

HOUSE BILL REPORT

HB 1324

As Reported by House Committee On:
Local Government

Title: An act relating to financing local infrastructure.

Brief Description: Concerning the financing of local infrastructure.

Sponsors: Representatives Tharinger, DeBolt and Smith; by request of Office of Financial Management.

Brief History:

Committee Activity:

Local Government: 1/24/17, 2/2/17 [DP].

Brief Summary of Bill

- Creates a new program within the Housing Finance Commission to provide financing for local infrastructure projects through the issuance of bonds or loans.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: Do pass. Signed by 4 members: Representatives Appleton, Chair; McBride, Vice Chair; Gregerson and Peterson.

Minority Report: Do not pass. Signed by 2 members: Representatives Pike, Assistant Ranking Minority Member; Taylor.

Minority Report: Without recommendation. Signed by 1 member: Representative Griffey, Assistant Ranking Minority Member.

Staff: Desiree Omli (786-7383).

Background:

Housing Finance Commission.

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 Housing Finance Commission (Commission) is a finance authority that was established in statute by the Legislature to act as a financial conduit to make additional funds available at affordable rates to help provide housing throughout the state. The Commission is financially self-supported and does not receive funding from the state.

The Commission, in cooperation with the Department of Commerce, developed and implemented a housing finance program, limited to qualified first-time home buyers, and with priority given to low-income households. The housing finance program provides subsidized and unsubsidized mortgage financing for single-family home ownership and, when possible, provides down payment or closing costs assistance to eligible households. The Commission was also given the authority to develop, and has developed, additional financing programs such as the veteran homeownership down payment assistance program, sustainable energy trust program, aviation biofuel facilities and production bond program, and beginning farmer financing program.

To provide financing, the Commission may:

- issue bonds;
- make loans to or deposits with mortgage lenders for the purpose of making mortgage loans;
- make loans for down payment assistance to home buyers; and
- participate in federal and other government programs to carry out its purpose.

The Commission can also issue nonrecourse bonds for capital projects, which are bonds that are not obligations of the state. Repayment of these bonds is payable solely from the funds received as repayment of loans for which the bonds were issued.

Indebtedness Limit.

There is both a constitutional and statutory limit on general obligation debt that local governments may issue or incur. Debt limits are expressed as a percent of total assessed valuation of taxable properties within the jurisdiction. Table 1 below shows the constitutional and statutory indebtedness limits of local governments.

Table 1. Local Government Indebtedness Limits

Entity	Authority	Non-Voted debt limit	Additional debt allowed with 3/5 voter approval	Total debt allowed with 3/5 voter approval
County, city, town, school district, other municipal corporation	State Constitution	1.5 %	3.5%	5%
City or town that supplies city – owned and controlled water, light, and sewers	State Constitution	1.5%	5%	6.5%
School district – for capital outlays	State Constitution	1.5%	5%	6.5%
Counties, cities, and towns	Statute*	1.5%	n/a	2.5%

Metropolitan Municipal corporation assumed by a county	Statute	2.25%	2.5%	4.75%
City or town that supplies city – owned and controlled water, light, and sewers	Statute	1.5%	2.5%	4%
City or town – for acquiring or developing open space, park facilities, and capital facilities associated with economic development	Statute	1.5%	2.5%	4%
School districts	Statute	0.375%	n/a	2.5%**
Public hospital districts	Statute	0.75%	n/a	2.5%
Other taxing districts, unless otherwise by law	Statute	0.375%	n/a	1.25%

* RCW 39.36.020

***In addition to the excess 2.5% with voter approval, a school district may become indebted to an additional amount of 2.5% for capital outlays.*

Summary of Bill:

Housing Finance Commission – Local Infrastructure Financing Program.

The Commission is authorized to develop and implement a new program to provide financing to local governments for infrastructure projects. Infrastructure projects may include the planning, acquisition, construction, repair, reconstruction, replacement, rehabilitation, or improvement of streets, roads, bridges, water systems, storm and sanitary systems, solid waste and recycling facilities, and other municipal projects, facilities, and utilities. Local governments include cities, towns, counties, special purpose districts, port districts, school districts, and any other municipal corporation or quasi-municipal corporation.

In establishing this program, the Commission must develop eligibility criteria that will enable the Commission to choose applicants who are likely to repay the loans.

Under this program, the Commission has the authority to:

- issue revenue bonds;
- make or purchase loans to local governments for financing all, or part, of the costs of infrastructure projects;
- enter into financing agreements regarding the repayment of the loans;
- exempt interest on its bonds from federal income tax on bonds that are tax-exempt; and
- participate in government programs for the purpose of securing financing for infrastructure projects.

The Commission may not use its general funds to implement the program, but may use its general funds to administer the program.

Proceeds and Revenues from Bonds.

The proceeds from the sale of bonds by the Commission must be deposited in a segregated special fund established for the purpose the bond was issued. Any revenues that the Commission receives, including contributions, grants, or payment on the principal or interest on bonds, must be deposited in a segregated special trust fund. Bond proceeds and revenues from bonds are not considered state funds.

Financing Agreements.

Any local government may enter into a financing agreement with the Commission setting out the terms and conditions of a loan from the Commission. The agreement may state that the local government will repay the loan solely from revenues set aside into a special fund for repayment. In addition, for local governments authorized to levy taxes and borrow money payable from taxes, the agreement may state that repayment of the loan is a general obligation of the local government, or both a general obligation and an obligation payable from revenues set aside into a special fund.

The Commission has rights of recovery for any breach of the agreement or default in payment.

Indebtedness Limit.

Bonds issued by the Commission under this program are excluded from the Commission's statutory indebtedness limit of \$6 billion. Moreover, the loans provided under this program are not included in the computation of indebtedness limits set by statute, but may not exceed constitutional limits.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) This bill is a result of Public Works funds being reallocated for other purposes. This would allow the House Finance Commission to do a pooling of bonds to drive down interest rates for local governments. This repayment strategy would also take this off the books. This bill is part of the solution to provide local governments with access to better interest rates on the private market than they would get on their own. This is a base to build a smart and effective partnership with local government on infrastructure investment.

(Opposed) None.

(Other) If the interest rates the Housing Commission can obtain are more or less what utility or local governments can get on the private market, the program does not have much value.

If however, by pooling different borrowing groups together and doing some things the Commission does in their low-income housing program that can drive rates down, then the program is of more interest and value. This is a last opportunity to save some of the loan repayment stream from the Public Works Assistance Account. Without that, the poorest cities are left with high rate interest loans they cannot afford.

Persons Testifying: (In support) Representative Tharinger, prime sponsor; Scott Merriman, Office of Financial Management; and Carl Schroeder, Association of Washington Cities.

(Other) Bill Clarke, Washington Public Utility District Association.

Persons Signed In To Testify But Not Testifying: None.