SENATE BILL REPORT
ESHB 2804

As of March 8, 2020

Title: An act relating to local government infrastructure.

Brief Description: Addressing local government infrastructure.

Sponsors: House Committee on Local Government (originally sponsored by Representatives Duerr, Ryu, Pollet, Slatter and Boehnke).

Brief History: Passed House: 3/04/20, 94-3.
Committee Activity: Ways & Means: 3/09/20.

Brief Summary of Bill

- Expands the Local Revitalization Financing Program by authorizing an additional state contribution up to $15 million per year for projects approved after January 1, 2021.
- Provides a $1 million cap per new project.
- Limits the imposition of the local sales and use tax credit to 20 years.
- Provides a new set of criteria for the Department of Commerce to use when evaluating projects for approval.
- Requires the Joint Legislative Audit and Review Committee to report on the effectiveness of the state contribution by December 1, 2025.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

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. LRF 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 also use other public financing, as well as a possible state contribution to fund the project.

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.

Public improvements include infrastructure projects that may 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 Department of Commerce (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.

The state contribution to LRF is made through a local sales and use tax that is credited against the state sales and use tax, which may be imposed for up to 25 years. The maximum statutory amount allowed statewide for state contributions to LRF is $7.2 million per state fiscal year. Of this amount, $4.2 million is allocated for the seven demonstration projects, and $2.5 million is allocated for the other projects approved on a first-come basis. The maximum amount of state contribution for each demonstration project is specified in the bill and ranges from $200,000 to $500,000 per project. The maximum state contribution for each project approved on a first-come basis is $500,000.

The Joint Legislative Audit and Review Committee (JLARC) conducts performance audits, program evaluations, and other analysis with the goal of making government operations more effective, efficient, and accountable. JLARC is comprised of an equal number of members from the House of Representative and the Senate.

Summary of Bill: 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 an agreement on how formal consultation will proceed with a federally recognized Indian tribe if the project may involve archeological, cultural, or nature resource sites of significance to the tribe. After January 1, 2021, project applications will be approved for an award by 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 the project would proceed forward without the use of state funds;
- a project that involves the construction of new 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; and
- for a project that involves existing affordable housing, whether any affordable housing will be lost as a result of the project, and, if so, whether the sponsoring local government has a plan to mitigate the loss.

Site stabilization to allow for higher density construction and relocation and construction of a state-owned facility are among the public improvements eligible for LRF. Environmental remediation is a recognized public improvement cost that can be paid with LRF.

JLARC 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; and
- whether, on a project-by-project basis, the projects awarded a state contribution are satisfying the criteria for which the award was made.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.