

# HOUSE BILL REPORT

## HB 2792

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### As Reported by House Committee On: Capital Budget

**Title:** An act relating to funding education construction with lottery revenues.

**Brief Description:** Funding education construction with lottery revenues.

**Sponsors:** Representatives Dunshee and Jinkins.

**Brief History:**

**Committee Activity:**

Capital Budget: 2/23/12, 2/24/12 [DPS].

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| <p style="text-align: center;"><b>Brief Summary of Substitute Bill</b></p> <ul style="list-style-type: none"><li>• Authorizes bonds backed by lottery revenues.</li><li>• Makes capital appropriations for the 2011-13 biennium of \$155 million.</li></ul> |
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- Makes capital appropriations for the 2011-13 biennium of \$155 million.

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### HOUSE COMMITTEE ON CAPITAL BUDGET

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Dunshee, Chair; Ormsby, Vice Chair; Jinkins, Lytton, Tharinger and Wylie.

**Minority Report:** Do not pass. Signed by 4 members: Representatives Warnick, Ranking Minority Member; Zeiger, Assistant Ranking Minority Member; Pearson and Smith.

**Staff:** Susan Howson (786-7142).

**Background:**

Capital Budget.

Washington operates on a biennial budget cycle. The Legislature authorizes expenditures for capital needs in the state omnibus capital appropriations act (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. Approximately half of the capital budget is financed by these state-issued general obligation bonds, and the balance is funded by

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dedicated accounts, trust revenue, and federal funding sources. The primary two-year budget is passed in the odd-numbered years, and a supplemental budget making adjustments to the two-year budget often is passed during the even-numbered years. The current capital budget covers the period from July 1, 2011, through June 30, 2013.

The capital budget includes appropriations for the acquisition, construction, and repair of capital assets such as state office buildings, prisons, juvenile rehabilitation centers, residential habilitation centers, mental health facilities, military readiness centers, and higher education facilities. The capital budget also funds a variety of environmental and natural resource projects, parks and recreational facilities, public K-12 school construction, and grant and loan programs that support housing, public infrastructure, community service facilities, and art and historical projects.

#### State 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.

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.

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. 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.

#### 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 (Initiative), which redirected lottery revenue contributions from the State General Fund to education funds. Under the Initiative, 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 stadium are dedicated to this account up to \$102 million annually, rather than to the Education Construction Account. Each year beginning in fiscal year 2011, \$102 million is transferred from the State General Fund to the Education Construction Account. For fiscal years 2011-2013, this transfer was suspended by the Legislature.

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.

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#### **Summary of Substitute Bill:**

The State Finance Committee is authorized to issue \$156 million in lottery revenue bonds backed by net revenues from the Lottery Account and the Shared Game Account.

Payments for principal, interest, and any required reserve on the lottery revenue bonds must be made from net revenues to the Lottery Account and the Shared Game Account, which are both pledged for this purpose. The pledged lottery revenues exclude lottery expenses such as prizes, administration, reserves, purchase and promotion of games, and amounts pledged to outstanding stadium funding. The state also pledges to continue the lottery in order to pay the bonds. The State Treasurer is authorized to make transfers from the lottery accounts to the new Education Construction Revenue Bond Retirement Account as needed to make debt service payments on the bonds. The bonds are backed solely from the pledged lottery proceeds and are not backed by the full faith, credit, and taxing power of the state. For these reasons, the bonds are not subject to the constitutional debt limit.

Beginning with fiscal year 2014, the annual State General Fund transfer to the Education Construction Account is reduced by \$11 million.

Proceeds from the lottery revenue bonds must be deposited in a new Education Construction Bond Proceeds Account. The bond proceeds are appropriated from this new account for construction, repairs, and improvements for public schools, higher education institutions, and workforce training programs. These appropriations total \$155 million for the 2011-13 biennium and are made for the education projects specified in the bill.

For fiscal year 2013, the State Treasurer must make a one-time transfer of \$8.6 million from the Public Works Assistance Account to the Opportunity Pathways Account.

**Substitute Bill Compared to Original Bill:**

The substitute bill makes technical corrections, adds proviso language for the Urgent Repair Grant Program within the Office of Superintendent of Public Instruction, and adds funding for two higher education capital projects.

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**Appropriation:** The sum of \$155 million. Please see the bill.

**Fiscal Note:** Not requested.

**Effective Date of Substitute Bill:** The bill contains an emergency clause and takes effect immediately.

**Staff Summary of Public Testimony:**

Please refer to the February 23, 2011, recording of the Public Hearing.

**Persons Testifying:** (In support) Representative Dunshee, prime sponsor; George Rohrbacher, Washington Wildlife and Recreation Coalition; Wayne Doty, State Board of Community and Technical Colleges; Marty Kooistra, Habitat for Humanity Housing Development Consortium; Jeff Johnson and Rebecca Johnson, Washington State Labor Council; David Myers, Washington State Building and Construction Trades Council; Lonnie Johns-Brown, National Organization of Women; Sharon Ness, United Food and Commercial Workers International Union–Washington State Council; Fritz Feiten, Ameresco; Matt Wegworth, McKinstry Company; Jim King, Citizens for Parks and Recreation; Mark Jenefsky, Bazan Architects; Gordon Beck, Office of Superintendent of Public Instruction; Tom Seigel, Pierce County Skills Center; Majken Ryherd, Silicon Energy; Rick Slunaker, Associated General Contractors; Bob Guenther, International Brotherhood of Electrical Workers Local 77; and Mitchell Denning, Alliance of Education Associations.

(In support with concerns) Mike Bogatay, Washington Student Associations; and Adam Sherman, Graduate and Professional Student Senate, University of Washington.

(With concerns) David Ducharme, Utility Contractors Association.

(Opposed) None.

**Persons Signed In To Testify But Not Testifying:** None.