

SENATE BILL REPORT

SB 6316

As Reported by Senate Committee On:
Government Operations & Security, February 4, 2016
Ways & Means, March 3, 2016

Title: An act relating to designated disaster area financing.

Brief Description: Concerning designated disaster area financing.

Sponsors: Senator Parlette.

Brief History:

Committee Activity: Government Operations & Security: 2/02/16, 2/04/16 [DPS].
Ways & Means: 3/02/16, 3/03/16 [DP2S, w/oRec].

SENATE COMMITTEE ON GOVERNMENT OPERATIONS & SECURITY

Majority Report: That Substitute Senate Bill No. 6316 be substituted therefor, and the substitute bill do pass.

Signed by Senators Roach, Chair; Benton, Vice Chair; Pearson, Vice Chair; McCoy, Ranking Minority Member; Dansel, Habib and Takko.

Staff: Karen Epps (786-7424)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 6316 be substituted therefor, and the second substitute bill do pass.

Signed by Senators 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, Nelson, O'Ban, Padden, Parlette, Rolfes, Schoesler and Warnick.

Minority Report: That it be referred without recommendation.

Signed by Senators Hasegawa and Pedersen.

Staff: Dean Carlson (786-7305)

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.

Background: Public infrastructure funding is accomplished in a number of different ways in Washington. The Legislature has, in recent years, examined a number of ways to increase investment in public infrastructure in the state. Tax increment financing is a method of redistributing increased tax revenues within a geographic area resulting from a public investment to pay for the bonds required to construct a project.

Local governments that utilize tax increment financing typically issue bonds to finance public improvements. To repay its bondholders, the local government is permitted to draw upon regular property tax revenue collected from property owners inside a special district surrounding the site of the public improvements. Construction of public improvements tends to increase the market values of nearby properties. Increases in value can result in increased property taxes for each taxing district that includes property near the public improvement. Under tax increment financing, the local government making the improvement gets all of the resulting tax revenue increase.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Recommended Second Substitute): A local government may establish a Designated Disaster Area (DDA) and use DDA financing to pay for public improvements. The sponsoring local government must provide at least 60 days' notice to all local governments with boundaries within the proposed DDA of its intent to establish a DDA, prior to holding a public hearing. The notice must include:

- the name of the proposed DDA;
- the date for the public hearing;
- the earliest anticipated date when the sponsoring local government will take action to adopt the proposed DDA; and
- the name of a contact person of the sponsoring local government.

The sponsoring local government must hold a public hearing. Notice of the public hearing must be published in the newspaper within the proposed DDA at least 10 days before the public hearing and posted in at least six conspicuous public places located in the proposed DDA. Local governments wishing to participate in the DDA financing must enter into an interlocal agreement; local governments that do not wish to participate must pass an ordinance and provide it to the sponsoring local government. The sponsoring local government must adopt an ordinance designating a DDA and specifying the public improvements proposed to be financed with the use of DDA financing. The ordinance must:

- describe the public improvements to be made and their estimated cost;
- specify the DDA boundaries; and
- include the estimated length of time the DDA financing will be in place, including the estimated date when the state-shared local sales and use tax will be imposed.

There are certain conditions a local government must meet in order to use DDA financing, including:

- having had a qualifying disaster caused damage of at least \$10 million within the boundaries of the local government;
- the public improvements are expected to encourage private development within the DDA;

- the local government has entered into a contract with, or letter of intent from, a developer; and
- the development will be consistent with the local government's comprehensive plan and development regulations, and the countywide planning policy adopted under the Growth Management Act.

The local government may not use DDA financing to finance the costs associated with a public facilities district for a regional center. In order to use DDA financing, the local government must find that the DDA financing will:

- not be used to relocate a business from elsewhere in the state unless convincing evidence is provided that the business would have left the state;
- improve the viability of existing businesses within the DDA;
- be used exclusively in areas within the jurisdiction of the local government directly damaged by the qualifying disaster; and
- be reasonably likely to increase private investment within the DDA, increase employment, and generate increases in tax revenues.

The DDA may be located within the boundaries of more than one participating local government but, within the boundaries of a participating local government, the total area cannot be more than 50 percent greater than the portion of the affected area that is located within the boundaries of the participating local government. The DDA may not comprise more than 25 percent of assessed value in any one jurisdiction. The boundaries may not be changed for the time period that the sales tax authorized under the act is in effect.

The sponsoring local government may use some or all of its local sales and use tax increments to finance public improvements in the DDA, subject to any start and end dates specified in an interlocal agreement. The sponsoring local government may issue general obligation bonds to finance the public improvements that are paid with DDA financing.

