HOUSE BILL REPORT
HB 2804

As Reported by House Committee On:
Local Government
Finance

Title: An act relating to local government infrastructure.

Brief Description: Addressing local government infrastructure.

Sponsors: Representatives Duerr, Ryu, Pollet, Slatter and Boehnke.

Brief History:
Committee Activity:
Local Government: 2/5/20, 2/7/20 [DPS];
Finance: 2/10/20 [DPS(LG)].

Brief Summary of Substitute Bill

- Establishes a total state contribution limit of $15 million for Local Revitalization Financing projects awarded a state contribution after January 1, 2021.
- Establishes a $1 million limit for individual project funding for projects awarded a state contribution after January 1, 2021.
- Requires the Department of Commerce to utilize new criteria when selecting projects for state contribution after January 1, 2021, including criteria such as the project's ability to enhance regional or international competitiveness, the estimated change in net employment over the life of the project, and the speed at which construction on the project can begin.
- Requires that local governments applying for a state contribution award include information demonstrating that the project would not go forward without the state contribution, and that the local government has consulted with a federally recognized Indian tribe when the project may involve an archeological, cultural, or natural resource site of significance

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to the tribe.

- Requires that the Joint Legislative Audit and Review Committee report on the effectiveness of the state contribution by December 1, 2025.

HOUSE COMMITTEE ON LOCAL GOVERNMENT

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Pollet, Chair; Duerr, Vice Chair; Kraft, Ranking Minority Member; Griffey, Assistant Ranking Minority Member; Appleton, Goehner and Senn.

Staff: Kellen Wright (786-7134).

Background:

Local Revitalization Financing (LRF) allows local governments to finance public improvement projects within a designated revitalization area through the incremental increases in tax revenue that will be realized from the completion of the project. Local Revitalization Financing allows the local government to issue bonds to fund the infrastructure project, and to retire those bonds using increases in property and sales tax revenue generated by the project. The local government may additionally use other public financing, as well as a possible state contribution to fund the project.

Public improvements include infrastructure projects that can encompass:
- streets, roads, bridges, and rail; water and sewer system construction and improvement;
- sidewalks, streetlights, landscaping, and streetscaping;
- parking, terminal, and dock facilities;
- park and ride facilities of a transit authority;
- park facilities, recreational areas, and environmental remediation;
- storm water and drainage management systems;
- electric, gas, fiber, and other utility infrastructures;
- providing environmental analysis, professional management, planning, and promotion within the revitalization area, including the management and promotion of retail trade activities in the revitalization area;
- providing maintenance and security for common or public areas in the revitalization area; and
- historic preservation activities

The state contribution to LRF is made through a tax that a local government that receives a state contribution award may impose. This tax is not imposed on the sale of goods, but is instead credited against the state sales tax. The amount contributed by the state in this way may not exceed a total of $2.5 million for all projects, with no more than $500,000 provided for any individual project (this limit does not include nine demonstration projects approved in 2009; the state contribution for those projects is a separate $4.2 million). The state contribution cannot exceed the local government's contribution from the preceding year, and the state contribution must be used to retire general obligation bonds issued for the project by the local government. The Department of Commerce selects which projects will be awarded state contributions, using criteria including the availability of a state contribution; whether the sponsoring local government would be able to generate enough tax revenue to generate the amount of project award requested; the number of jobs created; the fit of the expected business creation or expansion within the region's preferred economic growth strategy; the speed with which the project can begin construction; and the extent to which the project leverages nonstate funds.

Summary of Substitute Bill:

Local Revitalization Financing (LRF) projects approved after January 1, 2021, may receive a total state contribution of up to $15 million per year for no more than 20 years. An individual project approved after January 1, 2021, may receive a maximum state contribution of $1 million per year for 20 years. Projects must begin by December 31, 2026, in order to qualify to receive a state contribution.

Local governments applying for a state contribution must include information demonstrating, among other things, that the project would not occur but for the use of a LRF award and that the local government has contacted a federally recognized Indian tribe if the project may involve archeological, culture, or nature resource sites of significance to the tribe. After January 1, 2021, project applications will be approved for an award by the Department of Commerce using 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 or transit-oriented development and the redevelopment of a geographic area;
- the project's ability to redevelop a brownfield under the Model Toxics Control Act, with additional priority given to projects that affect sites at which the state may be a potentially liable party;
- achieving an overall distribution of projects statewide that reflect geographic diversity;
- 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 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;
- the speed at which the project can begin construction;
- the extent to which the project leverages nonstate funds;
- the likelihood that the project would proceed forward without the use of state funds;
- and that a project that involves housing will result in at least 25 percent of new units qualifying as affordable (a unit is affordable if the monthly rent for the unit is no more than 24 percent of the median monthly income in the local government's jurisdiction).

