

Commission on State Debt

Staff Presentation

October 21, 2011

Constitutional Debt Limit

- ❑ 9% debt limit (Article 8, Section 1) adopted by voters in 1972 replaced a fixed debt limit of \$400,000.
- ❑ The state debt limit expands and contracts with state general revenues, and consequently, with the growth or contraction of Washington's economy.
- ❑ Principal and interest payments in any year may NOT exceed 9% of average of prior three years general state revenues.
- ❑ An unofficial working debt limit has been used to maintain a cushion below the 9% constitutional limit since the 2003-05 biennium.
- ❑ SSB 5181 established a working debt limit in statute.

Constitutional Debt Limit (Article VIII)

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Some types of debt are excluded from the debt limit, most notably:

- ❑ Bonds payable from the gas tax and motor vehicle license fees;
- ❑ Voter-approved bonds;
- ❑ Bonds payable from income received from the investment of the Permanent Common School Fund;
- ❑ Debt issued to meet temporary deficiencies in the State Treasury;
- ❑ Debt payable solely from revenues of particular public improvement (Revenue debt); and
- ❑ State guarantee of voter-approved GO debt of school districts.

SSB 5181 Requirements

The Commission on State Debt must examine:

- Trends in the use of all kinds of state obligations, including the impact of debt service payments on operating budget expenditures.
- Major uses of state debt, the debt service expenditure associated with the major uses, and a comparison of the debt service expenditures and other operating budget expenditures that address similar policy objectives as the major uses of debt.
- Existing limitations and policies on the use of various kinds of debt and how those policies and limitations compare with other states with similar or higher credit ratings.

SSB 5181 Requirements

(Continued)

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The commission must recommend improvements in state debt policies and limitations, including possible amendments to state constitutional debt limitations that will accomplish the following:

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

SSB 5181 Requirements

Working Debt Limit

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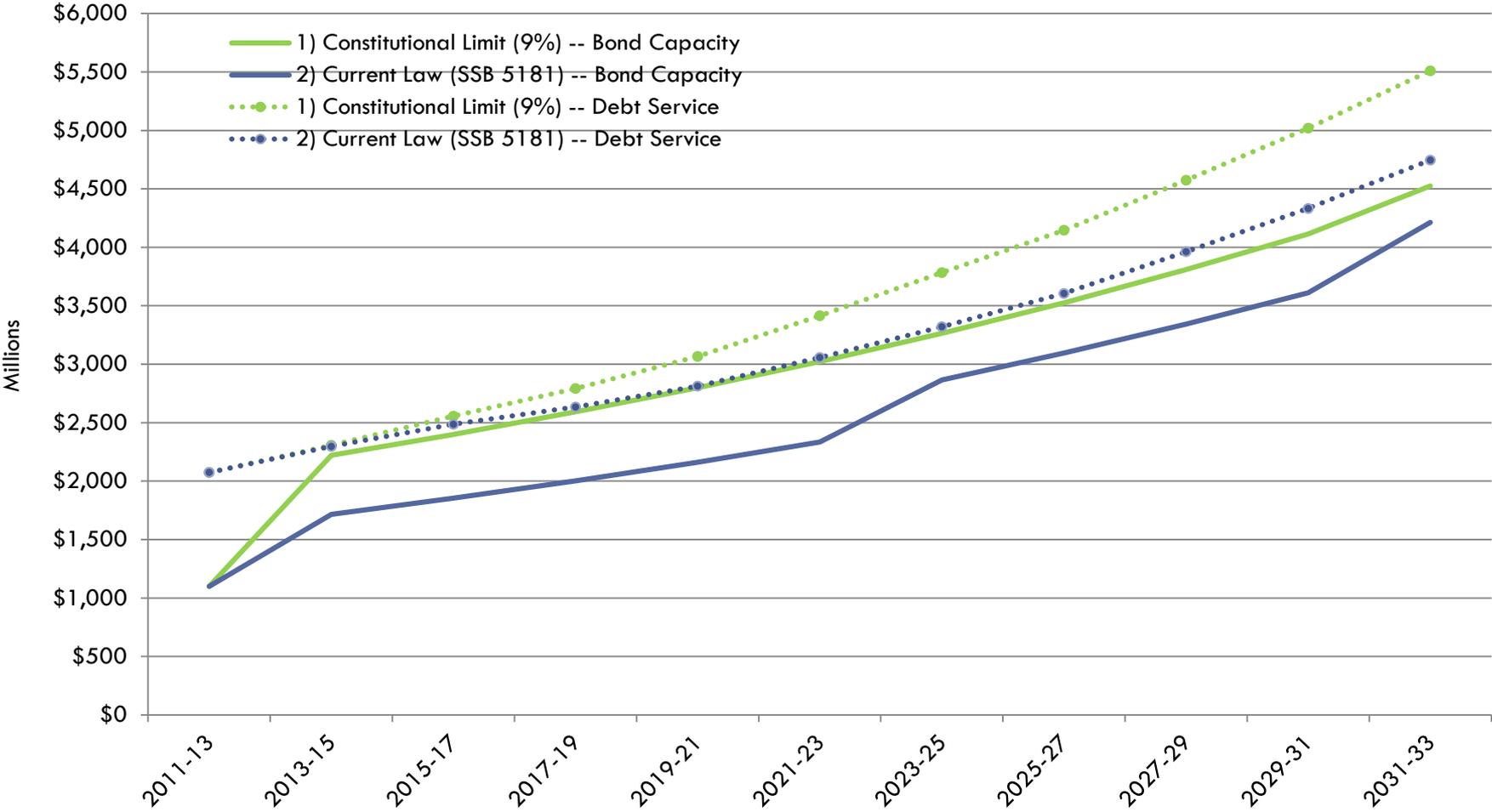
Working Debt Limit:

