

HOUSE BILL REPORT

HB 1103

As Reported by House Committee On:
Transportation

Title: An act relating to avoiding interest arbitrage charges on bond proceeds in the capital vessel replacement account.

Brief Description: Avoiding interest arbitrage charges on bond proceeds in the capital vessel replacement account.

Sponsors: Representatives Fey, Barkis and Wylie.

Brief History:

Committee Activity:

Transportation: 1/16/23, 1/19/23 [DPS].

Brief Summary of Substitute Bill

- Eliminates transfers of \$45.5 million in bond proceeds and \$1.5 million for debt service payments during the 2021-23 fiscal biennium from the Transportation Partnership Account to the Capital Vessel Replacement Account.
- Adds a transfer of \$35.5 million in previously issued bond proceeds from the Capital Vessel Replacement Account to the Transportation Partnership Account, effective during the 2021-23 fiscal biennium.

HOUSE COMMITTEE ON TRANSPORTATION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 26 members: Representatives Fey, Chair; Donaghy, Vice Chair; Timmons, Vice Chair; Barkis, Ranking Minority Member; Hutchins, Assistant Ranking Minority Member; Low, Assistant Ranking Minority Member; Robertson, Assistant Ranking Minority Member; Berry, Bronoske, Chapman, Cortes, Dent, Doglio, Duerr, Entenman, Goehner, Hackney, Klicker, Mena, Orcutt, Ramel, Ramos, Schmidt, Taylor, Walsh and Wylie.

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

Staff: Amy Skei (786-7109).

Background:

Federal Arbitrage Regulations.

United States Treasury arbitrage rules exist to minimize the arbitrage benefits from investing gross proceeds of tax-exempt bonds in higher yielding investments and to remove the arbitrage incentives to issue more bonds, to issue bonds earlier, or to leave bonds outstanding longer than is otherwise reasonably necessary to accomplish the governmental purposes for which the bonds were issued. Bonds expended within six months of issuance for the governmental purpose they were issued will not generally be considered arbitrage bonds and are not subject to arbitrage rebate liability. Additional provisions apply, but bond proceeds not expended within 18 months that have been deemed to have earned arbitrage (i.e. a profit, or interest at a yield higher than the interest cost of the bond) may necessitate arbitrage rebate payments by the holder to the Internal Revenue Service.

Transportation Partnership Bonds.

RCW 47.10.873 authorized a total of \$5.3 billion dollars of general obligation bonds of the State of Washington for projects identified as 2005 Transportation Partnership (TPA) projects. In June 2021 the Washington Department of Transportation (WSDOT) requested \$35.547 million of TPA bond proceeds from the State Treasurer to fund the construction of capital vessels, consistent with prior appropriation by the Legislature. These bonds (2022B Bonds) were issued on August 18, 2021, and the proceeds delivered to the Capital Vessel Construction Account. WSDOT originally expected that the 2022B Bonds would be spent within six months after the issue date of the 2022B Bonds; however, capital vessel construction has slowed and these amounts have not yet been expended.

Summary of Substitute Bill:

The bill amends the 2022 enacted transportation budget bill to: (1) eliminate transfers of \$45.5 million in bond proceeds and \$1.5 million for debt service payments from the Transportation Partnership Account to the Capital Vessel Replacement Account during the 2021-23 biennium; and (2) add a transfer of \$35.5 million in previously issued bond proceeds from the Capital Vessel Replacement Account to the Transportation Partnership Account.

Substitute Bill Compared to Original Bill:

The substitute bill contains an emergency clause and a modified intent section.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony:

(In support) This will allow funds to be transferred to a place where they can be used now. Bond counsel has recommendations for perfection of some of the language.

(Opposed) None.

Persons Testifying: Representative Jake Fey, prime sponsor; and Matt Zuvich, Office of the State Treasurer.

Persons Signed In To Testify But Not Testifying: None.