

# HOUSE BILL REPORT

## HB 2325

---

**As Reported by House Committee On:**  
Capital Budget

**Title:** An act relating to creating the community development fund.

**Brief Description:** Creating the community development fund.

**Sponsors:** Representatives Kenney, Pettigrew, Flannigan, Haler, Hankins, Skinner, Kirby, Blake, Ericks, Wood, Upthegrove, Ormsby, P. Sullivan, Barlow, Chase, Quall, Hasegawa, Conway, McIntire, Grant, Morris, McDermott, Sells, Kessler and Santos.

**Brief History:**

**Committee Activity:**

Capital Budget: 2/27/07, 3/5/07 [DPS].

### Brief Summary of Substitute Bill

- Creates the Community Development Fund in the State Treasury to provide grants for capital projects in urban and rural distressed communities.

---

### HOUSE COMMITTEE ON CAPITAL BUDGET

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 18 members: Representatives Fromhold, Chair; Ormsby, Vice Chair; Schual-Berke, Vice Chair; Blake, Chase, Dunshee, Eickmeyer, Flannigan, Goodman, Hankins, Hasegawa, Kelley, McCune, Pedersen, Sells, Skinner, Strow and Upthegrove.

**Minority Report:** Do not pass. Signed by 4 members: Representatives McDonald, Ranking Minority Member; Newhouse, Assistant Ranking Minority Member; Orcutt and Pearson.

**Staff:** Susan Howson (786-7142).

#### **Background:**

In 2006, 15 of the 39 counties in Washington were designated as economically distressed because their unemployment rate was 20 percent or more above the statewide average over the previous three years. Six jurisdictions have been designated as Community Empowerment Zones by having at least 51 percent of their households with incomes at or below 80 percent

---

*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.*

of the county's median income and an average unemployment rate 20 percent above the statewide average. In addition to those officially designated, there are a number of other communities in Washington that are characterized by high unemployment rates, low-income populations, deteriorating infrastructure, and a lack of facilities for community services, workforce training, and education.

---

**Summary of Substitute Bill:**

The Community Development Fund (Fund) is created in the State Treasury to make grant awards to local governments, federally-recognized tribes, and non-profit organizations in economically distressed communities for capital projects that: (1) Support local community development initiatives that encourage small business start-ups and sustainability, expand employment opportunities, or increase employability of community residents; (2) offer access to human services that enable community residents to take advantage of these economic opportunities; or (3) provide education and recreational opportunities separate from the public education system. Moneys in the Fund may only be spent after appropriation.

The Department of Community, Trade and Economic Development (Department) is directed to establish and conduct a statewide competitive grant solicitation and evaluation process for projects that propose to invest in capital projects that correspond to the community objectives outlined in the bill.

The Department will first evaluate whether a proposed project is located within a distressed rural or urban area. Projects that are located outside of such an area are ineligible for further consideration.

The Department will next evaluate whether proposed projects meet one of the three community objectives in the bill. Projects that do not meet any of these objectives are ineligible for further consideration.

The Department will then evaluate the remaining eligible proposals according to specific criteria. Criteria includes: (1) an applicant's long-term vision for development of the community, which is shared by community residents, businesses, partners and leaders; (2) a demonstration that the state's investment is critical to accomplishing a discrete, usable phase of the project, that the project is ready to proceed, and will make timely use of the funds; (3) an applicant's ability to fulfill the terms of the grant agreement and to maintain the project into the future; (4) evidence of unmet need for economic development opportunities, human services, youth education and recreational opportunities; (5) evidence that the project will achieve stated goals; and (6) the extent to which the project is a community priority as shown through tangible commitments by residents, businesses, local leaders, and partners.

In recommending projects for funding, the Department may not set a monetary limit on funding requests, require applicants to contribute cash or in-kind match to the state funds requested, or require that state funds be the last to be spent on the project.