- 8.5 % from July 1, 2015 to June 30, 2017;
- 8.25% from July 1, 2017 to June 30, 2019;
- 8% from July 1, 2019 to June 30, 2021;
- 7.75% from July 1, 2021 and thereafter.

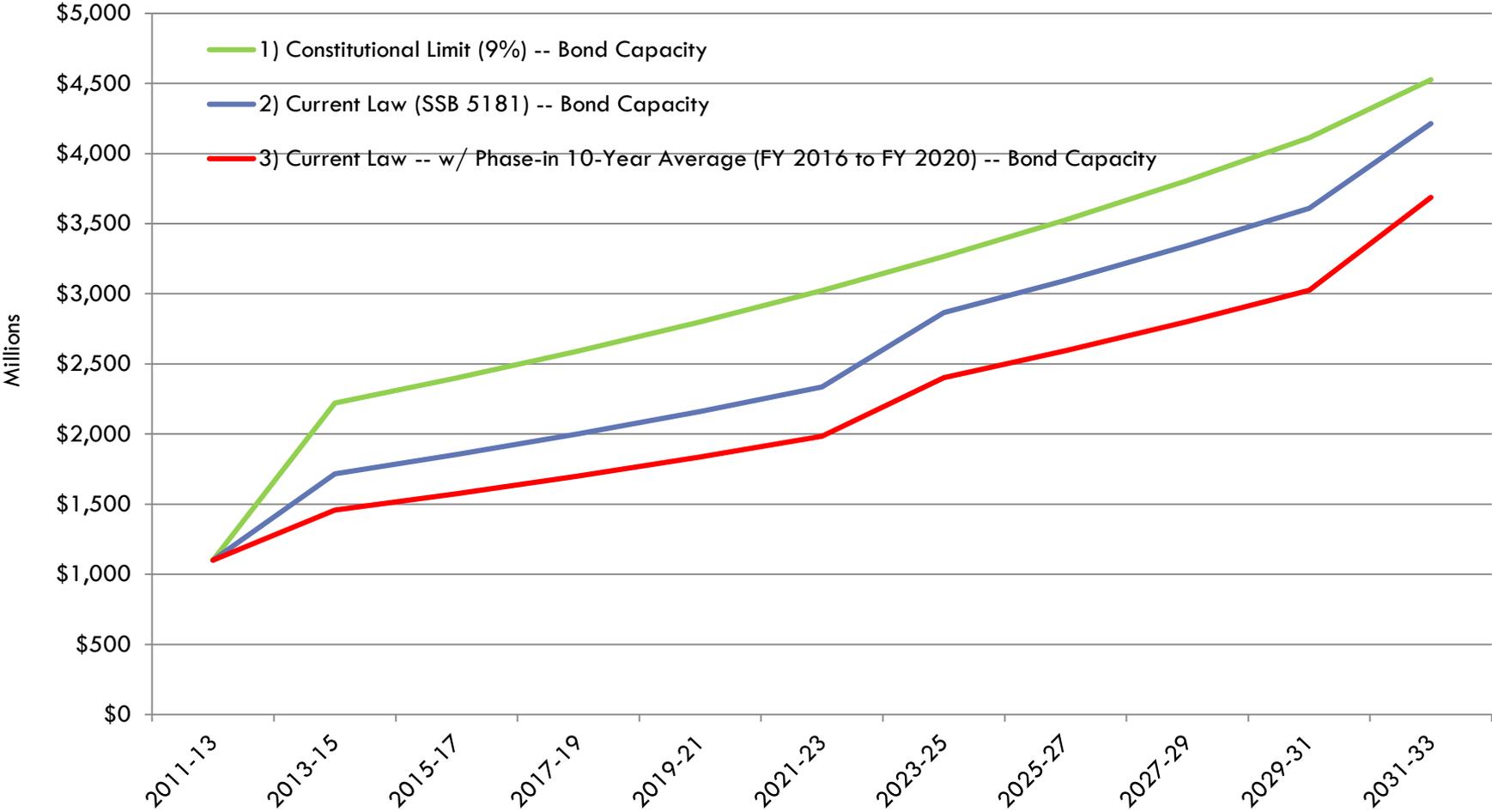


Possible Changes to the Constitutional Debt Limit

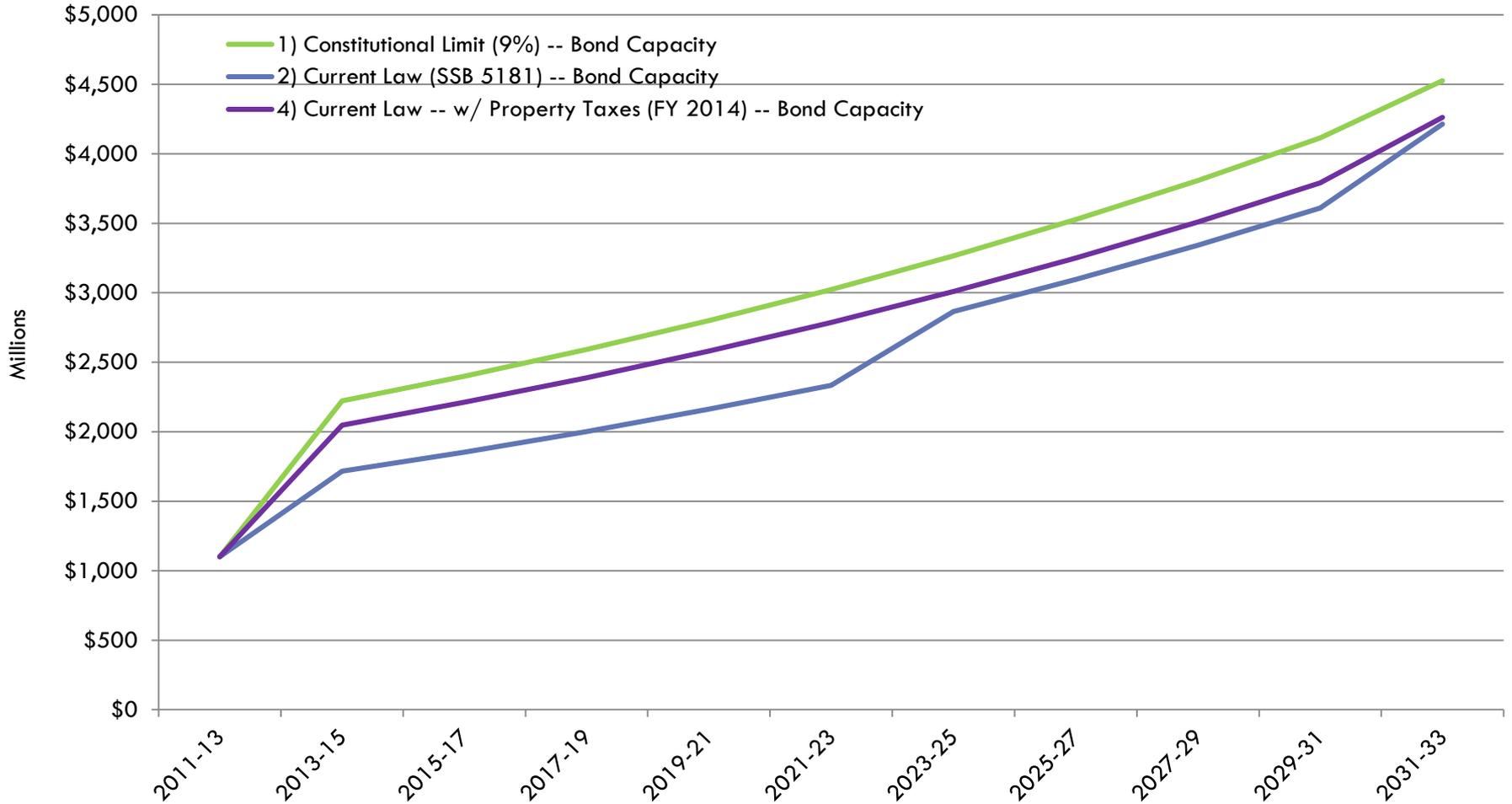
Constitutional Debt Limit and Current Law (SSB 5181)



