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Policy Note

Citizens' Guide to Senate Joint Resolution 8221

To Reduce Washington's Constitutional Debt Limit

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Key Findings

1. Washington's debt burden ranks in the top 10 nationally compared to other states.
2. Servicing the state's debt consumes nearly $2 billion of the $31 billion two-year operating budget.
3. SJR 8221 would reduce the state's borrowing capacity by more than $1 billion over a 30-year period.
4. SJR 8221 would strengthen the state's finances by implementing the recommendations of the Commission on State Debt.

Introduction

In November the people of Washington will vote on Senate Joint Resolution 8221, to reduce Washington's constitutional debt limit over a 20-year period (2014 to 2034) from 9% to 8% of the average annual state revenues over a multi-year period. The measure would also change how revenue is calculated for purposes of determining the state debt limit.

SJR 8221 is a proposed constitutional amendment that would implement the recommendations of the Commission on State Debt. According to the commission, Washington's debt burden ranks in the top 10 nationally among states. Servicing the state's debt currently consumes nearly $2 billion of the $31 billion two-year operating budget, or approximately 6% of spending. The Office of Financial Management estimates SJR 8221 would reduce the state's borrowing capacity by more than $1 billion by the 2043–45 biennium.

Text of Senate Joint Resolution 8221

Senate Joint Resolution 8221's official ballot summary reads:

> The Legislature has proposed a constitutional amendment on implementing the Commission on State Debt recommendations regarding Washington's debt limit. This amendment would, starting July 1, 2014, phase-down the debt limit percentage in three steps from nine to eight percent and modify the calculation date, calculation period, and the term general state revenues.[1]

The bill report for SJR 8221 notes:

> 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

[1] "2012 General Election Ballot Measures," Washington Secretary of State's Office, at wei.sos.wa.gov/agency/osos/en/press_and_research/PreviousElections/2012/General-Election/Pages/Online-Voters-Guide.aspx.

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.[2]

According to supporters of the proposed constitutional amendment, these changes would:

- Stabilize and smooth out the state's debt obligations
- Gradually reduce the state's long-term debt burden
- Lower the share of debt service in the operating budget
- Create more stability for capital projects
- Protect the state's strong credit rating[3]

Opponents say Senate Joint Resolution 8221 would shift the cost of capital projects from the state to local taxpayers by restricting the amount of money that could be borrowed for state projects. They say SJR 8221 would force unmet infrastructure needs to be covered by local governments that typically borrow at higher interest rates than the state. Opponents are also concerned the proposal would harm school construction by increasing the cost of school bonds.

Recommendations of the Commission on State Debt

Concerned about the growing share of the state operating budget going to pay debt and therefore not available for other programs, lawmakers in 2011 created a Commission on State Debt by passing Senate Bill 5181. The bill passed the Senate by a vote of 40-1 and the House by a vote of 79-14.[4] According to the bill:

> The commission must recommend improvements in state debt policies and limitations, including possible amendments to state constitutional debt limitations that will accomplish the following: (a) Stabilizes the capacity to incur new debt in support of sustainable and predictable capital budgets; (b) Reduces the growth in debt service payments to an appropriate level that no longer exceeds the long-term growth in the general fund expenditures; (c) Maintain and enhance the state's credit rating.[5]

On December 1, 2011, the Commission on State Debt issued its findings and recommendations. Among the commission's findings:

- Servicing the state's debt is becoming a larger share of the operating budget leading to concerns that it is crowding out other spending programs.
- Washington's debt burden ranks in the top 10 nationally compared to other states (Washington ranks fifth or sixth highest depending on the measure used).

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[2] "Final Bill Report ESJR 8221," Washington State Legislature, at apps.leg.wa.gov/documents/billdocs/2011-12/Pdf/Bill%20Reports/Senate/8221.E%20SBR%20FBR%2012%20E2.pdf.

[3] "2012 General Election Ballot Measures," Washington Secretary of State's Office, at wei.sos.wa.gov/agency/osos/en/press_and_research/PreviousElections/2012/General-Election/Pages/Online-Voters-Guide.aspx.

[4] "2011 Senate Bill 5181: Creating a statutory limitation on state debts," WashingtonVotes.org at www.washingtonvotes.org/2011-SB-5181.

[5] "Text of SB 5181," Washington State Legislature, at apps.leg.wa.gov/documents/billdocs/2011-12/Pdf/Bills/Session%20Laws/Senate/5181-S.SL.pdf.

