

# SENATE BILL REPORT

## HB 3172

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As Reported By Senate Committee On:  
Economic Development, February 25, 2004

**Title:** An act relating to payment agreements.

**Brief Description:** Providing for payment agreements.

**Sponsors:** Representatives Dunshee, Sommers and Sehlin.

**Brief History:**

**Committee Activity:** Economic Development: 2/25/04 [DPA].

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### SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

**Majority Report:** Do pass as amended.

Signed by Senators T. Sheldon, Chair; Hale, Kohl-Welles, Murray, Schmidt and Shin.

**Staff:** Jack Brummel (786-7428)

**Background:** Most of the construction or acquisition of capital facilities by state and local governments is financed by long-term debt instruments including revenue bonds, general obligation bonds, lease purchase agreements, and other contractual arrangements. All of these arrangements contain obligations to make payments on the amount borrowed plus interest. The interest rate, which is generally a fixed rate, is determined by the financial markets at the time the obligation is incurred.

In 1993 the Legislature authorized state and local governments with debt or annual revenues in excess of \$100 million to participate in "swap" agreements. "Swaps" are contracts where the parties trade their respective interest payment obligations on a specified amount of debt for a specified period of time. The transactions usually involve trading a fixed rate obligation for a variable rate obligation. These swap agreements do not alter or impair the basic obligation to pay the bond holders. One party agrees to make the payments owed by the other party and vice versa for a given period of time.

The first authorization for swap agreements was limited to two years and set to expire in 1995. In 1995 the Legislature extended the authorization five additional years to June 30, 2000. The authority for state and local governments to use debt payment "swap" agreements was again extended five years to June 30, 2005.

**Summary of Amended Bill:** The termination of the authority for state and local governments to use certain debt payment agreements, or "swap" agreements, is repealed. State and local governments, with the addition of city and regional transportation authorities, can continue to enter into these agreements after June 30, 2005.

**Amended Bill Compared to Original Bill:** The striking amendment allows regional transit authorities to participate in swap agreements.

**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** PUD ratepayers have saved \$14 million in interest cost through interest rate swaps. The statute protects against risk by requiring AAA rating and requiring collateral. This could save Sound Transit tens of millions of dollars if they were included.

**Testimony Against:** None.

**Testified:** Al Aldrich, Snohomish PUD; Bob Campbell, Lehman Brothers; Bill Doyle, Orrick Herrington; Martin Flynn, Tim Kelly, Sound Transit.