
Capital Budget Committee

2ESB 5624

Brief Description: Concerning financing essential public infrastructure.

Sponsors: Senators Keiser, Honeyford and Conway.

<p style="text-align: center;">Brief Summary of Second Engrossed Bill</p> <ul style="list-style-type: none">• Authorizes the Public Works Board to make loans for certain local capital projects from the proceeds of state-issued bonds, and makes the debt service payable by the local government borrowers.
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Hearing Date: 2/26/16

Staff: Meg VanSchoorl (786-7105).

Background:

State Finance Committee.

The State Finance Committee (Committee) authorizes the issuance of all bonds and other state obligations, including financing leases, that finance capital projects authorized in the capital and transportation budgets. The Committee also acts to refinance state debt when appropriate to reduce interest costs. The Committee is composed of the Governor, the Lieutenant Governor, and State Treasurer.

Public Works Assistance Account Program and Public Works Board.

The Public Works Assistance Account Program (Existing Program) 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 Public Works Assistance Account (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.

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 Board (Board) is staffed by the Department of Commerce and includes 13 voting members. 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; drinking water systems; storm and sanitary sewage systems; and solid waste facilities, including recycling. Local governments and special purpose districts, except port and school districts, are eligible to apply for loans from the Account.

Recent Use of Moneys in the Account.

Historically, loan repayments and revenues from three tax sources have been deposited into the Account. However, beginning with the 2009-11 biennium, the Legislature has transferred cash from loan repayments and redirected tax revenues from the Account to the State General Fund and the Education Legacy Trust Account. Revenues from the taxes are redirected statutorily from the Account through June 30, 2019. These transfers and redirections are projected to result in a decrease of nearly \$1 billion in revenues to the Account from fiscal year (FY) 2014 to FY 2019.

Summary of Bill:

Findings and Intent.

It can be hard for local governments that borrow from capital markets rarely or in small amounts to access low-cost financing for public infrastructure projects. In addition, state tax revenues historically used to finance local government infrastructure are being redirected to support other state needs. The state accesses capital markets frequently and can issue bonds for significantly less cost than many local governments. The Legislature intends to improve access to low-cost private market financing for local government infrastructure projects by authorizing state issuance of public works bonds when local governments can meet certain requirements.

Public Works Financing Assistance Program.

In addition to its Existing Program authority to make loans to local governments for construction, pre-construction, and emergency public works projects funded through the Account, the Board is authorized to implement the Public Works Financing Assistance Program (New Program). Through the New Program, public works loans are made with proceeds of bonds issued by the state and the debt service is repaid by local governments.

Under the New Program, eligible capital projects are those necessary to:

- provide safe and adequate drinking water;
- collect, manage, and treat wastewater and storm water;
- provide safe and efficient transportation, including public parking facilities, public transit facilities, and non-motorized transportation;
- provide facilities for safe and readily accessible recreation;
- provide flood control and floodplain management facilities;
- provide water supply improvements and water basin management enhancements, including culvert replacement projects;
- provide county or city criminal justice facilities;
- provide fire protection or emergency medical services facilities; and
- provide public library facilities.

To be eligible, local governments must demonstrate to the Board, operating under guidance from the State Treasurer's Office:

- difficulty accessing borrowing at reasonable rates from existing private credit markets;
- ability to reliably pay financing costs to retire the loan; and
- planned use of the bond proceeds for capital expenditures in compliance with the Internal Revenue Service code.

The Board must adopt criteria for prioritizing applications. Community benefit from the assistance must be measured by the financing cost differential under the New Program compared to private capital markets.

Accounts Established.

The Public Works Financing Assistance Account (Bond Account) is created in the State Treasury. Proceeds from bonds issued to support projects under the New Program are to be deposited in the Bond Account. Moneys are to be spent only after appropriation.

The Public Works Financing Assistance Bond Repayment Account (Repayment Account) is established in the custody of the State Treasury. All repayments of loans made under the New Program are to be deposited in the Repayment Account, and although appropriations are not required, expenditures may only be made from the Repayment Account for debt service to retire the issued bonds.

Due Diligence and Accountability.

The Board is restricted from obligating funds without legislative bond authorization and appropriation of the proceeds. Contracts issued by the Board must ensure that loan disbursement amounts are predictable to meet project expenditures and that local government repayments cover the state's bond repayment obligations adequately and on time.

To ensure that repayments are sufficient to cover debt service obligations, the Board may charge an additional amount on loans to create a reserve. If still insufficient, the Legislature must take action to raise repayment revenues including, but not limited to, collecting loan repayments directly from distributions to local governments. If revenues are still insufficient to meet projected debt service obligations, the State Finance Committee may not approve issuance of future bonds until revenues at least equal the debt service owed.

The Board must submit an annual report to legislative fiscal committees, the State Treasurer, and the Office of Financial Management.

Appropriation: None.

Fiscal Note: Requested on February 17, 2016.

Effective Date: The bill takes effect on January 1, 2017, if the amendment to Article VIII, section 1 of the state Constitution proposed in 2ESJR 8204 is approved and ratified by state voters at the next general election. If not, this act is void.