

HOUSE BILL REPORT

HB 1113

As Reported by House Committee On: Capital Budget

Title: An act relating to financing the school construction assistance grant program.

Brief Description: Financing the school construction assistance grant program.

Sponsors: Representatives Driscoll, Warnick, Dunshee, Probst, Carlyle, Wallace, White, Chase, Ormsby, Seaquist, Simpson, Goodman, Wood, Sullivan, Maxwell, Orwall, Hinkle and Santos.

Brief History:

Committee Activity:

Capital Budget: 1/19/09 [DP].

Brief Summary of Bill

- Authorizes the issuance of \$133 million in state general obligation bonds for the School Construction Assistance Grant Program.
- Appropriates \$130 million in bonds in a second 2007-09 supplemental capital budget.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass. Signed by 13 members: Representatives Dunshee, Chair; Ormsby, Vice Chair; Warnick, Ranking Minority Member; Pearson, Assistant Ranking Minority Member; Blake, Chase, Hope, Jacks, Maxwell, McCune, Orwall, Smith and White.

Staff: Annie Pennucci (786-7142)

Background:

Bond Authorization.

Washington periodically issues general obligation bonds to finance projects authorized in the capital and transportation budgets. General obligation bonds pledge the full faith and credit and taxing power of the state toward payment of debt service. Legislation authorizing the

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issuance of bonds requires a 60 percent majority vote in both the House of Representatives and the Senate. The State Finance Committee, comprised of the Governor, the Lieutenant Governor, and the State Treasurer, is responsible for supervising and controlling the issuance of all state bonds.

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 the bond retirement funds.

Washington's indebtedness is limited by both a statutory and a constitutional debt limit. The State Treasurer may not issue any bonds that would cause the debt service on the new, plus existing bonds, to exceed 7 percent of general state revenues averaged over three years in the case of the statutory limit and 9 percent under the constitutional limit. For purposes of the debt limit, "general state revenues" is defined in the state Constitution and by statute.

There are several categories of state general obligation debt that are excluded from the 9 percent constitutional debt limit including: (1) voter-approved debt; (2) bonds payable from the gas tax and motor vehicle license fees; (3) bonds payable from income received from the investment of the Permanent Common School Fund; (4) debt issued to meet temporary deficiencies in the State Treasury and debt issued to pay current expenses of state government; (5) debt issued in the form of bond anticipation notes; (6) debt payable solely from revenues of particular public improvements; (7) debt that has been refunded; and (8) state guarantee of voter-approved general obligation debt of school districts.

The authorized bond amount includes an additional amount to allow for original issuance discount on the bonds and for cost of issuance. The original issuance discount is a reduction from the par value at the time the bonds are issued. It is the difference between the stated redemption price at maturity and the issue price. In recent history, with relatively low interest rates, bonds have been sold with original issuance premium.

Supplemental Budget.

Washington operates on a biennial budget cycle. The Legislature authorizes expenditures for capital needs in the capital budget for a two-year period, and authorizes bond sales through passage of a bond bill associated with the capital budget to fund a portion of these expenditures. The current capital budget covers the period from July 1, 2007, through June 30, 2009.

School Construction Assistance Grant Program.

The School Construction Assistance Grant Program (Grant Program) was established in 1947 to assist local school districts with their school plant facilities. The State Board of Education was the authorizing agency for this Grant Program until a change in 2006 made state support for providing school facilities the sole responsibility of the Office of the Superintendent of Public Instruction (OSPI). The Grant Program provides funding for limited facility planning and matching funds for school construction and renovations.

School districts are eligible for a Study and Survey grant every six years. The Study and Survey is an overall analysis of the school district's facilities, educational programs and

plans, student population projections, capital finance and operating capabilities, and identification of needs for new construction, modernization or replacement of facilities. A school district must complete a Study and Survey in order to be considered for state assistance through the Grant Program.

Three factors determine the amount of state assistance a district may receive through the Grant Program, including: (1) the square footage of instructional space for which the state will provide matching funds (eligible area); (2) the cost per square foot the state will match (area cost allowance); and (3) the matching ratio which relates to equalizing the school districts' wealth by providing a greater percentage of state matching funds to economically disadvantaged districts.

Summary of Bill:

The State Finance Committee is authorized to issue \$133 million in state general obligation bonds for the School Construction Assistance Grant Program.

The State Treasurer is required to withdraw from state general revenues the amounts necessary to make the principal and interest payments on the bonds authorized in the bill and to deposit these amounts into the Debt-Limit General Fund Bond Retirement Account.

An appropriation in the amount of \$130 million in bonds is made to the OSPI for the Grant Program in a second 2007-09 supplemental capital budget.

Appropriation: The sum of \$130 million from the State Building Construction Account for the School Construction Assistance Grants Program.

Fiscal Note: Not requested.

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

Staff Summary of Public Testimony:

(In support) School district construction needs are growing rapidly and the School Construction Assistance Grant Program is larger than ever before. The fund balance is running short because school districts are requesting funds more quickly than predicted. The bill will allow currently funded projects to be completed on time, stay on budget, and avoid work shortages.

(Opposed) None.

Persons Testifying: Representative Driscoll, prime sponsor; Jennifer Priddy, Office of the Superintendent of Public Instruction; and Mitch Denning, Alliance of Educational Associations.

Persons Signed In To Testify But Not Testifying: None.