HOUSE BILL REPORT
HB 1882

As Passed House:
March 13, 2003

Title: An act relating to local improvement districts.

Brief Description: Modifying local improvement district provisions.

Sponsors: By Representatives Grant, Delvin, Miloscia, Jarrett and Upthegrove.

Brief History:
Committee Activity:
Local Government: 2/26/03, 3/3/03 [DP].
Floor Activity:
Passed House: 3/13/03, 96-0.

Brief Summary of Bill

- Authorizes a city or town to transfer money from its general fund to its local improvement guaranty fund or any local improvement fund to cover the payment of bonds, interest coupons, warrants, or other short term obligations.
- Authorizes a city or town to redeem one or more bonds issued in chronological order by maturity date.
- Specifies that when the county treasurer calls bonds for redemption that are to be paid with surplus funds, the treasurer shall call such bonds as determined by the bond authorizing ordinance.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: Do pass. Signed by 8 members: Representatives Romero, Chair; Upthegrove, Vice Chair; Schindler, Ranking Minority Member; Jarrett, Assistant Ranking Minority Member; Berkey, Clibborn, Ericksen and Moeller.

Minority Report: Do not pass. Signed by 2 members: Representatives Ahern and Mielke.

Staff: Amy Wood (786-7127).

Background:

Local Improvement District Bonds (Section 1)

Local Improvement Districts (LIDs) are a means of assisting benefitting properties in financing needed capital improvements through the formation of special assessment districts. These special assessment districts permit improvements to be financed and paid for over a period of time through assessments on the benefitting property. LID processes ultimately lead to the sale of bonds to investors and the retirement of those bonds through annual payment by the property owners within a district.

Each local improvement bond issued must, among other requirements, provide that the principle and interest on the bonds be payable out of the local improvement fund created for the cost and expense of the improvement; out of the local improvement guaranty fund, unless provided otherwise by ordinance; or out of a reserve fund, if established for such bonds.

During the past legislative session, the Legislature gave cities the *option* to pledge its LID guaranty fund to secure LID bonds rather than require that cities pledge their LID guaranty fund. If the city elects not to pledge its guaranty fund, debt service on the bonds is secured only by LID assessments and by amounts maintained in a reserve fund, if any. If the LID guaranty fund is pledged, the city would be required to levy taxes in the event of delinquent bond payments.

Interest only payments may be made from the general revenues of the city, if provided in the bond ordinance.

Redemption of Local Improvement District Bonds (Section 2)

Bonds are issued in numerical order from one upwards. When there is sufficient money in the local improvement fund over and above what is needed for payment of interest on all unpaid bonds of that issue, the county treasurer shall redeem one or more bonds. The city or town must publish notice of the redemption in the local newspaper, providing the bonds and bond numbers to be paid. The bonds must be paid in their numerical order.

Redemption of County Road Improvement District Bonds (Section 3)

Like cities and towns, counties have the authority to create road improvement districts (RIDs) and to issue bonds to finance RIDs.

Like the LID process, counties may borrow money to finance road improvements by issuing bonds. Counties pay off these financial obligations over time through the collection of assessments receivable that have been levied against the benefitting property owners. The assessments are liens against the property and are subject to foreclosure.

Money collected through assessments by the county treasurer must be kept in a separate county improvement district fund. The fund may only be used to cover costs of improvements in the district, payment of interest or principle, or warrants and bonds issued upon or against the fund. If, after payment of costs and expenses of the improvement, there are funds sufficient to redeem one or more bonds, over and above the amount necessary to meet the interest payments next accruing on outstanding bonds, the treasurer shall call such bonds for redemption.

Summary of Bill:

Local Improvement District Bonds (Section 1)

A city or town may transfer money from its general fund to its local improvement guaranty fund or any local improvement fund to cover the payment of bonds, interest coupons, warrants, or other short term obligations.

Redemption of Local Improvement District Bonds (Section 2)

A city or town may redeem one or more bonds issued in chronological order by maturity date, and within each maturity date, by estimated redemption as determined in the bond authorizing ordinance.

Redemption of County Road Improvement District Bonds (Section 3)

Specifies that when there are funds sufficient to redeem one or more bonds, over and above the amount necessary to meet the interest payments next accruing on outstanding bonds, the treasurer shall call such bonds for redemption *as determined in the bond authorizing ordinance*.

Appropriation: None.

Fiscal Note: Not Requested.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: This bill will allow for flexibility in paying off bonds. Local improvement districts (LIDs) are a common infrastructure financing tool. Under this bill, LIDs will have greater flexibility by allowing for payment of bond principle and interest.

In addition, the bill will allow bonds to be called in book entry form rather than just numerical order. Banks would prefer to buy bonds in book entry form rather than numerical order. This bill would make these features available.

The bill includes an emergency clause because on April 4, 2003, the City of Richland needs to call bonds. Without legislation, the impact on taxpayers would be high because the city would be required to levy taxes in the event of delinquent payments. In times of economic trouble, this bill would allow cities to cover these expenses without facing the stigma of default and avoid going to the taxpayer.

Testimony Against: None.

Testified: Representative Delvin, secondary sponsor; Lee Voorhees, Foster, Pepper and Shefelman, P.L.L.C.; and Dan Underwood, City of Richland.