

HOUSE BILL REPORT

HB 2146

As Reported by House Committee On: Capital Budget

Title: An act relating to the public works board regarding the public works assistance account program interest rates, project ranking, board membership, and other requirements.

Brief Description: Concerning public works assistance account program interest rates, project ranking, board membership, and other requirements.

Sponsors: Representatives Kilduff, Smith, Dunshee and Stanford.

Brief History:

Committee Activity:

Capital Budget: 2/23/15 [DPS].

Brief Summary of Substitute Bill

- Increases the Public Works Board membership, requires numeric ranking of project applications, revises application consideration factors, and adds requirements related to determining loan interest rates.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Dunshee, Chair; Stanford, Vice Chair; DeBolt, Ranking Minority Member; Smith, Assistant Ranking Minority Member; Kilduff, Peterson and Riccelli.

Minority Report: Do not pass. Signed by 1 member: Representative Kochmar.

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

Staff: Meg VanSchoorl (786-7105).

Background:

Public Works Assistance Account.

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.

The Public Works Assistance Account (Account) was established in 1985 to encourage local government self-reliance in meeting public works needs, and to assist in financing critical infrastructure projects. Moneys in the Account must be used to make loans and give financial guarantees, and may also be appropriated to provide state match for federal dollars under the Drinking Water State Revolving Fund. Loan repayments and revenues from three tax sources have historically been deposited into the Account.

Public Works Board Membership.

The Public Works Board (Board) is staffed by the Department of Commerce and includes 13 voting members: two elected officials and one public works manager representing cities; two elected officials and one public works manager representing counties; three members representing public utility and water-sewer districts; and four members representing the general public.

The Board Responsibilities.

The Board may make low-interest or interest-free loans from the Account to finance the acquisition, construction, repair, replacement, or improvement of the following local public works: bridges, streets, and roads; water systems; storm and sanitary sewage systems; and solid waste facilities, including recycling. For up to a maximum of 15 percent of the biennial capital budget appropriation, the Board may make loans for pre-construction, emergency, and capital facilities planning. Local governments and special purpose districts, except port and school districts, are eligible to apply for loans from the Account. The Board may provide technical assistance. Existing debt or financial obligations may not be refinanced.

The Board must consider a number of factors in prioritizing projects: health and safety; unemployment rate; the Puget Sound Partnership Action Agenda; fiscal distress; permitting processes; relative project costs; number of communities served or funding the project; water system health and safety violations; Evergreen Community Recognition; and relative project benefits. By November 1 of each even-numbered year, the Board must develop and submit to legislative fiscal committees a prioritized recommended funding list of public works construction projects. The Legislature may remove projects from the list, but may not change the priority order of the Board's recommendations. Funds cannot be obligated by the Board until the Legislature has appropriated funds for a specific list of projects.

2013-15 Capital Budget.

Specifically for the 2013-15 biennium, Capital Budget provisos (Engrossed Substitute Senate Bill 5035, section 7032) required the Board to use an alternative prioritization process and consideration factors. The Board was required to assign a numeric ranking to the applications received for construction loans. In addition, at a minimum and in any order, the Board was required to consider the extent to which a project:

- is critical and affects health and safety;
- leverages non-state funds;
- is ready to proceed;
- is in an area of high unemployment;
- promotes environmental quality;
- consolidates or regionalizes systems;
- encourages economic development through mixed-use and mixed-income development;

- is part of a well-managed system;
- results in equitable geographic and population distribution of funds; and
- meets eight specified state policy objectives.

In addition, the Capital Budget provisos required the Board to:

- base loan interest rates for construction projects on tax-exempt municipal bond interest rates as published in the Bond Buyer's Index, and provide special rates and terms for projects that meet standardized hardship criteria;
- implement policies and procedures to maximize local government use of federally funded drinking water and clean water state revolving funds operated by the Department of Ecology and the Department of Health;
- contractually require an investment grade efficiency audit for public facilities for which an audit is obtainable, and allow the audit costs to be financed as part of the loan; and
- by December 1, 2013, recommend language to make permanent these new criteria, procedures and financing policies.