The sponsoring local government must apply to the Department of Commerce (Commerce) and be approved for a project award amount. Project awards must be determined through a competitive process, which considers the following criteria:

- the project's potential to enhance the sponsoring local government's regional or international competitiveness;
- the project's ability to encourage mixed use and transit-oriented development and the redevelopment of a geographic area;
- whether there is an overall distribution of projects statewide that reflects geographic diversity;
- whether the estimated wages and benefits for the project are greater than the average labor market area;
- the estimated state and local net employment change over the life of the project;
- the current economic health and vitality of the proposed DDA and the nearby community and the estimated impact of the proposed project on the proposed DDA and the nearby community;
- the estimated state and local net property tax change over the life of the project;
- the estimated state and local sales and use tax increase over the life of the project; and

- if a project is located within an urban growth area, whether the project utilizes existing urban infrastructure and whether the transportation needs of the project will be adequately met through the use of DDA financing or other sources.

Commerce must notify the sponsoring local government if a project award is approved or denied within 60 days of receiving the application. The total of all project awards may not exceed the annual state contribution limit of \$500,000. The amount of state contribution is limited to the lesser of: (1) a project award amount approved by Commerce, (2) local revenues dedicated in the previous calendar year, or (3) \$500,000. The state-shared sales and use tax rate is based on the estimated rate necessary to receive the project award approved by Commerce. Once total project awards reach \$1.5 million annually, no more applications will be accepted.

After Commerce approves the DDA and award amount, the jurisdiction may impose a state-shared tax within the DDA. Bond issuance may or may not be required as a prerequisite for imposing the tax. The state-shared tax:

- does not increase the rate paid by purchasers because it is credited against the state sales and use tax;
- must be imposed within the entirety of already existing local taxing jurisdictions that contain all or part of the DDA;
- applies to all retail/use taxable events occurring within the DDA; and
- must be imposed at a rate that allows the annual award to be received in monthly distributions over a fiscal year.

Sponsoring local governments must report to Commerce certain information about the state-shared sales and use tax revenues, the increment in local sales and use tax, economic development in the area, and information about any debt undertaken to finance the public improvements. Commerce must make this information publically available.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Second Substitute): The maximum amount of awards given in a single year is changed to \$1.5 million from \$5 million. Qualifying disaster is defined as a wildfire occurring in 2014 or 2015 for which the governor proclaimed a state of emergency pursuant to RCW 43.06.010.

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 on First Substitute (Government Operations & Security): PRO: The extent of fires in Eastern Washington has been huge and communities are still dealing with them. In the Wenatchee area and in Lake Chelan, due to embers, two fruit processing warehouses were destroyed. This bill is designed to help these communities rebuild infrastructure. Wenatchee has been very resolute in dealing with the destruction of its

residential areas. Of the 30 homes that were destroyed, six are in the process of being rebuilt. In the commercial area, almost 70 acres either burnt or the tenants have decided to relocate. The city wants to build some infrastructure, some roads, and some sewers to allow the property to redevelop. Chelan suffered between \$100 and \$200 million in losses. Chelan is interested in building a water pipeline to the airport. The airport was staging for helicopters and played a vital role in the past two fire fights. This infrastructure will allow the airport to have water readily available for fire hydrants out at the airport for the next fire fight, will bring clean drinking water to the airport and the neighboring community, will allow Chelan to build affordable housing, and will bring clean, light industry to Chelan. The government has a role to play in building infrastructure to get the property ready for redevelopment and help these communities recover.

Persons Testifying on First Substitute (Government Operations & Security): PRO: Senator Parlette, Prime Sponsor; Frank Kuntz, Mayor, City of Wenatchee; Mike Cooney, Mayor of Chelan, participating by remote testimony.

Persons Signed In To Testify But Not Testifying on First Substitute (Government Operations & Security): No one.

Staff Summary of Public Testimony on Second Substitute (Ways & Means): PRO: Chelan is looking at two areas that would fit the DDA financing. We are hoping to get the financing to move a water pipe out to an area that will have affordable entry level housing. Currently they have to truck water out to the airport to fight the wildfires. For our industrial area that was lost we would fund sewer and water out to that area. This is about the future of Chelan. We are impressed that Chelan is using this vehicle to diversify their economy. This is tax increment financing. We have had many businesses damaged to by fire and they have moved. We are looking for water, roads and sewer to a 60 acre area damaged by the fire. Pateros is trying to recover from the Carlton Complex fire. We are looking to support a plastics plant. This will help this city take charge of their own recovery.

Persons Testifying on Second Substitute (Ways & Means): PRO: JC Baldwin, Chelan-Douglas Co. Port District; Craig Larsen , Chelan-Douglas Co. Port District; Mike Cooney, City of Chelan; Frank Kuntz, Mayor, City of Wenatchee; Carlene Anders, City of Pateras.

Persons Signed In To Testify But Not Testifying on Second Substitute (Ways & Means): No one.