HOUSE BILL REPORT

ESHB 1034

As Passed House
April 18, 1991

Title: An act relating to evidences of indebtedness.

Brief Description: Changing limits on issuance of evidences of indebtedness.

Sponsor(s): By House Committee on Capital Facilities & Financing (originally sponsored by Representatives H. Sommers, Rasmussen, H. Myers, O'Brien, Jacobsen and Brekke; by request of Governor Gardner).

Brief History:
Reported by House Committee on:
Capital Facilities & Financing, April 16, 1991, DPS;
Passed House, April 18, 1991, 56-42.

HOUSE COMMITTEE ON
CAPITAL FACILITIES & FINANCING

Majority Report: *That Substitute House Bill No. 1034 be substituted therefor, and the substitute bill do pass.* Signed by 7 members: Representatives H. Sommers, Chair; Rasmussen, Vice Chair; Fraser; Heavey; Jacobsen; Ogden; and Wang.

Minority Report: *Do not pass.* Signed by 5 members: Representatives Schmidt, Ranking Minority Member; Neher, Assistant Ranking Minority Member; Brough; Casada; and Silver.

Staff: Bill Robinson (786-7140).

Background: The state constitution, when ratified by a vote of the people in 1889, authorized the State to meet casual deficits or failure of revenues by contracting debt up to a limit of $400,000 without a vote of the people. The State could also incur unlimited debt to repel invasion or to defend the State in war. In addition, the State could issue debt for specific purposes after receiving a favorable vote by a majority of the voters at a general election.

In 1972 the voters approved a constitutional amendment authorizing the Legislature to issue debt without voter approval, provided that principal and interest payments in any year did not exceed 9 percent of the average of the prior three years general state revenues. The amendment defined general state revenues and identified specific types of debt that are voter approved debt, debt payable from gas taxes and motor vehicle license fees, bond payable from the permanent common school fund, and bonds issued to meet temporary deficiencies in the state treasury. Voter approved debt requires a majority vote at either a state general or special election.

In 1979 the state Legislature adopted a statutory limit on the amount of state debt. The statutory debt limit is 7 percent of the average of the prior three years general state revenues. The 7 percent limit used the same definitions as the constitutional limit with the exception that voter approved debt is within the limit. In 1983, under threat that the State might exceed the 7 percent limit, the Legislature excluded reimbursable bonds from the statutory debt limit. Reimbursable bonds are paid from a dedicated revenue source such as hospital fees or hotel and motel taxes.

In recent years, the demand for state facilities due to growth and increased involvement in new areas of capital spending have consumed much of the state's capital funding sources. This demand has placed increasing pressure on the state to increase the amount of borrowed money. The governor's 1991-93 capital budget addresses this increased demand by recommending the 7 percent debt limit be increased to 8 percent and that the State issue only long-term, 20 year, debt rather than the traditional 40 percent short-term, 12 year, and 60 percent long-term debt.

Summary of Bill: The statutory debt limit is changed from 7 percent to an incremental schedule for each of the next 12 years. The debt limit for each year is listed below:

1993 - 7 percent
1994 - 7.25 percent
1995 - 7.5 percent
1996 - 7.75 percent
1998 - 7.9 percent
2000 - 7.25 percent
2002 - 7.25 percent
2003 and after 7 percent

$1 billion of the additional debt capacity created by raising the debt limit is reserved over the next 10 years for the following areas:

$250 million for school construction
$250 million for housing assistance
$250 million for recreational and wildlife land
$250 million for higher education

Fiscal Note: Not requested.

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

Testimony For: The State is loosing its most precious asset, open green spaces, to development and population growth. These assets need to be preserved for our future generations and wildlife. The state's growth is overcrowding the public schools and colleges and the facilities must be upgraded and expanded to meet the changing needs of education and to remain competitive in the world economy. The need of the homeless people is well documented and is becoming an issue that can no longer be ignored by the state. Increasing state debt to pay for these programs is a prudent and forward thinking approach to addressing the problem.

Testimony Against: We can not continue this credit card spending and heaping debt onto the next generation.

Witnesses: Daniel J. Evans and Mike Lowry, Washington Wildlife and Recreation Coalition (in favor); Judith Billings, Superintendent of Public Instruction (in favor); Tallman Trask, University of Washington (in favor); Elliott Marks, The Nature Conservancy (in favor); and Paul W. Locke (against).