HOUSE BILL REPORT
SJR 8225

As Passed House:
April 10, 2010

Brief Description: Resolving to define "interest" in the state Constitution.

Sponsors: Senators Fraser, Brandland and Prentice; by request of State Treasurer.

Brief History:
Committee Activity:
Capital Budget: 2/22/10 [DP].
First Special Session
Floor Activity:
Passed House: 4/10/10, 69-27.

Brief Summary of Bill

- Amends the state Constitution by changing the interest calculation on debt, used to determine the debt limit, by subtracting federal subsidies.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass. Signed by 12 members: Representatives Dunshee, Chair; Ormsby, Vice Chair; Warnick, Ranking Minority Member; Anderson, Blake, Chase, Hope, Jacks, McCune, Morrell, Orwall and White.

Minority Report: Do not pass. Signed by 2 members: Representatives Pearson, Assistant Ranking Minority Member; Smith.

Staff: Nona Snell (786-7153).

Background:

The state Constitution limits the state's general obligation debt by restricting the State Treasurer's authority to issue bonds that are subject to the debt limit if the annual payment for principal and interest, along with payments for existing debt, exceeds 9 percent of the average annual general state revenue for the preceding three years.

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 state Constitution defines debt as bonds, notes, or other evidences of indebtedness that are secured by the full faith and credit of the state or are required to be repaid from general state revenues. Debt does not include obligations for the payment of current state government expenses; voter approved debt; and debt secured with motor vehicle license fees, motor vehicle fuel taxes, and interest on the Permanent Common School Fund.

Tax-exempt bonds provide one source of funds that state and local governments use to finance capital projects. As part of the American Recovery and Reinvestment Act of 2009, Congress implemented the Build America Bond (BAB) program to provide funding for state and local governments by lowering borrowing costs. The BABs are taxable bonds that allow a direct federal payment subsidy to state and local governments equal to 35 percent of the interest payments for projects that would be eligible for tax-exempt purposes. The BAB program may not be used for refinancing debt.

The investment market for taxable bonds is larger than the market for tax-exempt bonds. The larger number of investors increases competition and results in a net interest rate for BABs that is 0.50 percent to 0.75 percent lower than the tax-exempt rate.

The BAB program is scheduled to expire on December 31, 2010. However, proposals to extend the program are under consideration by Congress.

The next general election held in the state is November 2, 2010.

Summary of Bill:

The state Constitution is amended by changing the interest calculation on debt, used to determine the debt limit, by subtracting federal subsidies.

The Secretary of State must submit this Joint Senate Resolution to the voters in the next general election.

Appropriation: None.

Fiscal Note: Available on the companion, HJR 4222.

Staff Summary of Public Testimony:

(In support) The federal government's BAB program shifts the subsidy from the bond purchaser to the bond seller, which includes the state. The BAB program expires at the end of the year, but Congress is considering extending it. If the program is extended, we should put ourselves in a position to take advantage of it.

The state Constitution includes gross interest costs in the interest calculation for the purposes of determining the debt limit. The bill would allow the net interest to be counted instead.

(Opposed) None.

Persons Testifying: Senator Fraser, prime sponsor; and Wolf Opitz, Office of the State Treasurer.

Persons Signed In To Testify But Not Testifying: None.