Site stabilization to allow for higher density construction is a public improvement eligible for LRF. Environmental remediation is a recognized public improvement cost that can be paid with LRF.

The Joint Legislative Audit and Review Committee is required to study the effectiveness of the state contribution awarded to projects, and submit a report to the Legislature by December 1, 2025. The study must include the following determinations:

- whether new sales tax revenue realized due to projects funded in part by the state contribution exceeded the state contribution;
- whether elements of the project would not have happened but for the state contribution and LRF;
- whether new construction and business openings that have occurred in the revitalization area would have not occurred elsewhere in the state in the absence of the state contribution and LRF;
- whether projects that received a state contribution accelerated cleanup and redevelopment of brownfields, including those for which the state is a potentially liable person, as defined in RCW 70.105D.020; and
- whether, on a project-by-project basis, the projects awarded a state contribution are satisfying the criteria under RCW 39.104.100, for which the award was made.

Substitute Bill Compared to Original Bill

The substitute bill:

- removes provisions in current law that limit the state contribution on an individual project to $500,000;
- limits the total of state contribution awards to all projects awarded a state contribution after January 1, 2021, to $15 million per year for 20 years;
- limits state contribution awards to an individual project awarded a state contribution after January 1, 2021, to $1 million per year for 20 years;
- requires that sponsoring local governments, when applying for a state contribution award, provide documentation that a federally recognized Indian tribe has been consulted when the project may involve archeological, cultural, or natural resource sites of significance to the tribe;
- adds a new criteria for project awards approved on or after January 1, 2021: for

projects involving housing, that at least 25 percent of the new units will qualify as affordable;

- clarifies a criteria for project awards approved on or after January 1, 2021: the project's ability to redevelop a brownfield under the Model Toxics Control Act, with additional priority if the state may be potentially liable for the site; and
- requires that the Joint Legislative Audit and Review Committee submit a report on the effectiveness of the state contribution to Local Revitalization Financing by December 1, 2025.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) Local governments are struggling with the property tax cap, and local responsibilities are enormous. Cities face big infrastructure demands with small budgets. This bill adds another tool to the toolbox and allows partnership with the state to spur economic development. State help can make projects happen and with better results. Local Revitalization Financing (LRF) has made projects happen that otherwise would not have and can bring projects to areas that they otherwise would not have gone to. This brings sustainable development and jump-starts job creation. Previous projects using LRF have resulted in significant benefits to the state; new businesses have located in revitalized areas and resulted in thousands of new jobs. Redevelopment has led to increased state and local revenues, and the state has received more than it has paid. The bonds issued by the local government are the local government's responsibility, and the state doesn't take on any risk. These investments pay off very well for generations, and is a great return on the state's investment.

(Opposed) None

Persons Testifying: (In support) Representative Davina Duerr, Prime Sponsor; John Caufield, City of Lakewood; Hyun Kim, City of Fife; Ben Buckholz, City of Kennewick; Candice Bock, Association of Washington Cities; Gary Ballew, Port of Pasco, Director of Economic Development; JC Baldwin, Chelan Douglas Regional Port Authority.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill by Committee on Local Government be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Orwall, Springer, Stokesbary, Vick and Wylie.

Staff: Nick Tucker (786-7383).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Local Government:

No new changes were recommended.

Appropriation: None.

Fiscal Note: Available. New fiscal note requested on February 10, 2020.

Effective Date of Substitute Bill: 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 program provides a tool for cities to invest in economic development projects that they otherwise would not be able to. This model has been repeatedly implemented and proven to work. This bill is needed because currently the program does not have any funding, so although it is a great tool, no cities are actually able to use it.

Cities have land that they would like to develop, but they need additional help to get these projects started. Cities are struggling to fund projects under the 1 percent property tax limit because it does not even keep up with inflation.

The fiscal note shows a large impact, but it does not capture the dynamic effects of the bill which include the increases in other revenue as a result of the development that this bill will allow for. Funding this bill would be an investment with a large return.

(Opposed) None.

Persons Testifying: (In support) John Caufield, City of Lakewood; Candice Bock, Association of Washington Cities; Ben Buchholz, City of Kennewick.

Persons Signed In To Testify But Not Testifying: None.