

SENATE BILL REPORT

ESHB 2436

As Reported By Senate Committee On:
Ways & Means, February 26, 1996

Title: An act relating to financing contracts.

Brief Description: Using financing contracts for real property.

Sponsors: House Committee on Capital Budget (originally sponsored by Representatives Sehlin and Ogden; by request of State Treasurer).

Brief History:

Committee Activity: Ways & Means: 2/20/96, 2/26/96 [DPA].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Rinehart, Chair; Loveland, Vice Chair; Bauer, Drew, Fraser, Hargrove, Johnson, Kohl, Long, McDonald, Pelz, Sheldon, Snyder, Spanel, Strannigan, Sutherland, West, Winsley and Wojahn.

Staff: Michael Groesch (786-7434)

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 be 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 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 Amended 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 is 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 does not affect any project or contract authorized prior to its enactment. The State Treasurer's office must prepare annual reports on the use of financial contracts.

Authorization to acquire real property or enter into financing contracts is provided to the Department of General Administration, the community and technical colleges, the Washington State Patrol and the Joint Center for Higher Education.

Amended Bill Compared to Substitute Bill: Authorization for entering into various financing contracts is provided in the bill.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed. Section 3 takes effect on June 30, 1997.

Testimony For: The bill provides visibility for decisions concerning the authorization of this type of indebtedness and ensures rigor in the analysis of the projects submitted for approval. Financing contracts are a valuable mechanism that allow community colleges to use nonstate money to acquire buildings and better serve the community. The Governor's proposed capital budget includes a list of projects for approval which will be financed from various funding sources and have well-defined programmatic objectives. Most of the community college requests for authorization in the Governor's budget are not for financing contracts but are for acquisitions through direct purchase or other financing mechanisms. Not included in the Governor's proposed budget is a request by the Joint Center for Higher Education for authorization of a financing contract to acquire buildings and property adjacent to the Spokane campus.

Testimony Against: None.

Testified: Tim Kerr, State Treasurer's Office (pro); John Fricke, Office of Financial Management; Bill Julius, State Board for Community and Technical College; Jim Halstrom, Momentum.