include the State Treasurer; the Director of the Office of Financial Management; four legislators, one from each of the four major caucuses; and six independent experts, three appointed by the Governor and three appointed by the State Treasurer. The commission's report is due December 1, 2011.

The State Finance Committee is directed to set a working debt limit for budget development purposes. That working limit phases down to 7.75 percent by Fiscal Year 2022 starting in Fiscal Year 2016. The Committee may adjust that working debt limit due to extraordinary economic conditions. The Committee is authorized to delay or reduce bond issuance in order to not exceed the recommended working debt limit.

The amount of \$150,000 from the State Treasurer's Service Fund is appropriated for the support of the commission's work.

**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony on Original Bill:** PRO: Washington is a high debt state, in the top ten in several measures of debt. If we continue borrowing under current policy we will reach a point where 7 percent of general fund state will go towards debt service. The median among the 50 states is 3 percent. We need to balance the important goals of projects supported by debt with the long-term burden that debt service payments place on tax payers and programs supported by the general fund. We have some concerns about technical and administrative issues that a two-level debt limit would raise for the State Treasurer's Office. We appreciate the strength and transparency of a constitutional debt limit. We appreciate efforts to reduce future debt service payments. This needs to happen if we are ever going to restore some of the painful cuts to health and humans services.

OTHER: The Legislature needs to look at debt; but, there may be better ways to save bond capacity derived from the good years to help us through the lean years. Some of the needs for bond funding are highest in the boom years, such as efforts to preserve farms and ranches. This will not actually save money for the bad times. Although it boosts capacity during the lean times, it will simply reduce debt overall. That will reduce construction funding.

**Persons Testifying:** PRO: Jim McIntire, WA State Treasurer.

OTHER: Stan Bowman, American Institute of Architects WA Council; Bill Robinson, The Nature Conservancy; Bill Clark, Trust for Public Land.