

SENATE BILL REPORT

SB 6140

As of January 18, 2012

Title: An act relating to local economic development financing.

Brief Description: Concerning local economic development financing.

Sponsors: Senators Kilmer, Becker, King, Regala, Conway, Shin and Chase.

Brief History:

Committee Activity: Economic Development, Trade & Innovation: 1/18/12.

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, TRADE & INNOVATION

Staff: Jack Brummel (786-7428)

Background: Most states have legislation allowing state and local governments to issue tax free revenue bonds to finance private investment in the aid of job creation and diversification of their economic base. In 1981 it was unclear whether tax-exempt financing would be constitutional in this state – a state constitutional amendment and implementing legislation passed that year allowing municipalities to create public corporations with authority to issue tax free revenue bonds for industrial development. A number of financing authorities have subsequently been created to facilitate financing of facilities such as higher educational facilities, health care facilities, and housing facilities. These financing authorities have not relied on the 1981 constitutional amendment.

In 1989 the Washington Economic Development Finance Authority (WEDFA) was created. WEDFA is authorized to issue taxable and nontaxable nonrecourse revenue bonds to provide businesses and farm enterprises access to capital at terms and rates comparable to large corporations. The state Supreme Court ruled, in a case challenging WEDFA's authority to issue bonds in a manner inconsistent with the terms of the 1981 constitutional amendment, that the limitations of the amendment apply only to bonds issued pursuant to its implementing legislation and do not limit any other types of bonds that legally can be issued. The court ordered the State Treasurer to sign the bond issuance resolution at issue in the case. Since then WEDFA has issued millions of dollars in both taxable and nontaxable revenue bonds.

Public corporations created under the 1981 implementing legislation do not have the authority to issue taxable revenue bonds and are unable to participate in some recently

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developed federal programs designed to assist local businesses and economic development projects.

Summary of Bill: Municipalities may create economic development finance authorities to provide nonrecourse revenue bond financing, on a taxable or nontaxable basis, for a variety of economic development activities. It is illegal for directors, officers, agents or employees of an authority to have any interest in property, services or materials used in connection with any economic development activity financed by the authority – a violation of this provision is a gross misdemeanor.

The finances of an authority are subject to examination by the creating municipality and the state Auditor's Office. Authorities may receive no appropriation of state funds and municipalities may not provide money or property in aid of an authority. Authorities are not municipal corporations or political subdivisions of the state.

Authorities are authorized to:

- participate fully in federal and other governmental economic development finance programs;
- develop and operate export finance programs;
- conduct a finance program for new product development; and
- promote small business and agricultural financing.

An authority must coordinate with WEDFA and others to avoid duplication of services and WEDFA is similarly obligated to coordinate with authorities established under the act. Authorities must establish operating procedures and a general plan of economic development finance. Authorities may exercise a variety of powers, including acquiring property, soliciting grants and loans, acting as an agent for governmental agencies, and establishing guidelines for the participation by banking organizations in programs conducted by an authority.

Authorities may not act as a bank or engage in financing carried out by the state's Housing Finance Commission, Health Care Facilities Authority, or Higher Education Facilities Authority. Bonds issued by an authority are not considered a debt, and do not pledge the faith and credit, of the state or creating municipality. Such bonds are payable solely from revenue derived as a result of economic development activity funded by the bonds and other private resources. Neither bond proceeds nor bond payments constitute public money or property and no tax funds or governmental revenue may be used to pay the principal or interest on the bonds.

All monies received by an authority must be held in trust to carry out the purposes of the act. An authority may enter into a trust agreement with entities authorized to conduct trust business in the state to perform obligations of the authority and act on its behalf. The bonds of an authority are securities and the holders of such bonds may protect their rights through legal processes.

Appropriation: None.

Fiscal Note: Requested on January 13, 2012.

Committee/Commission/Task Force Created: No.

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