Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Capital Budget Committee

HB 2797

Brief Description: Funding all-day kindergarten and early elementary class size reduction facility needs with lottery revenues.

Sponsors: Representatives Dunshee, MacEwen, Stanford, Kochmar, Stonier, Young, Riccelli, Zeiger, Haigh, Magendanz, Fitzgibbon, Dahlquist, Morrell, Smith, Lytton, DeBolt, Seaquist and Wilcox.

Brief Summary of Bill

- Authorizes revenue bonds backed by lottery revenues to address all-day kindergarten and K-3 class size reduction facility needs.
- Directs the Superintendent of Public Instruction to establish a plan and proposed rules for grant allocation.

Hearing Date: 2/27/14

Staff: Susan Howson (786-7142).

Background:

State General Obligation 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.

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.

Constitutional Debt Limitation.

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, plus existing bonds, to exceed 9 percent of the average of the three prior years' general state revenues. In November 2012 voters approved an amendment to the constitutional limit specifying that: (1) beginning July 1, 2014, general state revenues will be averaged over the six immediately preceding fiscal years; (2) for the purpose of the calculation, the definition of general state revenue will be expanded to include property taxes received by the state; and (3) the 9.0 percent constitutional limit on debt service will be reduced to 8.0 percent by July 1, 2034, in downward steps to 8.5 percent starting July 1, 2014, to 8.25 percent starting July 1, 2026, and finally to 8.0 percent starting July 1, 2034.

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. Revenues derived from the ownership or operation of any undertaking, facility, or project are not general state revenues.

Exemptions from Constitutional Debt Limitation.

Article VIII of the state Constitution excludes some types of debt from the debt limit calculation, most notably: debt approved by both the Legislature and a majority of the voters in a general or special election; debt payable from motor vehicle fuel taxes and license fees; debt payable from common school fund investments; state guarantee of voter-approved general obligation debt of school districts; and obligations payable solely from specific 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.

Lottery Revenue.

Washington's lottery was originally established in 1982. Since then, net lottery revenues have benefitted different state accounts. Under the original 1982 legislation, the state's share of revenues to the Lottery Account was deposited in the State General Fund. Games approved in the 1990s dedicated certain proceeds to debt service on Safeco Stadium and Qwest Field and Exhibition Center. In 2000 Washington voters approved Initiative 728 (I-728), which redirected lottery revenue contributions from the State General Fund to education funds. Under I-728, lottery proceeds were originally deposited in the Student Achievement Fund and then shifted to the Education Construction Fund. From July 1, 2004, to July 1, 2009, all lottery net revenues allocated for education were sent to the Education Construction Account to help build, renovate, and remodel schools throughout the state. On July 1, 2009, lottery funds were redirected from the Education Construction Account to the State General Fund for the 2009-11 biennium to help address the projected budget deficit.

In 2010 the Legislature created the Opportunity Pathways Account to support higher education access grants, state work study awards, two merit scholarship programs, and early learning. Beginning in fiscal year 2011, all net revenues from in-state lottery games not dedicated to debt service on the stadia were dedicated to this account up to $102 million annually, rather than to the Education Construction Account. Each year beginning in fiscal year 2011, statute directed $102 million to be transferred from the State General Fund to the Education Construction Account. For the 2011-13 and 2013-15 biennium, this transfer was suspended by the Legislature. Legislation enacted in 2013 removed the $102 million annual transfer requirement.

In addition to the in-state lotteries, in 2002 the Legislature authorized the state to participate in the multi-state Mega Millions game, and in 2009 the Legislature approved participation in the multi-state game Powerball. Proceeds from the shared games are deposited in the Shared Game Account, with net benefits directed to the State General Fund and a hold-harmless guarantee for the Opportunity Pathways Account. Proceeds from the Shared Game are also used to fund problem gambling prevention and treatment.

Summary of Bill:

The State Finance Committee is authorized to issue $707 million in lottery revenue bonds payable from the Opportunity Pathways Account, which consists of net lottery revenues received in the Lottery Account and net shared game lottery revenues deposited in the Shared Game Account.

The bonds are backed solely from the pledged lottery revenues and are not backed by the full faith, credit, and taxing power of the state, nor are they payable from general state revenues. For these reasons, the bonds are not subject to the constitutional debt limit. The Opportunity Pathways Account is revised to authorize use of the Account for debt service on the bonds and to declare that the debt service payments are the first priority use of the Account.

Proceeds from the lottery revenue bonds must be deposited into a new Education Construction Revenue Bond Proceeds Account. The purpose of the account is to support all-day kindergarten and K-3 class size reduction facility needs. An appropriation is required for expenditures from the account.

The Superintendent of Public Instruction (Superintendent) must establish a plan for grant allocations that considers the following criteria:

- public schools must demonstrate the existence of unhoused K-3 students based on a 90 square foot space allocation per enrolled student;
- grants may be used for building modernization, new construction, and the purchase and installation of modular and portable facilities;
- 100 percent of project costs are eligible for grants under this program;
- grants must be awarded solely for instructional space used by K-3 students; and
- grants may be reallocated for use at another public school within a district if the school district can demonstrate it is unable to build permanent space, or install a modular or portable facility at the identified school.

By December 1, 2014, the Superintendent must submit a report to the Legislature describing the estimated need for additional classrooms to address all-day kindergarten and K-3 class size reduction by school, implementation timelines, and proposed rules for program implementation.

Appropriation: None.

Fiscal Note: Not requested.

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