

SENATE BILL REPORT

ESJR 8204

As Passed Senate, March 10, 2015

Brief Description: Amending the Constitution to allow the state to guarantee debt issued on behalf of a political subdivision for essential public infrastructure.

Sponsors: Senators Keiser, Honeyford and Conway.

Brief History:

Committee Activity: Ways & Means: 2/02/15, 2/12/15 [DP, DNP].

Passed Senate: 3/10/15, 47-2.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Hill, Chair; Braun, Vice Chair; Dammeier, Vice Chair; Honeyford, Vice Chair, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Billig, Brown, Conway, Fraser, Hatfield, Hewitt, Kohl-Welles, O'Ban, Rolfes, Schoesler and Warnick.

Minority Report: Do not pass.

Signed by Senators Hasegawa and Padden.

Staff: Brian Sims (786-7431)

Background: Debt Limit. The state constitution limits state debt through a formula that prohibits the State Treasurer from issuing any general obligation (G.O.) bonds if the resulting debt service payments for those bonds would cause total debt service payments for G.O. bonds to exceed a certain percentage of average general state revenue in the prior six years. That certain percentage is currently 8.5 percent and is scheduled to phase down to 8.0 percent on July 1, 2034.

G.O. bonds are issued with a promise to bond holders that the full faith and credit of the state will be used to pay what is owed to the bond holders. There are a number of exemptions to the debt limit on bonds backed by the full faith and credit of the state, including state G.O. bonds for transportation projects that are first reimbursed by the gas tax, and bonds issued by local school districts for school construction projects.

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.

State Support for Local Government Infrastructure. The state uses state tax revenue to support local government infrastructure. The three largest programs historically have been as follows:

- the Public Works Board subsidized loan program, capitalized with state taxes;
- the Clean Water State Revolving Fund, capitalized with 75 percent federal money and 25 percent state funds; and
- the Safe Drinking Water State Revolving Fund, capitalized with 75 percent federal money and 25 percent state funds.

The two federally capitalized programs must operate within federal law and regulations. The programs provide low-interest loans and some grants for projects that improve water quality and provide safe drinking water.

The Public Works Board program provides low-interest loans for sewer, drinking water, stormwater, road and bridge improvements and solid waste facility projects. About three-quarters of the loans have been for water and sewer projects.

The interest subsidy provided through these programs produces a greater benefit for smaller jurisdictions with poor access to the competitive, investment-rated, municipal bond market.

In the past three biennia – including 2013-15, \$771 million has been diverted from the Public Works Assistance Account to support the operating budget after backfilling the account with bonds. In the three biennia prior to the recession, appropriations for the three major infrastructure assistance programs listed above totaled \$1.6 billion, 46 percent from the federally capitalized programs. In the three biennia since the start of the recession the appropriations totaled \$1.7 billion, 69 percent from the federally capitalized programs. After accounting for construction inflation, appropriations in the post-recession period are 86 percent of the pre-recession period.

Summary of Engrossed Bill: The Constitution is amended to authorize a pledge of the state's full faith and credit on bonds issued by or on behalf of Washington State local governments for essential public infrastructure. The guarantee does not remove the debt obligation of the local government and is not defined as state debt in determining the state debt limit. The Legislature may enact laws to enforce the collection of such debts from the local government.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: The constitutional amendment would take effect after ratification by the voters in the next general election.

Staff Summary of Public Testimony: PRO: This will provide an additional financing tool for local government infrastructure with possible interest rate reductions of 0.75 percent. This may produce a savings of \$7.5 to \$10 million in annual debt service payments after

issuance of \$1 billion in debt through this program. This is a marginal improvement in programs to help local government, but is not a panacea. The bill would be improved if it was expanded to include industrial development projects.

OTHER: This program should not be seen as a replacement to the traditional Public Works Board program. It should be an added financing tool. Counties do not have a major access problem to the credit markets, they have revenue restrictions to service debt.

Persons Testifying: PRO: Alison Hellberg, Assn. of WA Cities; Eric Johnson, WA Ports Assn.; Stan Finkelstein, Chair, Public Works Board.

OTHER: Scott Merriman, Office of the State Treasurer; Blair Burroughs, WA Assn. of Sewer and Water Districts; Jim Blumenthal, Martin Nelson and Company; Bill Clarke, WA PUD Assn.; Josh Weiss, WA State Assn. of Counties.