

SENATE BILL REPORT

SB 5276

As of January 17, 2023

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: Senators King and Lias.

Brief History:

Committee Activity: Transportation: 1/17/23.

Brief Summary of Bill

- States legislative intent to repurpose bond proceeds to allow the Department of Transportation to spend the proceeds within internal revenue service timelines to avoid arbitrage payments.
- Adjusts administrative transfers in the 2022 supplemental transportation budget.
- Contains an emergency clause and takes effect immediately.

SENATE COMMITTEE ON TRANSPORTATION

Staff: Hayley Gamble (786-7452)

Background: Bond Proceeds. The Washington State Department of Transportation (WDOT) budget typically uses some bond proceeds to support capital project spending. The Office of the State Treasurer sells bonds to help cover the projected costs of transportation projects. Once a bond has been sold those proceeds are required to be used for project costs within 18 months of the bond sale. Bond proceeds are typically tied to specific accounts and lists of projects. Bonds were sold on August 18, 2021 to support anticipated ferry vessel

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.

construction.

Arbitrage. Arbitrage is the profit from investing bond proceeds at a higher interest rate than the interest rate—yield—paid on the bonds. If an arbitrage situation occurs on state bonds, a rebate amount may be due and payable to the IRS. Federal tax code—U.S. Treasury Regulations §1.148-7(d)—requires the state to expend gross bond proceeds—bond proceeds plus any interest income—within 18 months of the issuance of the bonds. If the state is unable to expend the bond funds within the 18 month period, the state must rebate any arbitrage earning to the Federal Government.

Administrative Transfers. In the 2021-23 transportation budget administrative transfers moved funds from the Capital Vessel Replacement Account (CVRP) to the Transportation Partnership Account (TPA) to repay the TPA account for anticipated debt service payments for construction of a ferry. The budget also included transfers from the TPA account to the CVRP of bond proceeds to pay for the project. The project has been significantly delayed and there are no other expenditures that the bond proceeds can be allocated to in the CVRP. The bond proceeds need to be transferred to an account where they can be spent by February 18, 2023 to avoid a potential arbitrage calculation.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Proposed Substitute): Legislative intent is stated to repurpose bond proceeds to allow WDOT to spend the proceeds within IRS timelines to avoid arbitrage payments.

Transfers in the 2022 supplemental transportation budget are adjusted to allow for the transfer of \$35,547,000 in bond proceeds from the CVRP to the TPA account. The original transfer of bond proceeds from TPA to CVRP is removed, as is the debt service.

Appropriation: None.

Fiscal Note: Available.

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

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

Staff Summary of Public Testimony On Proposed Substitute: PRO: This bill will keep the state in compliance with IRS regulations that we are in support of. This is a technical bill.

Persons Testifying: PRO: Senator Curtis King, Prime Sponsor; Jason Richter, Washington State Treasurer.

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