SENATE BILL REPORT
SB 6262

As of January 16, 2012

Title: An act relating to limitations on state debt.

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

Sponsors: Senators Parlette, Kilmer, Benton, Murray, Brown, King, Hewitt, Becker and Morton; by request of Commission on State Debt.

Brief History:
Committee Activity: Ways & Means:

SENATE COMMITTEE ON WAYS & MEANS

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.

A working debt limit below the 9 percent constitutional limit is used for developing capital bond budgets. That working limit has been 8.75 percent for the past two biennia. Legislation enacted in 2011 (SSB 5181) requires the working debt limit limit to phase down to 7.75 percent by Fiscal Year 2022 starting in Fiscal Year 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.

SSB 5181 also established the Commission on State Debt and required it 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 the general fund expenditures; and
- maintain and enhance the state's credit rating.

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.

The Commission on State Debt reported their findings and recommendation in December. Recommendations include changes to the constitutional debt limit and to the statutory working debt limit.

Summary of Bill: The debt advisory council (DAC) is established. The DAC has seven members: 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 Senate and the House of Representatives. The DAC advises the Governor and Legislature on the appropriate level of state debt. The DAC's recommendations must be approved by an affirmative vote of at least four members.

The working debt limit is 8 percent during non-recessionary periods. The working debt limit may be increased to 8.5 percent during recessionary periods as defined by the council. The DAC must recommend the timing of returning the working debt limit to the 8 percent level 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.

Requirements of the State Treasurer to determine amounts of 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.

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 are not ratified by the voters.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: Yes

Effective Date: The bill contains several effective dates. Please refer to the bill.