SENATE BILL REPORT
E2SSB 5109

As Passed Senate, February 17, 2016

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 Senator Brown).

Brief History:

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

Ways & Means: 2/04/16, 2/09/16 [DP2S, DNP, w/oRec].

Passed Senate: 2/17/16, 40-9.

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)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5109 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Hill, Chair; Braun, Vice Chair; Dammeier, Vice Chair; Honeyford, Vice Chair, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Ranking Minority Member, Operating; Bailey, Becker, Billig, Brown, Conway, Darneille, Hewitt, O'Ban, Parlette, Rolfes, Schoesler and Warnick.

Minority Report: Do not pass.

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.

Signed by Senators Nelson and Pedersen.

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

Staff: Juliana Roe (786-7438)

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 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 Engrossed Second Substitute Bill: The Department of Commerce is tasked with selecting which projects are awarded state contributions to finance LRF projects. The criteria for awarding a state contribution for these projects is determined by 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.

Local governments that have been approved for a project award prior to January 1, 2011 but have not imposed a sales or use tax by December 1, 2016 must forfeit their project award, unless they send a letter to the department by July 1, 2016, indicating that they intend to impose a sales and use tax by July 1, 2022. Funds that become available under these circumstances may be reallocated to other applicants.

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 (Trade & Economic Development): 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 (Trade & Economic Development): 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.

Staff Summary of Public Testimony on Second Substitute (Ways & Means): PRO: This bill is a reprogramming of funds that are not currently being utilized. The 2009 program has worked very well. It's a great program that pays for itself over time. An increase in the state's contribution would be preferable, but either way the program is a good state investment. These projects have generated millions of dollars in new sales and use taxes. The program's capacity is currently full, but if the cap were increased, the state could generate additional money. The state should consider allowing new projects.

Persons Testifying on Second Substitute (Ways & Means): PRO: Sen. Brown, prime sponsor; Tom McBride, City of Kennewick.

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