

HOUSE BILL REPORT

ESJR 8221

As of Second Reading

Brief Description: Amending the Constitution to include the recommendations of the commission on state debt.

Sponsors: Senators Parlette, Kilmer, Benton, Murray, Brown, King, Hewitt, Becker and Morton; by request of Commission on State Debt.

Brief History:

Committee Activity:

None.

Brief Summary of Engrossed Bill

- Directs the Secretary of State to submit a constitutional amendment relating to the debt limit to the voters for approval and ratification, or rejection, in the next general election to be held in the state.
- Reduces the constitutional debt limit percentage from 9 percent to 8 percent by July 1, 2034.
- Modifies the debt limit calculation to extend the average annual general revenue from a three-year to a six-year average.
- Modifies the definition of general state revenues to include state property taxes.

Staff: Susan Howson (786-7142).

Background:

Washington periodically issues general obligation bonds to finance projects authorized in the capital and transportation budgets. General obligation bonds pledge the full faith, credit, and taxing power of the state towards payment of debt service (principal and interest payments).

Article VIII, section 1 of the Washington Constitution (Constitution) limits the issuance of general obligation bonds. The State Treasurer cannot issue any bonds that would cause the

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debt service on any new plus existing bonds to exceed 9 percent of the average of the prior three years' general state revenues. Generally speaking, the Constitution defines general state revenue as all unrestricted state tax revenues. General state revenues do not include state property taxes even though they are deposited in the State General Fund.

Legislation enacted in 2011 (Substitute Senate Bill 5181) established a Commission on State Debt (Commission) to recommend possible changes to the constitutional debt limit and other debt policy in order to:

- stabilize the capacity to incur new debt in support of sustainable and predictable capital budgets;
- reduce the growth in debt service payments to an appropriate level that no longer exceeds the long-term growth in general fund expenditures; and
- maintain and enhance the state's credit rating.

The Commission reported its findings and recommendations in December 2011. Recommendations include changes to the constitutional and statutory debt limits.

Summary of Bill:

The constitutional debt limit is reduced over time from 9 percent to 8 percent by July 1, 2034. It is set at 8.5 percent starting July 1, 2014, 8.25 percent starting July 1, 2016, and 8 percent starting July 1, 2034. The percentage debt limit is applied to the average of general state revenues for the previous six fiscal years instead of the current three-year average. The definition of general state revenues includes state property taxes deposited in the State General Fund.

The constitutional amendment must be submitted to voters at the next general election. The Secretary of State must publish notice of the constitutional amendment at least four times during the four weeks preceding the election in every legal newspaper in the state. The ballot title is "The legislature has proposed a constitutional amendment on implementing the Commission on State Debt recommendations regarding Washington's debt limit. This amendment would, starting July 1, 2014, phase-down the debt limit percentage in three steps from nine to eight percent and modify the calculation date, calculation period, and the term general state revenues."

Appropriation: None.

Fiscal Note: Not requested.

Staff Summary of Public Testimony:

None.

Persons Testifying: None.

Persons Signed In To Testify But Not Testifying: None.