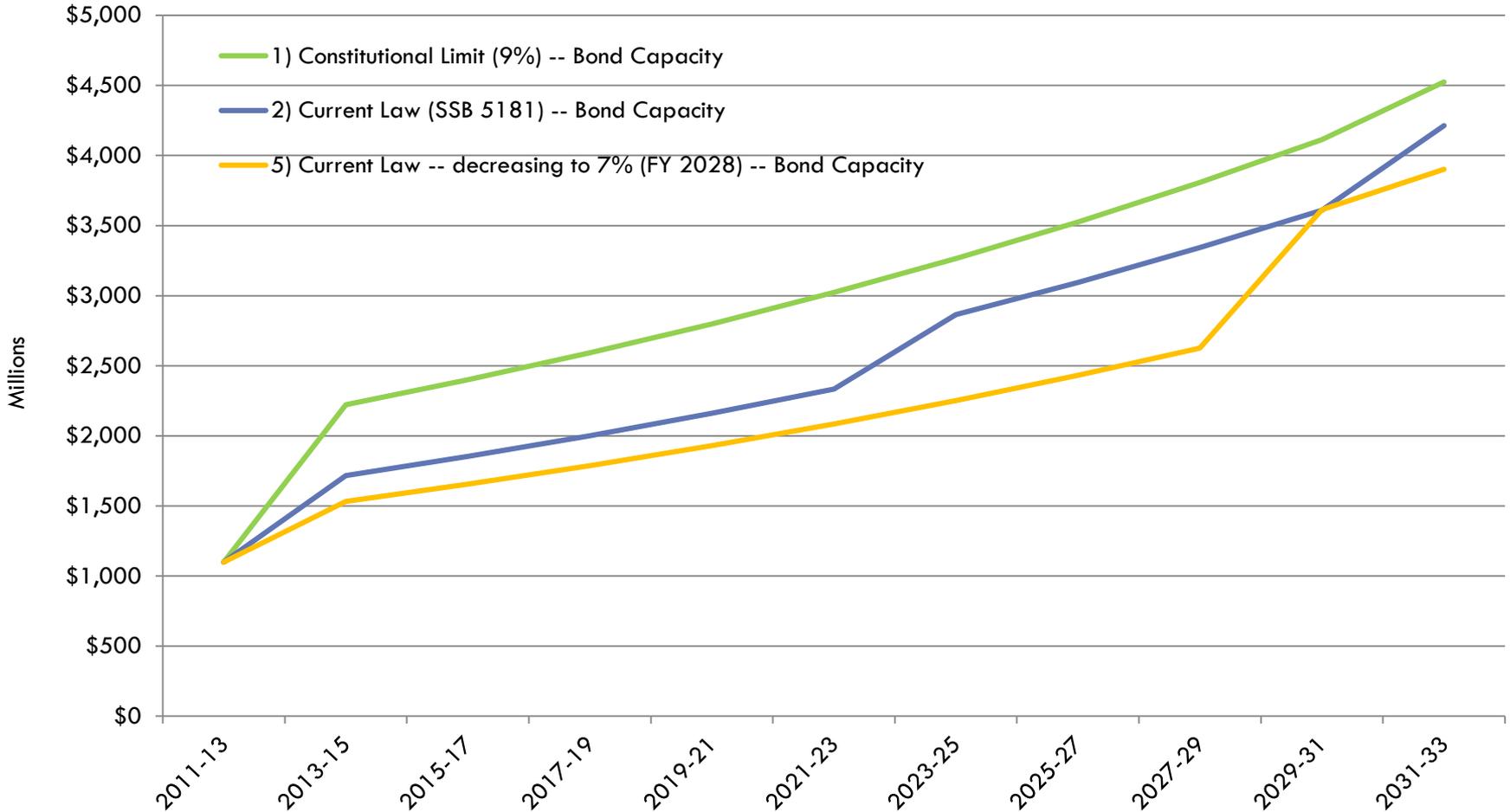
Constitution, Current Law (SSB 5181) and Ten Year Average Phase-in



