

SENATE BILL REPORT

SB 5142

As Passed Senate, March 7, 1995

Title: An act relating to payment agreements.

Brief Description: Extending authority to enter into payment agreements.

Sponsors: Senators Quigley and Sellar.

Brief History:

Committee Activity: Government Operations: 2/1/95, 2/8/95 [DP].
Passed Senate, 3/7/95, 48-1.

SENATE COMMITTEE ON GOVERNMENT OPERATIONS

Majority Report: Do pass.

Signed by Senators Haugen, Chair; Hale, Heavey, McCaslin and Winsley.

Staff: Rod McAulay (786-7754)

Background: In 1993 the Legislature authorized the state, including the Washington Health Care Authority, the Washington Higher Education Facilities Authority, the Housing Finance Commission, cities, counties, port districts, and public utility districts with debt or annual revenues in excess of \$100 million to participate in "swap" agreements. "Swaps" are contracts where the parties trade their respective interest obligations on a specified amount of debt for a fixed period of time. The transactions virtually always involve a trade involving a fixed rate obligation for a variable rate obligation. Advantages of such trades include long-term interest rate cost savings, stability of payment obligations, short-term savings, and increased ability to refund debt.

The enabling legislation established a variety of restrictions on "swap" agreements. Agreements can only be made with "AA" rated institutions, or "A" rated institutions if secured by federal treasury bills. The transactions must be evaluated and certified by a financial adviser. The "notional" amount and term of the trade cannot exceed the amount or term of the underlying debt.

The authority to enter "swap" agreements is limited to two years and expires on June 30, 1995. During this two year window, the City of Spokane, Chelan PUD and Snohomish PUD have completed "swap" agreements yielding substantial savings. It is desired that this authority be extended for an additional five years.

Summary of Bill: The authority of the state, and cities, counties, port districts and public utility districts with debt or annual revenues in excess of \$100 million to enter into interest rate exchange agreements, commonly known as "swap" agreements, is extended for an additional five years, to expire June 30, 2000.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 1995.

Testimony For: This bill allows flexibility for the state and large local governments to realize savings on interest rates by exchanging interest payment obligations, usually a trade of fixed rates, for variable rates.

Testimony Against: None.

Testified: Senator Quigley, prime sponsor (pro); Tim Kerr, Office of State Treasurer (pro); Phil Romney, PUD No 1. of Snohomish County (pro); Stan Finkelstein, AWC.

House Amendment(s): The House amendment makes a technical correction regarding the duration of the act.