SENATE BILL REPORT

SHB 3099

As Reported By Senate Committee On:
Ways & Means, February 23, 2000

Title: An act relating to extending provisions on interest rates on government bonds.

Brief Description: Allowing state and local governments to continue to lower their exposure to interest rate fluctuations with respect to financial obligations.

Sponsors: House Committee on Capital Budget (originally sponsored by Representatives Dunshee, Barlean, Murray, Reardon, Koster and Lovick).

Brief History:
Committee Activity: Ways & Means: 2/22/2000, 2/23/2000 [DP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.
Signed by Senators Loveland, Chair; Brown, Vice Chair; Fairley, Fraser, Honeyford, Kohl-Welles, Long, McDonald, Rasmussen, Roach, Rossi, B. Sheldon, Snyder, Spanel, Thibaudeau, West, Winsley, Wojahn and Zarelli.

Staff: Michael Groesch (786-7434)

Background: Most of the construction or acquisition of capital facilities by state and local governments is financed by long-term debt instruments including revenue bonds, general obligation bonds, lease purchase agreements, and other contractual arrangements. All of these arrangements contain obligations to make payments on the amount borrowed plus interest. The interest rate, which is generally a fixed rate, is determined by the financial markets at the time the obligation is incurred.

In 1993, the Legislature authorized state and local governments with debt or annual revenues in excess of $100 million to participate in "swap" agreements. Because market interest rates constantly fluctuate, the financial community has developed a mechanism for parties to swap their respective payment obligations when it is in their mutual interest. These are side contracts which do not alter or impair the basic obligations. One party agrees to make the payments owed by the other party and vice versa for a fixed period of time. This may enable a party with a fixed-rate obligation to take advantage of lower interest rates available on a variable-rate obligation while the swapping party obtains the advantage of reducing their exposure to the risk of rising interest rates.

The first authorization for swap agreements was limited to two years and expired in 1995. In 1995, the Legislature extended the authorization five additional years to June 30, 2000.

Summary of Bill: The authority for state and local governments to use debt payment "swap" agreements is extended five years from June 30, 2000 to June 30, 2005. Debt payment agreements may continue to be used for restructuring government debt but can no longer be used for investing government funds.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect on July 1, 2000.

Testimony For: These authorizations are tools used by sophisticated borrowers to take advantage of interest rate movements. The original legislation in 1993 included safeguards to minimize the exposure to risk. Experience has shown that interest rate swaps can save money for local governments.

Testimony Against: None.

Testified: PRO: Al Aldrich, Snohomish PUD; Rick Dyer, Clark PUD; Bob Campbell, Lehman Brothers; Bill Doyle, Orrick, Herrington & Sutcliffe.