HOUSE BILL REPORT
HB 1833

As Amended by the Senate

Title: An act relating to alternate financing for schools.

Brief Description: Authorizing school districts to use 63-20 financing with nonprofit organizations.

Sponsors: Representatives Thomas, Lantz, Carlson, Keiser, Cairnes, H. Sommers, Talcott, Ogden, Quall, Dunshee, O'Brien, Murray, Cody, Pflug, Dunn, Santos, Schual-Berke, Lovick, Edmonds, Wood, Haigh, Rockefeller, Conway, Stensen, Dickerson, Kessler and Esser.

Brief History:

Committee Activity:

Capital Budget: 3/3/99, 3/8/99 [DP].

Floor Activity:

Passed House: 3/16/99, 96-1.
Senate Amended.
Passed Senate: 4/13/99, 47-0.
House (House refused to concur)
Senate (Senate receded)
Senate Amended.
Passed Senate: 4/23/99, 47-0.

Brief Summary of Bill

· Authorizes school districts to contract with nonprofit organizations to finance the construction of new school buildings with special tax exempt financing.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass. Signed by 17 members: Representatives Mitchell, Republican Co-Chair; Murray, Democratic Co-Chair; Edmonds, Democratic Vice Chair; Esser, Republican Vice Chair; Alexander; Anderson; Barlean; Bush; Constantine; Dunshee; Koster; Lantz; Mastin; Miloscia; O'Brien; Ogden and Schoesler.

Minority Report: Without recommendation. Signed by 1 member: Representative Hankins.

Staff: Bill Robinson (786-7140).

Background:

Current Internal Revenue Service rules, called "63-20 financing," allow nonprofit organizations to issue tax exempt bonds to pay for facilities that "relieve the burden of governments." The IRS rules require that the tax exempt bonds be used for facilities that will be ultimately turned over to a governmental entity for ownership and operation and the facility must be used for a governmental purpose. This type of financing could be used to make it easier for a large development to pay for all or part of the cost of providing new school facilities to serve the development.

Under this type of financing, the development and the school district could form a nonprofit organization or contract with an existing nonprofit organization to provide the school facilities. The nonprofit organization issues tax-exempt bonds and the developer contracts with the nonprofit organization to provide the funds to pay the principal and interest on the bonds. The school district can determine the standards for construction and can take possession of the facilities once they are completed to the district's satisfaction. The benefit of this mechanism to the school district is that it gets new facilities, depending on the level of development payments, without having to levy new taxes or seek a voter-approved bond levy.

The benefit to the development is that it can make payments over time, pay low interest on tax exempt bonds and reduce the cost of construction by having the school facilities built at the same time and by the development. This mechanism was used to construct the new interstate highway interchange at Dupont and could also be used to fund multipurpose facilities, perhaps combining community and other infrastructure facilities at the same time.

Summary of Bill:

School districts may lease buildings for longer than five years and may contract with a nonprofit organization to lease, acquire, construct or finance school facilities. The nonprofit organization must qualify under federal internal revenue service rules to issue tax exempt bonds for the purpose of acquiring or constructing facilities for the school district.

EFFECT OF SENATE AMENDMENT(S): The authority of school districts to rent or lease buildings and portables is limited to ten years rather than an unlimited time period.

The authority to enter into long-term contracts with nonprofit organizations that qualify for tax exempt bonds is eliminated.

The Provisions relating to two to six year levies are eliminated.

Permits school districts to use state matching money and voter-approved bonds to pay for installment payments on a school building purchase agreement or for a long-term lease purchase contract.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This authority provides another creative option for school districts to finance facilities. This approach could also be used for a cooperative project between a school, city, or community-based organization for shared use facilities.

Testimony Against: (Concerns) This approach of acquiring school facilities is a change from the traditional public works process that has served the public well. To avoid the potential for favoritism, school districts should use the same qualifications based architect and engineer selection process for leased buildings as they do for new construction under the public works process.

Testified: (In support) Representative Brian Thomas, prime sponsor; Jon Gores, Seattle Northwest Securities; Michael Currie, Office of Superintendent of Public Instruction; Bob Collard, Lake Washington School District; Grace Yuan, King County School Coalition; and Duke Schaub, Association of General Contractors.

(With Concerns): Cliff Webster, Architects & Engineers Legislative Council; and Craig Curtis, American Institute of Architects.