

SENATE BILL REPORT

E2SSB 6609

As Passed Senate, March 8, 2010

Title: An act relating to infrastructure financing for local governments.

Brief Description: Concerning infrastructure financing for local governments.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Kastama, Delvin, Hobbs, Kilmer, Gordon, Kauffman and Shin).

Brief History:

Committee Activity: Economic Development, Trade & Innovation: 1/20/10, 1/27/10 [DPS-WM].

Ways & Means: 3/02/10, 3/03/10 [DP2S, w/oRec].

Passed Senate: 3/08/10, 47-0.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & INNOVATION

Majority Report: That Substitute Senate Bill No. 6609 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Kastama, Chair; Shin, Vice Chair; Zarelli, Ranking Minority Member; Delvin, Eide and Kilmer.

Staff: Jack Brummel (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 6609 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair, Capital Budget Chair; Tom, Vice Chair, Operating Budget; Zarelli, Ranking Minority Member; Fairley, Hobbs, Keiser, Kline, Kohl-Welles, McDermott, Murray, Pridemore, Regala and Rockefeller.

Minority Report: That it be referred without recommendation.

Signed by Senators Brandland, Carrell, Honeyford, Parlette and Schoesler.

Staff: Dianne Criswell (786-7433)

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Background: Tax increment financing is used to fund infrastructure projects. It is a method of redistributing increased tax revenues within a geographic area resulting from a public investment to pay for the bonds required to construct a project. During the past decade a number of tax increment financing programs have been created in the state: in 2001 the Legislature created the Community Revitalization Financing (CRF) program; in 2006 the Legislature created the Local Infrastructure Financing Tool (LIFT) program; and in 2009 the Legislature created the Local Revitalization Financing (LRF) program.

Under LRF, cities, counties, and port districts may create revitalization areas and may use certain tax revenues which increase within the area to finance local public improvements. Bonds may be issued to finance improvements and may be paid off using increased local sales/use tax revenues and property tax revenues generated from within the revitalization area; additional funds from other local public sources; and a state contribution. Funds from local public sources may pay for public improvement costs on a pay-as-you-go basis.

To use local revitalization financing, local governments must take several actions, including passing local ordinances, conducting public hearings, entering into a contract with a private developer, and applying to the Department of Revenue (department) for approval for the state contribution. The department is responsible for the administration of the program and must retain all applications that are not approved due to lack of available state contribution by order of the date received. If additional state contribution funding becomes available, sponsoring local governments will be able to withdraw or update the retained applications.

Local governments proposing a local revitalization area must provide notice to all taxing districts and local governments within the proposed area and hold public hearings. If taxing districts do not want to participate in the allocation of their property or certain local sales and use tax allocation revenues, they must take action through the adoption of an ordinance/resolution to opt out.

Six competitive projects and seven demonstration projects were begun in 2009. The maximum state contribution for the seven demonstration projects is \$2.25 million per fiscal year and the maximum state contribution for all other revitalization areas is \$2.5 million per fiscal year. The maximum state contribution per project is \$500,000 per fiscal year. The state contribution awarded to a sponsoring local government is limited each year to the amount of local matching funds dedicated by the sponsoring local government in the preceding calendar year for revitalization financing. The state contribution must be used to pay for general obligation bonds issued to finance the public improvements in the revitalization area.

Sponsoring local governments that have been approved for a state contribution must provide annual accountability reports to the department. The department will report summary information to the public and the Legislature annually.

Summary of Engrossed Second Substitute Bill: A definition of bonds is added and other definitions are changed to recognize interlocal agreements. Local ordinance requirements relating to notice and participating taxing districts are changed.

Interlocal agreements may allow a taxing district to contribute less than all of its regular property levies or participate by providing a specified amount for a specified time for local revitalization financing.

Revenue bonds may be issued if a special fund is created.

The state contribution limit for demonstration projects is increased to \$4.2 million and demonstration projects are to be approved in 2010 for Richland, Lacey, Mill Creek, Puyallup, Renton, and New Castle. If a demonstration project doesn't meet statutory requirements, the associated dollars are not made available for other projects.

Annual reports from sponsoring local governments must include particular information about revenues from public sources for payment of bonds.

The LIFT statute's definition of a participating taxing district is aligned with the definition in the LRF. Jurisdictions with LIFT projects may receive a state contribution less than the project award until revenues reach the amount of the project award, and they may impose the local sales and use tax before revenues reach the amount of the project award.

A LRF area may overlap with an existing CRF area with a brownfield clean-up site which meets certain requirements.

The resubmitted applications of the demonstration projects may not be approved unless an economic analysis by a qualified researcher at the Department of Economics at the University of Washington confirms that there is an 85 percent probability that the applications' assumptions and estimates of jobs created and increased tax receipts will be achieved by the project and determines that net state tax revenue will increase as a result of the project by an amount that equals or exceeds the award authorized.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony on Original Bill (Economic Development, Trade & Innovation): PRO: In the competitive LRF round last year, projects were awarded first come, first served. Six projects were awarded and six other projects were mere seconds behind and did not get awards. This allows projects on the drawing board to be realized sooner. This will make the state a better, more jobs friendly place to do business. This provides greater flexibility. There are brake pedals – local revenue has to meet or exceed the state match. The impact is outside the biennium.

OTHER: There are circumstances where it would be good to allow an LRF to overlay a CRF. The Department of Revenue (DOR) reviews applications to make sure the process is followed but projections are difficult – the department cannot do a dynamic fiscal note.

Persons Testifying (Economic Development, Trade & Innovation): PRO: Mayor Kathy Turner, City of Puyallup; Doug Levy, Cities of Puyallup and Renton; Sean Eagan, Port of Tacoma; Mark Brown, City of Lacey; Ashley Probart, Assn. of WA Cities; Jim Hedrick, Greater Spokane, Inc.

OTHER: Jim Hedrick, Greater Spokane, Inc.; Miki Gearhart, DOR.

Staff Summary of Public Testimony on Recommended First Substitute Bill (Ways & Means): PRO: This is a win-win for the state and local governments. The state receives benefits from increment financing; there is a return on these investments in local infrastructure and development. These are programs that help job creation and retention. Existing projects have brought returns to state and local governments. The impact of the state contribution is delayed until fiscal year 2013. The committee should consider amending to include changes to the LRF program to allow an area of redevelopment in Spokane to qualify for local resources.

Persons Testifying (Ways & Means): PRO: Doug Levy, city of Puyallup; Suzanne Dale Etsy, city of Renton; Ashley Probart, Association of Washington Cities; Jim Hedrick, Greater Spokane, Inc.