HOUSE BILL REPORT
HB 1271

As Reported By House Committee On:
Capital Budget

Title: An act relating to the Washington state school district credit enhancement program.

Brief Description: Creating the school district credit enhancement program.

Sponsors: Representatives Murray, Mitchell, Huff, H. Sommers, Linville, Esser, McIntire, Rockefeller, O'Brien and Haigh; by request of State Treasurer.

Brief History:
Committee Activity:
Capital Budget: 2/3/99, 2/18/99 [DPS].

Brief Summary of Substitute Bill

- Authorizes the state to guarantee payment on school district general obligation debt.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 18 members: Representatives Mitchell, Republican Co-Chair; Murray, Democratic Co-Chair; Edmonds, Democratic Vice Chair; Esser, Republican Vice Chair; Alexander; Anderson; Barlean; Bush; Constantine; Dunshee; Hankins; Koster; Lantz; Mastin; Miloscia; O'Brien; Ogden and Schoesler.

Staff: Bill Robinson (786-7140).

Background:

School districts are authorized to use indebtedness or issue bonds to pay for school construction projects. Voter approval is required for the issuance of general obligation bonds to give the district the additional property taxing authority to pay the principal and interest payments on the bonds. The bonds are sold to investors with the pledge that the district will repay the debt by assessing the tax on the property in the school district. To increase the security of the payment pledge for bonds, school districts will often purchase bond insurance from a major financial institution to guarantee payment. In exchange for the added security and higher bond rating provided by bond insurance, investors are willing to accept a lower interest rate on the bonds.

About 80 percent of school districts in the state of Washington purchase bond insurance to lower their interest rate. This is an added cost to the property owners in the district that could be avoided if the state were to serve as the guarantee for the payment of school district general obligation bonds. Twenty-three states currently provide various types of bond guarantee programs for school districts debt.

Summary of Substitute Bill:

The full faith and credit of the state are pledged to guarantee full and timely payment of school district bonds. To qualify for the state guarantee, the bonds must be voter approved general obligation bonds of the school district and must be certified by the state treasurer. To become certified, a school district, by resolution of its board of directors, must apply and the application will be reviewed and approved by the State Treasurer based on rules adopted by the state finance committee. The certificate of guarantee is valid of one year.

The county treasurer must make payment on all school district bonds on the scheduled payment date. If the county treasurer is not able to make the scheduled payment, it must notify the bond paying agent and the State Treasurer. The State Treasurer will make the scheduled payment on behalf of the school district and the amount of the state payment becomes an obligation of the district. The school district is obligated to reimburse the state for any amounts the state paid on its behalf and any interest charges and penalty fees, up to 5 percent. If the school district is not able to reimburse the state within one year, the state treasurer may pursue legal action against the school district to meet its repayment obligation. The State Treasurer may also direct the county officials to restructure its collection of taxes to pay the obligation to the state so long as all other debt obligations have been fully provided for. If a school district has bond obligations paid by the state under this program, the district cannot issue additional bonds guaranteed by the program until all payment obligations to the state are satisfied and the State Treasurer and the Superintendent of Public Instruction certify that the district is fiscally solvent.

Any payment that the state makes on behalf of a school district under this program is exempted from the 7 percent statutory debt limit.

Substitute Bill Compared to Original Bill: Any state obligation to guarantee payment of school district debt under the school district enhancement program is exempt from the statutory debt limit.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date of Substitute Bill: The bill takes effect on January 1, 2000 if the proposed constitutional amendment (HJR 4203) is approved by the voters at the next general election. If the constitutional amendment is not passed, this bill is void.

Testimony For: The public school districts in this state should benefit from the good bond rating of the state through the credit enhancement program. Bond insurance for voter approved school debt is an unnecessary cost. There has never been a default on a school district bond, so the risk associated with the insurance policy is nil. The savings of over $13 million that will accumulate over the next 15 years could be passed onto taxpayers.

Testimony Against: None

Testified: Mike Murphy, State Treasurer; Ben Acker, Castle Rock School District; and Mike Currie, Office of the Superintendent of Public Instruction.