Summary of Substitute Bill:

The Board Membership.

The Board membership is increased from 13 to 17 by adding one member from each of the two major caucuses of the House of Representatives (House), appointed by the Speaker of the House, and one member from each of the two major caucuses of the Senate, appointed by the President of the Senate. Each appointed member may designate an alternate member from the same caucus to attend meetings from which the appointed member will be absent, and the designee will have the same voting and participation powers as other Board members.

The Board Responsibilities.

The Board's responsibilities are revised on an ongoing basis, consistent with the 2013-15 Capital Budget provisos.

The Board must assign a numeric ranking to the applications received for construction loans and must, at a minimum and in any order, consider the extent to which the project:

- is critical and affects the health and safety of many;
- leverages non-state funds;
- is ready to proceed;
- is in an area of high unemployment;
- promotes environmental quality;
- consolidates or regionalizes systems;
- encourages economic development through mixed-use and mixed-income development;
- is part of a well-managed system;
- results in equitable geographic and population distribution of funds; and
- meets eight specified state policy objectives.

The Board's general authority to make "low-interest or interest-free" loans to local governments for construction, emergency public works projects, and preconstruction activities is replaced by a requirement that the Board base interest rates on the average daily market interest rate for tax-exempt municipal bonds as published in the Bond Buyer's Index for 30 to 60 days prior to the start of the application cycle. Projects with a repayment period of five to 20 years must receive an interest rate that is 60 percent of the market rate, and projects with a repayment period under five years must receive an interest rate that is 30 percent of the market rate. In addition, for projects that meet standardized hardship criteria, the Board must allow for reduced interest rates, extended repayment periods or forgivable principal loans.

The Board is required to submit a numerically-ranked project list before November 1 each year, rather than each even-numbered year.

The Board must adopt policies and procedures to maximize local government use of federal funds to finance local infrastructure projects.

For preconstruction and construction loans, the Board must contractually require an investment grade efficiency audit for public facilities for which an audit is obtainable, and may allow the audit costs to be financed as part of the loan.

As a new responsibility, the Board must collaborate with other organizations to provide the Governor and appropriate legislative committees every four years with an assessment of local infrastructure needs and potential in-state resources to meet the needs.

Substitute Bill Compared to Original Bill:

The substitute bill clarifies the determination of loan interest rates by requiring that projects with a repayment period of five to 20 years must receive an interest rate that is 60 percent of the market rate, and projects with a repayment period under five years must receive an interest rate that is 30 percent of the market rate. The substitute bill also requires the Board to submit a numerically-ranked project list before November 1 each year, rather than each even-numbered year.

Appropriation: None.

Fiscal Note: Not requested.

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

Staff Summary of Public Testimony:

(In support) The substitute bill retains the viability of the Accounts program. It also addresses our concerns with the original bill related to determining the loan interest rate and producing the construction project list on a biennial, rather than annual, basis.

(With concerns) There are concerns with the interest rate component of the proposed substitute bill. A previous \$39 million Accounts project in the City of Arlington (City) would have cost \$59 million if the City had to go to the private market for financing, which would have cost ratepayers an additional \$72 per year.

(Opposed) Adding legislators to the Board could affect the ability to achieve quorums. Thirty years ago, local governments agreed to yield tax revenues to this state program, believing that they would benefit through the receipt of infrastructure project funding. The only problem with the Accounts is the recent diversion of revenues in the pipeline.

Persons Testifying: (In support) Representative Kilduff, prime sponsor.

(With concerns) Stan Finkelstein, Public Works Board; and Carl Schroeder, Association of Washington Cities.

(Opposed) Steve Lindstrom, Snohomish-King County Water-Sewer District Coalition.

Persons Signed In To Testify But Not Testifying: None.