BILL ANALYSIS

Local Government & Housing Committee

HB 1360

Brief Description: Concerning funding for residential infrastructure development.

Sponsors: Representatives Ormsby, Orcutt, Simpson, Smith, Dunshee, Springer, Liias, Upthegrove, Eddy, Takko, Chase, Morrell, Moeller and Sullivan.

Brief Summary of Bill

- Creates the residential infrastructure program (program) and related administrative requirements for the Department of Community, Trade, and Economic Development.
- Specifies that the program is to provide loans and grants to eligible entities for public infrastructure that supports increased capacity for dense, affordable residential development in areas within certain distances of high capacity transit stations or major transit stops.
- Specifies eligibility requirements for qualifying jurisdictions and nonprofit organizations that may participate in the program.
- Creates a residential infrastructure account in the State Treasury that is to be populated, in part, with the monies from the General Fund or proceeds from the state real estate excise tax.

Hearing Date: 1/29/09

Staff: Ethan Moreno (786-7386)

Background:

Affordable Housing Programs.

The Housing Division of the Department of Community, Trade, and Economic Development (DCTED) administers programs to create, preserve, and support affordable housing. These programs award funds for the construction, acquisition, and rehabilitation of affordable housing, but, with limited exceptions, do not fund infrastructure required to support housing development.

Real Estate Excise Tax.

A real estate excise tax (REET) is imposed by the state upon the sale of real property at the rate of 1.028 percent of the selling price. Of the amount collected, 6.1 percent of the proceeds are deposited into the Public Works Assistance Account, and 0.6 percent of the proceeds are deposited into the City-County Assistance Account.

Summary of Bill:

Program Creation.

The residential infrastructure program (program) is created in the DCTED to provide loans to eligible jurisdictions and grants to nonprofit organizations for public infrastructure that supports increased capacity for dense, affordable residential development in transit-proximate areas. "*Transit-proximate*" is defined to mean within one-half mile of a high capacity transit station or within one-quarter mile of a major transit stop.

Funds allocated through the program must be used to pay for the cost of public infrastructure projects, including the planning, construction, repair, reconstruction, replacement, rehabilitation, or improvement of sidewalks, streets and roads, bridges, publicly owned utilities, drinking water systems, and storm and sanitary sewage systems. Program funds may also be used for the acquisition of real property when the acquisition is directly related to the development of qualifying public infrastructure.

Program Eligibility and Administration.

Eligible jurisdictions seeking funding from the residential infrastructure program must satisfy various requirements, including:

- designating a project area within its urban growth area, and demonstrating that overall development within the project area will increase the supply of dense, affordable residential development units;
- demonstrating that the project area will meet proximity and minimum density requirements;
- demonstrating that the infrastructure projects are contained in official planning documents and will increase existing system capacity to accommodate projected population growth in a manner that supports infill and redevelopment of existing urban areas; and
- committing to paying prevailing wages for each infrastructure project.

Eligible jurisdictions also must include a plan to construct or pay for the construction of comparable replacement housing within the jurisdiction when persons are displaced by a project funded by the program. A residential unit lost as a result of a project funded by the program must be replaced one-for-one with a unit at an equal or better affordability rate, and relocation assistance must be paid to any displaced households.

Nonprofit organizations seeking funding from the program must:

- demonstrate that the funding will support public infrastructure projects or the acquisition of property related to the development of infrastructure projects that are related to a qualifying affordable residential development; and
- comply with requirements related to the provision of comparable replacement housing, relocation standards and requirements, and prevailing wage requirements.

The DCTED must determine each year the total amount of funding available in loans and grants and must establish the total amount of financial assistance to be allocated to applicants based on:

- the total amount of money allocated to the program in a given year;
- the quality of applications received; and
- the best available projections of total revenue likely to be available for the program for the subsequent three years.

The total amount of financial assistance allocated may not exceed $10 million per project for eligible jurisdictions and $1 million per project for nonprofit organizations. These funding limits, however, may be adjusted for inflation. Additionally, loan interest rates may not exceed one-half of one percent a year.

The DCTED must establish policies, priorities, and procedures by which all or part of a loan may be forgiven if an eligible jurisdiction:

- creates a significantly greater number of affordable residential housing units within the project area than the number agreed to during loan contract negotiations;
- creates a significant number of residential units that are available and affordable to households of income levels significantly below the maximum income levels allowable under the program; or
- significantly exceeds program expectations in other ways to be identified by the DCTED.

The DCTED must establish and use a competitive application process for loan and grant awards and must review and prioritize proposals in consultation with the Public Works Board and the Transportation Improvement Board or their respective designees.

Priority must be awarded to projects that include plans meeting certain requirements, including maximizing capacity to accommodate growth and demonstrating readiness to proceed. Additionally, the DCTED must prioritize projects that increase the number of units, maximize density, or maximize affordability in the greatest proportion relative to the existing current residential capacity, transit use, and density capacity within jurisdictions. The DCTED must also consider projects that demonstrate a commitment to creating receiving areas for transferred development rights from rural and resources lands.

If an infrastructure project funded by the program is not completed by the agreed upon date or varies substantially from the approved proposal in a way that will result in the creation of less affordable residential development than that agreed to, the eligible jurisdiction or nonprofit organization associated with the project must either make necessary project adjustments as determined by the DCTED or refund all or a portion of the loan or grant amount.

If an eligible jurisdiction rescinds its commitment to promoting affordable residential development within the designated project area by changing officially adopted policies and ordinances or failing to implement these policies and ordinances, the jurisdiction may be required to refund all or a portion of the principal loan amount plus compounded interest. Similarly, if a nonprofit organization fails to produce the agreed upon number of affordable residential units within its designated project, the nonprofit organization may be required to refund all or a portion of its grant amount plus compounded interest.

The DCTED may grant a partial or total exemption from the repayment requirements if it determines that a project is substantially complete or that the property has been substantially used in keeping with the original affordable residential housing purpose of the loan or grant.

Reporting Requirements.

Eligible jurisdictions and nonprofit organizations that receive support from the program must report to the DCTED annually by December 31 of each year following the date of the receipt of the loan or grant until 10 years after the completion of the infrastructure project.

Residential Infrastructure Account - Creation and Funding.

The residential infrastructure account (account) is established in the state treasury. All receipts from transfers described below, repayments of program loans or grants, account interest, and other sources identified by the legislature must be deposited into the account. Expenditures from the account may be used only for the program.

On or before August 31, 2010, and by August 31 of each subsequent year, the State Treasurer must transfer from the General Fund into the account the lesser of $50 million or the excess real estate excise tax (REET) growth amount. A formula for determining the excess REET growth amount is specified in the bill. Additional administrative requirements pertaining to the account are specified for the State Treasurer.

Real Estate Excise Tax.

Provisions governing the state imposed REET are modified. Of the amount collected, 6.1 percent of the proceeds must be deposited into the Public Works Assistance Account, 0.6 percent of the proceeds must be deposited into the City-County Assistance Account, and the remainder must be deposited in to the General Fund.

Definitions.

Numerous definitions associated with the program, including definitions for "affordable housing" and "eligible jurisdictions" are established in the bill.

Appropriation: None.

Fiscal Note: Requested January 28, 2009.

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