

HOUSE BILL REPORT

HB 1430

As Passed House:

March 7, 2007

Title: An act relating to financing community and economic development.

Brief Description: Clarifying how cities, towns, counties, public corporations, and port districts may participate in the federal new markets tax credit program.

Sponsors: By Representatives Pettigrew, Haler, Kenney, Chase, P. Sullivan and Linville.

Brief History:

Committee Activity:

Community & Economic Development & Trade: 1/29/07, 2/1/07 [DP].

Floor Activity:

Passed House: 3/7/07, 96-0.

Brief Summary of Bill

- Authorizes local governments to take certain actions to implement the federal New Markets Tax Credits Program within their boundaries.

HOUSE COMMITTEE ON COMMUNITY & ECONOMIC DEVELOPMENT & TRADE

Majority Report: Do pass. Signed by 8 members: Representatives Kenney, Chair; Pettigrew, Vice Chair; Bailey, Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Chase, Haler, Rolfes and P. Sullivan.

Staff: Meg Van Schoorl (786-7105).

Background:

The federal Community Renewal Tax Relief Act of 2000 authorized tax credits for up to \$15 billion in investments under the U.S. Treasury Department's New Markets Tax Credits (NMTC) Program to stimulate capital investment in low-income and economically distressed areas through Community Development Entities (CDEs).

A CDE is a domestic corporation or partnership, created or controlled by a public, private, or nonprofit entity that has a primary mission of serving and providing investment capital in low

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income communities. A CDE must maintain accountability to residents of low-income communities through their representation on a governing or an advisory board, and must be certified as a CDE by the U.S. Treasury.

Certified CDEs are eligible to compete nationally for an allocation of NMTCs, and if successful, may offer taxpayers who make qualified equity investments in the CDE a federal income tax credit equal to 39 percent of the cost of the investment. In turn, the CDE must use the investment for community development projects in low-income or economically distressed areas. Because the investors benefit from the tax credits, they provide low cost financing to local project developers, including grants and below-market-rate loans. Examples of investment projects include rehabilitation of vacant buildings into housing, hotels, commercial offices, or spaces for the arts, and construction of new buildings for use by nonprofit organizations.

For calendar year 2007, the federal government will allocate tax credits for \$3.9 billion in investments to CDEs nationwide.

Summary of Bill:

Cities, towns, counties, public corporations and port districts are authorized to create partnerships and limited liability companies, and enter into public or private agreements, to implement the federal New Markets Tax Credit Program within their boundaries. This authority is in addition to their existing authorities, does not imply that these powers were not available under prior law, and validates any previous actions taken consistent with this act.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony:

(In support) For at least two decades, some communities have struggled to carry out revitalization projects and have not succeeded due to a lack of private and public investment. The federal New Markets Tax Credits Program increases access to investment capital so that projects can "pencil out" for developers and also be affordable for community residents. Cities across the country are using this economic development tool but Washington cities lack explicit statutory authority to form LLCs and similar single-purpose partnerships to qualify for this program. Some in-state projects have used the program, including the Wing Luke Museum, Fox Theater, and Morrier Hotel, but they have had to deal with national organizations to access the tax credits. This bill would enable Washington cities to compete for an allocation of tax credits and apply the credits to eligible, ready-to-go local projects. The

state's constitutional prohibitions on lending of credit and gifting of public funds would still apply.

(Opposed) None.

Persons Testifying: Representative Pettigrew, prime sponsor; Steve Johnson, City of Seattle; and Hugh Spitzer, Foster Pepper.

Persons Signed In To Testify But Not Testifying: None.