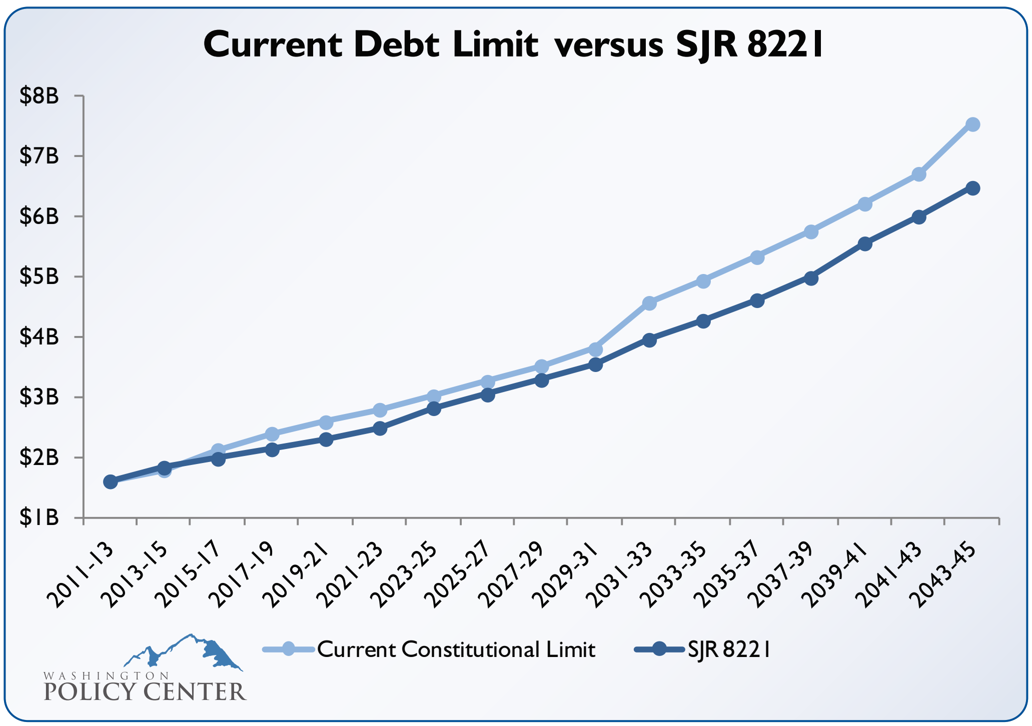
- The state's current debt limit results in a capital budget process that works against the capital needs of the state and leads to low debt capacity when unemployment is high and prices and interest rates are low.[6]

These findings led the commission to recommend reducing the state's constitutional debt limit to "smooth the amount of bond capacity over time while maintaining a predictable and sustainable capital budget" and "reduce the amount of debt service as a share of the state operating budget over the long run."

In response, lawmakers passed SJR 8221 asking the voters to reduce the state's constitutional debt limit. SJR 8221 passed the Senate by a vote of 38-7 and the House by a vote of 91-7.[7]

Fiscal Impact of SJR 8221

The Washington state Office of Financial Management prepared the following projection based on the June revenue forecast to help budget writers determine how SJR 8221 would affect state debt capacity.[8] (The increase in the current debt limit projections for 2031–33 is due to the scheduled pay off of a large amount of bonds issued in 2007–09.)



If adopted, SJR 8221 would reduce the state's debt capacity by an estimated $1 billion by the 2043–45 biennium, from $7.5 billion to $6.5 billion.

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[6] "Commission on State Debt – Findings and Recommendations, December 1, 2011, at www.tre.wa.gov/documents/debtCommission-findingsRecomendations.pdf.

[7] "2012 Senate Joint Resolution 8221: Amending the Constitution to include the recommendations of the commission on state debt," WashingtonVotes.org, at www.washingtonvotes.org/Legislation.aspx?ID=123552.

[8] Email from Julie Murray, Legislative Director, Office of Financial Management, September 4, 2012; text available upon request.

State Treasurer Supports SJR 8221

Among the strongest supporters of SJR 8221 is State Treasurer Jim McIntire (D), who served as Chairman of the Commission on State Debt. In comments prepared for TVW's video voters' guide, McIntire addressed the concerns of SJR 8221 opponents, including whether it would adversely affect school construction projects (in part):

> This is a sensible idea that helps protect taxpayers, lowers our constitutional debt limit and improves our ability to make investments during hard economic times.... Over the past 10 years we've learned that the current constitutional debt limit doesn't work very well.... Debt is a scarce resource and it needs to be managed wisely. This amendment will do that. Opponents of this measure argue that it would shift property taxes away from schools and cause higher borrowing costs for school construction. Let me be clear, nothing about this measure changes the dedication of property taxes to schools. Furthermore, local school bonds are already guaranteed by the state, so they get the same credit rating as the state. By protecting Washington's credit rating with this measure you are also helping protect schools from higher borrowing costs.[9]

The independently elected state treasurer is committed to "providing reliable banking services for state agencies, secure investment of state money, prudent financing of major state construction projects, and trustworthy accounting services that provide transparency for the public."[10]

Conclusion

Washington is a high-debt state and has seen a growing percentage of the operating budget going to pay for debt service instead of funding other public services. SJR 8221's proposed phase down of the state's constitutional debt limit from 9% to 8% by 2034 would help reduce this problem while providing a more predictable capital budget cycle.

Washington Policy Center recommends adopting reforms like those proposed by SJR 8221 that would help reduce the state's debt burden on taxpayers. SJR 8221 would strengthen the state's finances by implementing the recommendations of the Commission on State Debt and would free up more of the state's operating budget in the future for education spending and other important public programs.

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[9] Email from Chris McGann, Communications Director, Office of State Treasurer, August 22, 2012; text available upon request.

[10] "What does the State Treasurer do?" Washington State Treasurer at www.tre.wa.gov/aboutUs/whatWeDo.shtml.