Beginning with the 2009-11 biennium and each biennia thereafter, the Department is directed to submit a \$10 million prioritized list of projects to the Governor and the Legislature in its biennial capital budget request. The list shall include a minimum of five projects. The prioritized projects must have as their main, but not necessarily sole objective, local community development initiatives that encourage small business start-ups and sustainability, expand employment opportunities, or increase employability of community residents. The Department is also required to submit an unranked list of the remaining projects, including all application materials received and all working papers developed during the evaluation process. The appropriate fiscal committees of the Legislature will use this list to determine, in the Legislature's sole discretion, any additional Community Development Fund projects that may receive funding in the capital budget up to \$15 million.

Once the Legislature has approved the list, the Department will develop and manage grantee contracts, monitor project expenditures and grantee performance, and report project information to the Legislature. Grantees must hold capital improvements for a specified time period, and such improvements must be used for the express purpose of the grant. If the grantee is found to be out of compliance with the terms of the grant, the grantee must repay the principal amount plus interest.

By January 1, 2009, and each biennium thereafter, the Department will submit a report to the Legislature that includes the results of projects funded during the current biennium, recommendations for policy and programmatic changes to the program, if any, and the ranked and unranked project lists.

**Substitute Bill Compared to Original Bill:**

The substitute bill clarifies that the Community Development Fund grants are targeted to capital projects, not capacity-building or technical assistance grants. Applicants must meet specific, quantified criteria to be considered eligible under the distressed rural or urban area definition. Federally-recognized tribes are eligible to apply. Grants must further at least one of three community objectives outlined in the bill. The Department must initially screen out those applications that do not meet the distressed area criteria or do not further one or more of the three community development objectives. Evaluation criteria is expanded. The Department must submit at least five projects on its ranked list of \$10 million. The prioritized projects must have as their main, but not necessarily sole objective, local community development as described in the bill. The Department must provide the Legislature with an unranked list of the remaining eligible projects which shall be used to determine, in the Legislature's sole discretion, any additional projects to receive up to \$15 million in state funding in the capital budget. The substitute bill further clarifies what the Department must include in its biennial report.

---

**Appropriation:** None.

**Fiscal Note:** Requested on March 5, 2007.

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

**Staff Summary of Public Testimony:**

(In support of original bill) The Community Development Fund has the potential to spark an economic engine that activates and transforms economically distressed communities and delivers financial and social returns in the short- and long-term. The bill takes a visionary, new approach to meeting needs of both rural and urban distressed communities by offering financial support not only for brick and mortar projects but also for capacity-building and technical assistance. To receive an award from the Community Development Fund, communities will be required to demonstrate long-term vision that links economic development, human services, and infrastructure together in a synergistic way. It is important to maintain the personality, vibrancy and diversity of a community but at the same time to add prosperity. Grants available through the Community Development Fund will help small nonprofit organizations enhance critical services to underserved individuals. Capacity-building and technical assistance are very important for small organizations in rural areas because they have few staff and limited technical ability to carry out capital projects. The number of people here today to testify makes it evident that existing state and federal resources are not reaching communities of color.

(Neutral) The Department of Community, Trade and Economic Development takes its implementation role seriously and is interested in helping ensure programs directed to the agency deliver the results desired by the Legislature. It would be helpful to have certain elements of the bill clarified to make sure the Department delivers a prioritized list that is consistent with the Legislature's intended outcomes.

(Opposed) None.

**Persons Testifying:** (In support of original bill) Representative Kenney, prime sponsor; Velma Veloria, Homesight; Jeff Robinson, Sound Community Initiatives; Felix Flannigan, Martin Luther King Housing; Marilyn Strickland, Upper Tacoma Business Association; Julio Quan, Centro Latino; Enrique Gonzalez, Centro de la Rasa; Ricardo Garcia, Northwest Community Education Center; Michael Mirra, Tacoma Housing Authority; Earl Richardson, Southeast Effective Development; Jeff Bruce, Martin Luther King Housing Development Organization; Duke Paulson, Metropolitan Development Council; Rob Brewer, North Helpline Foodbank; Jorge Madrazo, Sea Mar Community Health Center; Roger Bouen, North Helpline; and Colleen Barta, Washington Association of Small Business Incubators.

(Neutral) Dara Fredrickson, Department of Community, Trade and Economic Development.

**Persons Signed In To Testify But Not Testifying:** None.