

HOUSE BILL REPORT

HB 2436

As Reported By House Committee On:
Capital Budget

Title: An act relating to financing contracts.

Brief Description: Using financing contracts for real property.

Sponsors: Representatives Sehlin and Ogden; by request of State Treasurer.

Brief History:

Committee Activity:

Capital Budget: 1/18/96, 1/26/96 [DPS].

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 14 members: Representatives Sehlin, Chairman; Honeyford, Vice Chairman; Ogden, Ranking Minority Member; Chopp, Assistant Ranking Minority Member; Costa; Hankins; Koster; Mitchell; Pennington; Regala; Silver; D. Sommers; L. Thomas and Valle.

Staff: Bill Robinson (786-7140).

Background: Lease/purchase contracts enable state agencies to acquire equipment such as computers and motor vehicles on an installment payment basis using their current operating budgets. Lease/purchase contracts can also used to acquire real property, including buildings, over an extended period.

In 1989, the Legislature authorized state agencies to enter into lease/purchase agreements for equipment and real estate. Prior to that time state agencies, with the aid of equipment vendors and finance companies, used this device to make major equipment purchases in the absence of specific legislative authority. As a result, there was no proper financial reporting and accountability, and there was no coordination to ensure compliance with federal or to ensure state regulations, or that proper budget authority was obtained.

The 1989 Legislature also authorized state agencies to issue certificates of participation or other types of financing contracts to acquire real property. These types of financing contracts are exempt from the state's debt limit because they are an

obligation of the current operating budget of the agency and not a general obligation of the state. All such financing contracts are subject to the approval of the state finance committee, with the exception of those for state university facilities operated from non-appropriated funding sources, such as dormitories and dining halls. The Legislature must also approve all financing contracts for the purchase of buildings and land. Legislative approval for these agreements has been granted through the omnibus capital budget. The number of requests for financing contracts for real property has grown rapidly over the past few years.

Summary of Substitute Bill: All financing contracts for real property proposed by the Governor must be submitted separately from the capital budget and must include information on and justification for the projects to be financed by the contract. Legislative approval of financing contracts for real property must be enacted in legislation separate from the capital budget.

Prior to the state finance committee's approval of the financial contract, a state agency must provide justification for the acquisition of real property to the Office of Financial Management. The criteria for the justification will be developed jointly by the Office of Financial Management, the State Treasurer's office, and the Legislature, and the criteria must be included in the authorizing legislation. The criteria are to include present value savings or demonstrated revenues sufficient to meet the contract payments.

Legislative approval of financing contracts terminates four years after approval. Approval of all financial contracts included in the 1995-97 Omnibus Capital Budget expires June 30, 2001. This legislation will not affect any project or contract authorized prior to its enactment. The State Treasurer's office shall prepare annual reports on the use of financial contracts.

Substitute Bill Compared to Original Bill: The 60 percent vote requirement for adoption of the authorizing legislation is removed. Additional criteria for justification of a financial contract and information about the project funded by the contract are required. Legislative approval for financing contracts terminates four years after adoption.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: There is a need for more information and visibility for these types of financing arrangements. Separate legislation requiring a 60 percent majority vote

will require these contracts to have the same level of discipline as state bonds. Financing contracts are a valuable mechanism that allow community colleges to use non-state money to acquire buildings and better serve the community. The criteria should be modified to allow colleges to use revenue sources other than those generated by the building to pay off the contract.

Testimony Against: None.

Testified: Dan Grimm, Washington State Treasurer; Scott Sheeran, Washington State Treasurer's Office; Bill Julius, State Board of Community and Technical Colleges (pro with amendment); Harold Heiner, President, Whatcom Community College.