

SENATE BILL REPORT

ESJR 8221

As Passed Senate, April 5, 2012

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: Ways & Means: 1/23/12, 2/07/12 [DP].

Passed Senate: 3/05/12, 41-7.

First Special Session: Passed Senate: 4/05/12, 41-7.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Murray, Chair; Kilmer, Vice Chair, Capital Budget Chair; Parlette, Ranking Minority Member Capital; Baumgartner, Brown, Fraser, Harper, Hatfield, Hewitt, Holmquist Newbry, Honeyford, Kastama, Keiser, Kohl-Welles, Padden, Pridemore, Regala, Schoesler, Tom and Zarelli.

Staff: Brian Sims (786-7431)

Background: The state Constitution limits the issuance of state general obligation bonds. The State Treasurer may not issue a debt-limit general obligation bond if the amount of interest and principal payments in any year, along with such payments for existing debt limit bonds, would exceed 9 percent of the average of the annual general state revenue collections for the previous three fiscal years. General state revenues do not include property taxes even though they are deposited in the general fund.

Legislation enacted in 2011 (SSB 5181) established the Commission on State Debt and required it 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 the general fund expenditures; and
- maintain and enhance the state's credit rating.

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

The Commission on State Debt reported their findings and recommendation in December. Recommendations include changes to the constitutional debt limit and to the statutory working debt limit.

Summary of Engrossed Bill: The constitutional debt limit is reduced over time from 9.0 percent to 8.0 percent by July 1, 2034. It is set at 8.5 percent starting July 1, 2014; 8.25 percent starting July 1, 2016, and 8.0 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 property taxes deposited in the General Fund.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: July 1, 2014, if ratified by the voters.

Staff Summary of Public Testimony: PRO: This proposed constitutional amendment is recommended by the Commission on State Debt. From the perspective of the credit ranking agencies and investors, Washington is a relatively high-debt state, but the fundamental fiscal strength of the state largely mitigates that relatively high-debt burden. The Commission also found that Washington has an average debt burden when debt backed by non-tax revenue is included in the analysis. The Commission also found the the state's debt capacity is higher when construction prices are high and unemployment is low, and capacity is low when prices are low and unemployment is high. The Commission recommends smoothing out that capacity in order to take advantage of low prices and to be able to boost employment during recessions.

OTHER: Smoothing out the debt capacity is good policy, but we should not reduce capacity. The return on investment for construction projects is much better than operating budget expenditures. Funding for K-12 construction should be the first priority for bond expenditures.

Persons Testifying: PRO: Jim McIntire, WA State Treasurer.

OTHER: Marie Sullivan, WA State School Directors Assn.; Stan Bowman, American Institute of Architects WA Council.