SENATE BILL REPORT
SB 5109

As Reported by Senate Committee On:
Trade & Economic Development, February 18, 2015

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

Brief Description: Concerning infrastructure financing for local governments.

Sponsors: Senator Brown.

Brief History:
Committee Activity: Trade & Economic Development: 2/11/15, 2/18/15 [DPS-WM, DNP, w/oRec].

SENATE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

Majority Report: That Substitute Senate Bill No. 5109 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.
Signed by Senators Brown, Chair; Braun, Vice Chair; Angel and Ericksen.

Minority Report: Do not pass.
Signed by Senators Chase, Ranking Minority Member; McCoy.

Minority Report: That it be referred without recommendation.
Signed by Senator Frockt.

Staff: Jeff Olsen (786-7428)

Background: The Local Revitalization Financing program (LRF) was created in 2009 to encourage public infrastructure investments to stimulate private development and create jobs. To increase public investments, the LRF provides a mechanism for local governments to use sales and property tax revenues within a designated revitalization area to finance public improvement projects. The taxes are assessed based on the incremental increase in revenues within the revitalization area that are generated by the public improvement. The incremental tax revenues, as well as other local public funding sources, are used to finance general obligation or revenue bonds to pay for the improvement.

The state also may provide a contribution up to $500,000 for financing per public improvement project in the LRF program. Local governments may apply to the Department of Revenue (Department) for a state contribution award. The Department awards a state

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contribution as determined on a first-come, first-served basis. The Department will credit the state sales and use tax against the local sales and use incremental tax that is applied within the revitalization areas. In determining whether to grant an award, the Department must determine whether the local government is able to match the award amount generated through local sales and use tax revenues. The total state contribution limit for project awards is set at $2.5 million. The LRF program is currently not open for new applicants because state funding has been awarded. In 2010 the Legislature also authorized an additional $4.2 million state contribution for 13 LRF demonstration projects designated in statute.

Summary of Bill (Recommended Substitute): The annual state contribution limit for the LRF program is increased to $7.5 million. The requirement for the Department to award state contributions on a first-come, first-served basis is removed. The criteria for awarding a state contribution to finance a LRF project is determined on the following:

- the availability of a state contribution;
- the availability of a local match;
- the number of jobs created by the project;
- the fit of the expected business creation or expansion within the region's preferred economic growth strategy;
- the speed with which project construction may begin;
- the extent to which the project leverages non-state funding; and
- the geographic location of the project with at least 50 percent of the additional funding awarded to projects east of the Cascade mountains.

EFFECT OF CHANGES MADE BY TRADE & ECONOMIC DEVELOPMENT COMMITTEE (Recommended Substitute): The Department of Commerce replaces the Department as the approving agency responsible for selection of project rewards.

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: PRO: The Southridge LRF project in the Tri-Cities is a very successful example where a local government public infrastructure investment, with state funding assistance through the LRF program, resulted in significant private development to create jobs and increase state and local tax revenues. The private developers invested around the planned public project – ball fields and an indoor athletic complex – with a mix of retail, housing, and a new hospital. The LRF program in the Tri-Cities has generated a significant return to the state and local governments, and also is a benefit to the community. Public investments can bring in significant private development, and make projects happen more quickly. Other local governments can benefit from using this tool, where the state is a partner and there is a local match.

OTHER: Tax increment financing is an economic development tool to finance future infrastructure improvements. Washington has some unique limits on how it implements tax increment financing, and the LRF program allows a portion of the state sales tax from the increased business activity to be used to pay for infrastructure investments. The Department of Commerce is able to assist in implementing the program if necessary.

Persons Testifying: PRO: Senator Brown, prime sponsor; Diahann Howard, Port of Benton, Director of Economic Development & Government Affairs; Austin Neilson, Tri-City Regional Chamber of Commerce, Government & Economic Affairs Director; Don Britain, Mayor Pro Tem, city of Kennewick; Phil Watkins, city of Kennewick; Doug Levy, cities of Everett, Kent, Renton, Redmond,. Puyallup, Issaquah, Lake Stevens, Fife.

OTHER: Brian Bonlender, Commerce; Michael Luzzo, citizen.

Persons Signed In To Testify But Not Testifying: No one.