February Newsletter 2012

Washington Legislative Session

The Legislative Session began on January 9, 2012. This is a short session and is scheduled to run for sixty days. During this session the Governor, Senate and House of Representatives are charged with proposing and agreeing on a supplemental budget that will cover the state's costs until June 2013. As with previous session the Legislature and Governor are tasked with filling a budget deficit of approximately 1.3 billion. We have seen in past sessions the many difficult cuts, reductions, and elimination to important programs that have taken place and I anticipate we will see a continuation. As always my office is committed to working with the Governor and the Legislature to provide any help they may need as they face these difficult decisions.

Debt Commission

Last session my office took part in crafting and passing legislation that created the Washington Commission on State Debt. I was named in the legislation to serve as Chair of the Commission. As part of our mandate we were requested to come up with a list of recommendations that will make improvements in state debt policies and limitations that may include possible amendments to the state constitutional debt limitations.

The Commission on State Debt met several times in public meetings during the interim. We made recommendations based on the Commission's findings and its goals, which were to smooth the amount of bond capacity over time, reduce the amount of debt service, and create a better planning process for debt financing.

Recommendations Include:

1. Constitutional changes to the debt limit
2. Propose a statutory change to the working debt limit
3. Create a debt policy Council
4. Create a ten-year Capital Plan
5. Create a comprehensive and coordinated capital and transportation plan
6. Amend RCW 43.88.031 that would allow the Office of Financial Management, and the Legislature to estimate debt service for capital project.
7. The discontinuation of the Commission on State Debt

The Commission completed its study along with the list of recommendations and submitted it to the Legislature in December. Since then my office has made presentations to the Senate and House Ways and Means committee as well as the Senate Transportation committee regarding these findings recommendations. Based on these results the Legislature has introduced Senate Bill 6262 and House Bill 2494.

Which:

- Creates a Debt Advisory Council.
- Changes the working debt limit to 8 percent during non-recession periods
- Requires enhanced reporting of debt service impact in agency 10 year capital planning and the capital appropriations bill.

Also at the request of my office the legislature introduced Senate Joint Resolution 8221 and House Joint Resolution 4226. What these bills do is:

- Creates a constitutional amendment relating to the debt limit to submit to the voters for their approval.
- The constitutional amendment changes the constitutional debt limit from 9 percent to 8.75 percent.
- 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.

We will keep you posted as the legislature considers these important pieces of legislation. To view the full report please go to the Washington Commission on State Debt.

Washington Investment Trust

Many of you may have heard that the Legislature has once again proposed the creation of a state bank. This year's proposal is a bit different in that they call it a "Washington Investment Trust". Under this current proposal several of the duties prescribed to the State Treasurer's office are place in the custody of the Washington State Investment Trust. Such duties include the managing and investing of state account funds. In addition, it mandates the creation of a commission comprised of the State Treasurer, the Governor and the Lt. Governor to develop the Washington Investment Trust as well as develop a infrastructure loan and a student loan program.

The core principles of a public treasury are safety (so we don't lose any money), liquidity (so we can spend the money, all of it if necessary) and only then do we seek to earn a return on the money in the Treasury. Safety, liquidity, and return – in that order. This bill violates these principles.

I share the public's anger with big banks for their risks and bailouts, for fees and fraudulent foreclosures, for ballooning bonuses and gratuitous greed – with no hint of gratitude for survival. The banks got rescued and many people who worked hard and played by the rules got screwed. I don't blame people for being upset – they should be.

There are those who want some form of state bank as a way of punishing Bank of America. "Take all of our money out of Bank of America and put it in our own bank," they say, "so we can control our own money and financing and the interest generated by those transactions."

I need to correct a misimpression. Yes, we have a contract to concentrate our revenues and process transactions – about $290 billion a year. But no, they don't get to "use" our money. Every morning 6 of my state employees come to work at 5:30 and drain the concentration account, investing our cash in guaranteed, federal government securities – earning about 1.5% on maturities averaging about a year – even in today's market. This money is not in a bank or on Wall Street, it is invested in federal government securities. WE ARE IN CONTROL OF OUR OWN MONEY! The Treasury is a big enough player to drive competitive procurement bids for banking services – even among the big banks – and to invest our funds ourselves for the state's benefit. We are the "state's banker."

It is unclear what advocates want from a state bank. Do they want to compete with community banks, or do they want to provide loans for borrowers who cannot obtain financing from more than 80 community banks across the state? If it is the former, why should the state subsidize it and exempt it from regulation? If it is the latter, how is being a lender of last resort a sustainable, viable business model? What do the proponents of a state bank expect from such an institution that cannot be provided by the other 80 Washington community banks?

Some have argued that they want such a bank to partner with community banks. Washington already has partnership programs with scores of community banks to provide as many short term deposits as they wish at competitive rates that we set, and to provide low-cost deposits that can be used for loans to women, minority and veteran owned small businesses through our Linked Deposit Program.

I testified before the House Business and Financial Services Committee as well as the Senate Financial Institution, Housing and Insurance Committee on the HB 2434 and SB 6310. My office would be happy to work with the Legislature to find ways to meet the objectives of these bills without the creation of a costly new entity. If you would like to read my full testimony please click here.

We just passed our first cutoff of the Legislative Session. As the session progresses I will keep you posted on these bills as well as other bills that are engaged in the legislative process.

As always I welcome your questions and your comments. Do keep in touch.

Jim