Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Capital Budget Committee

HB 1694

Brief Description: Providing state funding assistance for public school construction.

Sponsors: Representatives MacEwen and Santos.

Brief Summary of Bill

- Authorizes $250 million in special revenue bonds backed by lottery revenues to address public school construction, including but not limited to all-day kindergarten and K-3 class-size facility needs.
- Transfers $150 million from the Budget Stabilization Account attributable to extraordinary revenue growth to the Education Construction Fund during the 2015-17 biennium.
- Transfers $140 million from the Budget Stabilization Account attributable to extraordinary revenue growth to the Opportunity Pathways Account to offset the impacts of the lottery bond debt service on the operating budget.

Hearing Date: 2/7/17

Staff: Melissa Palmer (786-7388) and Christine Thomas (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

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Governor, and the State Treasurer, is responsible for supervising and controlling the issuance of all state bonds.

Constitutional Debt Limitation.
Washington's indebtedness is limited by Article VIII, section 1 of the state Constitution. In November 2012 voters approved an amendment to the constitutional limit specifying that: (1) beginning July 1, 2014, general state revenues is an average over the six immediately preceding fiscal years; (2) for the purpose of the calculation, the definition of general state revenue includes property taxes received by the state; and (3) the constitutional limit on debt service will be reduced to 8.0 percent by July 1, 2034, in downward steps. As of July 1, 2016, it is 8.25 percent.

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 (GSR). Generally speaking, the state Constitution defines GSR 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 investment interest-earnings; state guarantee of voter-approved general obligation debt of school districts; and obligations payable solely from special fund revenues.

In 2002 the Legislature authorized special 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.

Budget Stabilization Account.
In 2007 the voters ratified a constitutional amendment that created the Budget Stabilization Account (BSA) as Article VII, section 12 of the state Constitution. Each year, the State Treasurer must deposit 1 percent of GSR into the BSA. In addition, in 2011 the voters ratified a further constitutional amendment under which three-quarters of extraordinary revenue growth is also deposited in the BSA. Extraordinary revenue growth is defined as the amount by which the percentage growth of GSR in that biennium exceeds by more than one-third the average percentage growth in GSR over the five previous biennia. Extraordinary Revenue Growth (ERG) is transferred only to the extent that it exceeds the required 1 percent transfer, and ERG is not transferred in a biennium that follows a fiscal biennium in which employment growth averaged less than 1 percent per fiscal year.

In general appropriations from the BSA require a three-fifths majority in each house of the Legislature, but in the case of a catastrophic event or employment growth of less than 1 percent, the Legislature may appropriate from the BSA with a constitutional majority vote of each house. Also, if the balance of the BSA exceeds 10 percent of GSR, the Legislature with a constitutional majority vote may appropriate the excess balance from the BSA for deposit in the Education Construction Fund (ECF). The ECF is established in statute. Under the statute, the Legislature may appropriate from the ECF for K-12 construction or higher education construction with a constitutional majority vote, and for any other purpose with a two-thirds vote of both houses and approval by a vote of the people at the next general election.

Lottery Revenue.
In 1982 Washington's lottery was established. 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 went into 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 Fund to the State General Fund for the 2009-11 biennium.

In 2010 the Legislature created the Opportunity Pathways Account (OPA) to support higher education access grants, state work study awards, two merit scholarship programs, and early learning. The Legislature amended the account in 2016 to include charter schools.

Beginning in fiscal year 2011, all net revenues from in-state lottery games not dedicated to debt service on the stadia were dedicated to OPA 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 OPA. Proceeds from the Shared Game are also used to fund problem gambling prevention and treatment.

School Construction Assistance Program.
In the capital budget, the state provides financial assistance to school districts for constructing new and remodeling or replacing existing school buildings. State funding assistance is provided for permanent instructional space only. The School Construction Assistance Program (SCAP), administered by the Office of the Superintendent of Public Instruction (OSPI), is based on two principles: (1) state and local school districts share the responsibility for the provision of school facilities; and (2) there is an equalization of burden among school districts to provide school facilities regardless of the wealth of the districts. In the 2015-17 biennium, SCAP was appropriated $646 million through a combination of general obligation bonds and Common School Construction Fund revenues. Generally, SCAP is the single largest line appropriation in the Capital Budget.

Kindergarten through Third Grade Class Size Reduction Pilot Grant Program.
In 2015 the Legislature created the K-3 Class Size Reduction Pilot Grant Program (K-3 CSRGP). The new program, administered by the OSPI, provides additional state financial assistance beyond that which is available through the SCAP to school districts for constructing new classrooms, or acquiring additional classrooms in the form of modular buildings, to support state-funded all-day kindergarten and class size reduction in kindergarten through third grades. The Legislature appropriated about $235 million in general obligation bonds for the program in the 2015-17 Capital Budget.

Local School Bond Elections.
Following the recent recession through 2011, local school districts ran few and relatively unsuccessful bond elections. In 2011, school bond elections passed at the lowest level since 1990. School district voters authorized a total of $91 million in school bond issuance statewide that year. Since then, bond elections have been on the rise and have been passing at increasing rates from 2012 through 2015 averaging about $1.3 billion per year.
In 2016, local school bond elections passed at the highest level in state history. School districts received authority to issue bonds totaling $3.6 billion. This bond authority will affect the SCAP need for the 2017-19 biennium due to the following:

- On a statewide average, approximately 60% of local school bond proceeds match state funding assistance provided through the SCAP.
- School districts issue bonds shortly following successful bond elections that will take two or more fiscal years from the calendar year in which the bonds were authorized to affect the SCAP. For example, projects receiving state assistance in fiscal year 2016 developed from bond elections passed and issued in calendar year 2014.
- Some school districts issue bonds over the course of several years. School districts with unissued bond authority from elections held in the last four years will also affect state need to fund school construction for the 2017-19 biennium.

Summary of Bill:

The State Finance Committee is authorized to issue $250 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 OPA for debt service on the bonds and to declare that the debt service payments are the first priority use of the OPA.

Proceeds from the lottery revenue bonds must be deposited into a new appropriated Education Construction Revenue Bond Proceeds Account. The purpose of the account is to assist with financing public school construction, including all-day kindergarten and class size reduction in grades K-3.

Additionally, the State Treasurer is directed to transfer $150 million of moneys in the BSA that are attributed to ERG in the 2015-17 biennium into the ECF. The State Treasurer is also directed to transfer $140 million from the BSA that is attributable to extraordinary revenue growth deposited into the OPA in 2015-17 to offset the impact of the debt service on the operating budget during the 2017-19 and 2019-21 biennia.

Appropriation: None.

Fiscal Note: Available.

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