

State treasurer raises doubts over House plan to fund school classrooms

By BRAD SHANNON

The Olympian

March 5, 2014 Updated 2 hours ago



(Steve Bloom/staff photographer) STEVE BLOOM — The Olympian

Washington Treasurer **Jim McIntire** has warned state legislators that a \$700 million proposal to pay for new school classrooms using Lottery funds could risk the state's bond rating and drive up borrowing costs.

Risky or not, the bipartisan measure, [House Bill 2797](#), passed the full House on Tuesday by a resounding 90-to-7 margin [[see roll call here](#)]. Seven Republicans opposed it and one Democrat was absent.

“HB 2797 would likely increase the state's overall cost of funds for other capital and transportation investments because it will be regarded by credit markets as a dramatic step away from Washington's long history of strong financial management and fiscal responsibility by exceeding our debt limit,” McIntire, a Democrat and former House member, wrote in a letter sent to Gov. **Jay Inslee** and to legislative leaders in the House and Senate.

The funding proposal is meant to let the state get ready for an influx of new teachers in 2017 when class size reductions are made as part of the state's move to fully fund all-day kindergarten and sharply reduce student-teacher ratios. It would let districts add K-3 classrooms at no local expense, offering help through state grants.

The Legislature is under pressure from the state Supreme Court to fully fund schools and show additional progress this year after putting nearly \$1 billion of new funds into K-12 programs identified in need of improvement by the court's McCleary ruling in 2012.

Our first story on the proposal is [here](#).

Key members of the Senate Majority Coalition Caucus are skeptical of tying up Lottery funds, and McIntire's letter likely gives them ammunition to shoot at the House proposal.

Republican Sen. **Bruce Dammeier** of Puyallup said last week he was leery of using Lottery funds already used for educational programs. He said it would be important to learn what the treasurer said before acting on the proposal

Senate Ways and Means Committee chair **Andy Hill**, R-Redmond, said he thought it made more sense to pay for school classrooms through the typical capital budget process.

HB 2797 is the product of an unusually bipartisan effort in the House led by Capital Budget Committee chair **Hans Dunshee**, D-Snohomish, and Rep. **Drew MacEwen**, R-Union.

The lawmakers issued a joint news release after the floor vote with MacEwen once again calling the funding plan "the right thing to do." "We cannot continue to advocate for smaller class sizes in K-3 classrooms without funding the construction that allows for the required reduction," MacEwen said.

"Kids need classrooms," Dunshee said. "We're creating 7,000 jobs from Aberdeen to Walla Walla while building good classrooms for our youngest students, and we did it by working together, across party lines."

Dunshee has said that after getting negative feedback from the PiperJaffray bond firm which McIntire consults, he decided to consult other financial institutions to see what they thought. He got more favorable responses and collected formal responses from two banks, including the RBC Capital Markets. He declined to identify the other until it gave permission.

In both cases, Dunshee said the proposal was seen as workable. In an amendment added to the bill Tuesday, Dunshee and MacEwen call for the State Finance Committee (including McIntire) and Office of Financial Management to do an assessment of the most appropriate financing mechanism to use for Lottery proceeds.

But in his letter sent Tuesday, the Democratic treasurer cited the opinion of **Rob Shelley**, managing director of PiperJaffray's Seattle-Northwest division. Shelley's analysis said the state would need to commit about \$118 million a year in lottery funds – twice what the House proposes – to raise just \$389 million for classrooms and portables.

To get \$707 million, McIntire said the state would need to leverage lottery revenues in a way that gave them a Baa/BBB rating – which is at the low end of investment grade bonds and they carry higher interest rates.

The Legislature's 60-day session is scheduled to adjourn on Thursday, March 13. Passing a budget and responding to the high court's January order clarifying its stance on school funding are the largest tasks left for lawmakers to finish.

Read more here: <http://www.theolympian.com/2014/03/05/3016545/state-treasurer-raises-doubts.html#storylink=cpy>