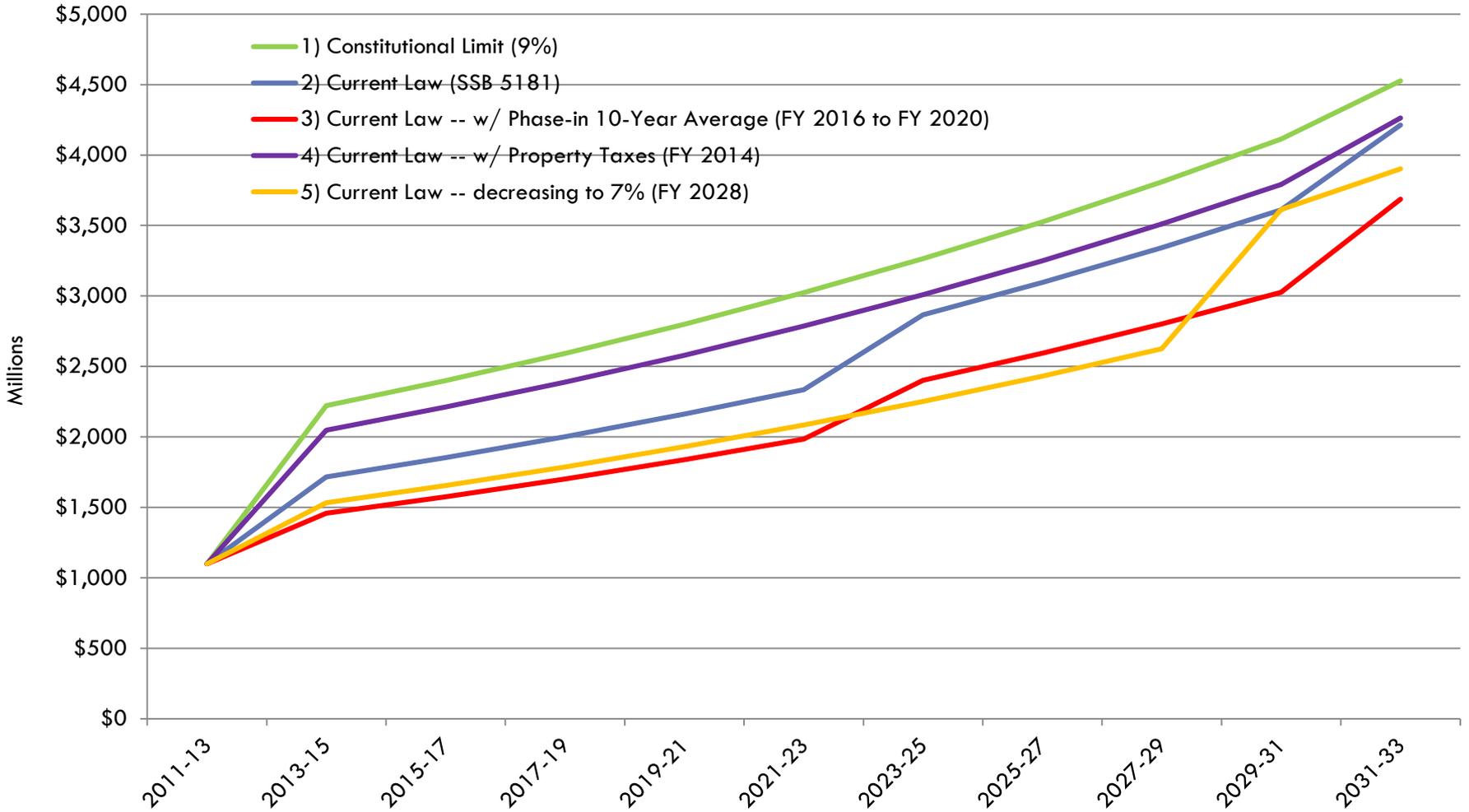
Constitutional Debt Limit, Current Law (SSB 5181) and Property Tax



Constitutional Debt Limit, Current Law (SSB 5181) and 7% Debt Limit



Constitutional Limit, SSB 5181, Ten Year Average, Property Taxes, and 7%





Priorities and Policy Questions Summarized

SSB 5181 Priorities

SB 5181 Requirements	1st Priority	2nd Priority	3rd Priority
Stabilize the capacity to incur new debt in support of sustainable and predictable capital budgets.	Kilmer, Parlette, Sjoblom, Shoemake, Warnick (5)	Ross, Kerr (2)	Brown (1)
Reduce the growth in debt service payments to an appropriate level that no longer exceeds the long-term growth in the general fund expenditures.	Ross, Kerr, Brown (3)	Kilmer, Parlette, Shoemake, Warnick (4)	Sjoblom (1)
Maintain and enhance the state's credit rating.	(0)	Sjoblom, Brown (2)	Kilmer, Parlette, Ross, Shoemake, Kerr, Warnick (6)

Refining Objectives

1. Could we articulate a mission statement for the use of debt in state finance?
2. What types of debt should be subject to a limit?
3. How should we manage total GO debt exposure from the market perspective?
4. Should we attempt to engage in counter cyclical debt investments? Or should we attempt to smooth our investment schedule?
5. What should our objectives be in terms of maintaining and or enhancing the state's credit rating and market access?
6. Should the state expand or reduce its use of debt to finance state/local infrastructure needs? If the state chooses to reduce its use of debt, how should the state/local government finance its infrastructure needs?
7. What amendments, if any, are needed to the state's constitutional debt limit?
8. Absent new legal constraints, what policy procedures could be implemented with respect to constraining debt in good economic times?
9. How could a debt limit or other debt policy better reveal the operating budget spending trade-offs of taking on new debt?