SENATE BILL REPORT
SB 6376

As of January 24, 2020

Title: An act relating to forecasting state debt capacity.

Brief Description: Concerning state debt capacity forecasting.

Sponsors: Senators Frockt, Mullet, Rolfes and Honeyford.

Brief History:
Committee Activity: Ways & Means: 1/22/20.

Brief Summary of Bill

- Requires the Economic and Revenue Forecast Council to oversee and approve the state capital budget debt capacity forecast.
- Establishes the State Capital Budget Debt Capacity Forecast Work Group.
- Specifies the assumptions to be used in forecasting debt capacity.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Richard Ramsey (786-7412)

Background: Debt Limit. The state Constitution establishes a state debt limit. The state treasurer may not issue any bonds that would cause the debt service—principal and interest payments—on any new and existing bonds to exceed this limit.

The state debt limit is defined as a percentage of the general state revenues (GSR). The GSR consists of all unrestricted state revenues and is generally aligned with the state general fund. Under a constitutional amendment approved by the voters in 2012, the state debt is currently 8.25 percent of the average of the prior six year's GSR. Beginning July 1, 2034, the limit is reduced to 8 percent. Also as a result of the constitutional amendment, the definition of GSR now includes state property taxes deposited in the state general fund.

Bond Model. The Washington State Debt Model is maintained by the Office of the State Treasurer. In general, inputs and assumptions are the result of a collaborative process

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This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

involving nonpartisan staff from the Office of Financial Management, Senate Committee Services, and the House Office of Program Research.

The model maximizes the borrowing subject to the debt limit. The primary assumptions and inputs include:

- interest rates from the most recent Economic and Revenue Forecast Council (ERFC) forecast, plus a hedge of 30 basis points—0.30 percent;
- general state revenue;
- 8 percent biennial growth in bond appropriations subject to the Constitutional Debt Limit; and
- new appropriation annual spend-out rates of 15 percent, 35 percent, 35 percent, 15 percent.

Economic and Revenue Forecast Council. The ERFC consists of the state treasurer, four legislators representing the two largest political caucuses of the Senate and House of Representatives, and two individuals appointed by the Governor. The ERFC director prepares on a quarterly basis state economic and revenue forecasts subject to the approval of the ERFC. Proposed budgets by the Governor are statutorily required to reflect the revenues adopted by the ERFC, adjusted by proposed legislation making changes in revenue. In addition, the ERFC must approve four-year budget outlooks of the proposed Governor's budget and the enacted budget. The Legislature is statutorily required to enact a four-year balanced budget. A state budget outlook work group assists the ERFC director in developing the analysis and assumptions used to prepare budget outlooks.

Summary of Bill: The ERFC must oversee and approve the state capital budget debt capacity forecast.

The forecast is prepared by the State Capital Budget Debt Capacity Forecast Work Group which consists of one staff member selected by the executive head or chair of each of the following agencies or committees:

- Office of Financial Management;
- Office of the State Treasurer;
- ERFC;
- Senate Ways and Means Committee; and
- House Capital Budget Committee.

The forecast must use the following assumptions:

- interest rates from the most recent official state economic and revenue forecast, consistent with the bond buyer index;
- general state revenues form the most recent official state economic and revenue forecast; for the fiscal beyond the forecast, revenues are assumed to grow by 2 percent for property tax revenues and 4.5 percent for all other revenues;
- 8 percent biennial growth in appropriations from bond proceeds in future biennia; and
- spending rates for new appropriations of 15 percent in year one, 35 percent in years two and three and 15 percent in year four.

The ERFC, by an affirmative vote of at least six members, may revise the assumptions to be used in subsequent state capital budget debt capacity forecasts.

Appropriation: None

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: The Office of the State Treasurer has suggested to the sponsor and staff changes to the bill that are technical in nature. They relate to transparency and consistency in implementing the bill. If these suggested changes to the bill are included in a substitute, the OST is supportive.

Persons Testifying: PRO: Senator David Frockt, Prime Sponsor.

OTHER: Jason Richter, Office of the State Treasurer, Deputy Treasurer of Debt Management.

Persons Signed In To Testify But Not Testifying: No one.