

# **Discussion Document**

## **Prioritize K-12 Construction in the Capital Budget**

### **Background**

- State agency's ten year plans for bond appropriation requests are far greater than the available capital budget capacity.
- The K-12 school construction funding need is projected to grow rapidly.
- 6.7 percent of the 2007-09 Capital Budget bonds were appropriated for K-12. By comparison:
  - 36.1 percent of the 2007-09 Capital Budget bonds were appropriated for higher education.
  - 10.4 percent of the 2007-09 Capital Budget bonds were appropriated for human services.
  - 23.1 percent of the 2007-09 Capital Budget bonds were appropriated for natural resources.
  - 23.7 percent of the 2007-09 Capital Budget bonds were appropriated for government operations.

### **Key Considerations**

- The Task Force may recommend that the Legislature and Governor prioritize K-12 construction in the Capital Budget, but there are many competing interests, for example:
  - New branch campus in North Puget Sound
  - New local government infrastructure or economic development initiatives
  - Community projects
  - Other new initiatives
  - Additional K-12 enhancements

# Discussion Document

## Expand the Debt Limit

### Background

- Agency requests for 2009-11 Capital Budget bonds are \$1.9 billion more than current bond limit capacity, assuming the K-12 construction 2009 supplemental request.
- The debt limit can be expanded by including “near general fund” or other sources within the definition of general state revenue by amending statutes.
- Near general fund accounts that may be included in the general state revenue definition are the Health Services Account, the Education Legacy Trust Account, the Public Safety and Education Account, the Violence Reduction and Drug Enforcement Account, and the Water Quality Account.
- Including near general fund accounts in general state revenues adds \$280 million to the constitutional debt capacity calculation for 2009-11. Over ten years the additional debt capacity is \$1.6 billion.

### Key Considerations

- Every additional \$100 million in bond debt adds \$7.1 million General Fund-State to annual debt service. Over ten years the additional debt is \$113 million General Fund-State.
- Constituencies may be opposed to removing accounts’ dedicated uses, even if the intention is to continue to use the accounts as they are currently used.

# Discussion Document Statewide Bond Issue

## Background

- A statewide bond issue would require a vote of the people because the amount of state bonds that can be issued is limited by Constitutional and statutory debt limits.
- The annual debt-service limits (principal and interest payments) on outstanding bonds are 9% of the three-year average of general state revenues under the Constitution limit and 7% under the statutory limit.<sup>1</sup>

## Key Considerations

- Because there is little additional capacity within the current debt limit, capital budget spending would have to be reprioritized to accommodate additional K-12 spending, considering the current capital budget bow wave for existing state capital programs.
- If a new revenue source is desired, approval from the voters (to satisfy I-960 requirements) could be packaged with a vote to exempt additional bonds from the debt limit.
- A summary “decision matrix”:

Existing revenue	New revenue
1) Stay within current debt limits – trade-off against other statewide needs/priorities	1) Stay within current debt limits – pay for school facilities with new revenue requiring a vote of the people (I-960)
2) Additional bonds exempt from debt limits – requires vote of the people.	2) Exempt from debt limits – vote of the people needed for both the debt-limit exemption and the new revenue a. Two-thirds vote of the Legislature and advisory vote of the people b. Majority vote of the Legislature and majority approval by the people

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<sup>1</sup> There are some differences between the calculation of the Constitutional versus the statutory percent debt limit — both in the revenues that form the base against which the percentage is calculated, and in the exclusions for types of debt. These differences are outlined in the introductory section of the State Treasurer’s most recent document, “Certification of the Debt Limitation of the State of Washington” and can be found at: [http://tre.wa.gov/BondDebt/csd-limit\\_FY2008.pdf](http://tre.wa.gov/BondDebt/csd-limit_FY2008.pdf)

## Reference

- A summary of bond costs for issues of varying value:

dollars in millions

Value of bond	Annual payment	One-time sales' cost	Total 25-year cost
\$250.0	\$18.6	\$1.3	\$467.2
\$500.0	\$37.3	\$2.5	\$934.4
\$1,000.0	\$74.5	\$5.0	\$1,868.7

Assumptions: 25-year term, 5.5 percent interest rate, bond sales' costs at 0.5 percent. Interest rate based on August 2008 Global Insight Control forecast of 20-year municipal bond rates, plus 30 basis points to adjust for historical WA GO bond comparison to forecast, averaged for four quarters of FY10 (5.33%).

## **Discussion Document**

### **Expand Local School District Debt Limits**

#### **Background**

- Current law limits school district capital-related indebtedness to 5% of the assessed value of each respective school district.
- Most school districts are significantly below their capital-related debt limit. In fact, according to CTED compiled survey information, school districts were using about 20% of their total statewide capacity in 2006 (*2007 report not available until December*).
- Despite most school districts being significantly below their capital-related debt limit, some school districts (particularly some fast growing ones) report the debt limit as one potential barrier to addressing capital funding needs.

#### **Potential Key Policy Questions**

- Given only a few school districts would benefit from a potential debt limit expansion, do you see this as priority area for the task force?
- Are you comfortable with the fact that the expansion of the debt limit means higher property taxes in those school districts?
- Since this could result in additional projects eligible for state assistance, is this one of the priority areas for increased state support?

## **Discussion Document**

### **“Unused” State Property Tax Rate Capacity**

#### **Background**

- Current law restricts taxing districts from collecting more than a 1% increase in its regular, non-voted levy (the aggregate of the district's tax collections which constitute the district's budget) from one year to the next (new construction is excluded from this limit).
- The state property rate has a statutory maximum of \$3.60 per \$1,000 of assessed value. As a result of the 1% annual budget increase limit, the state property tax rate has decreased over the last few years. The current effective state property tax rate is \$2.08.
- The difference in the amount of money that could be collected from the \$3.60 maximum and the \$2.08 effective rate is over \$1 billion per year.
- Depending on how it is implemented, the proposal would require: (1) a 2/3<sup>rd</sup> vote of the Legislature and an advisory vote of the people; or (2) a majority vote by both the Legislature and the people.

#### **Potential Key Policy Questions**

- Is the state property tax the appropriate source to fund the enhancements to school construction being contemplated by the task force?
- What are the likely impact on citizens and homeowners?
- What is your assessment of the political feasibility of achieving the necessary vote requirements for this proposal?