

HOUSE BILL REPORT

SHB 2244

As Passed House:
February 18, 2014

Title: An act relating to restoring resources to the capital budget beginning with the 2015-2017 biennium.

Brief Description: Restoring resources to the capital budget.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Stanford, DeBolt, Dunshee, MacEwen, Appleton, Morrell, Blake, Pollet and Ormsby).

Brief History:

Committee Activity:

Capital Budget: 1/30/14, 2/4/14 [DP];
Appropriations: 2/10/14, 2/11/14 [DPS].

Floor Activity:

Passed House: 2/18/14, 87-11.

Brief Summary of Substitute Bill

- Reinstates the deposit of specific tax revenues into the Public Works Assistance Account beginning July 1, 2015, rather than July 1, 2019.
- Authorizes appropriations from the Education Construction Fund (ECF) for common school construction that is consistent with the construction objectives of Initiative 728.
- Directs the transfer of \$102 million annually from the State General Fund to the ECF after July 1, 2015.
- Includes the redirected revenues as resources for purposes of the balanced budget and budget outlook requirements.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass. Signed by 13 members: Representatives Dunshee, Chair; Stanford, Vice Chair; DeBolt, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Appleton, Christian, Riccelli, Robinson, Scott, Senn, Smith, Stonier and Warnick.

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.

Staff: Meg VanSchoorl (786-7105).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 31 members: Representatives Hunter, Chair; Ormsby, Vice Chair; Chandler, Ranking Minority Member; Ross, Assistant Ranking Minority Member; Wilcox, Assistant Ranking Minority Member; Buys, Carlyle, Christian, Cody, Dahlquist, Dunshee, Fagan, Green, Haigh, Haler, Harris, Hudgins, G. Hunt, S. Hunt, Jinkins, Kagi, Lytton, Morrell, Parker, Pettigrew, Schmick, Seaquist, Springer, Sullivan, Taylor and Tharinger.

Staff: Dave Johnson (786-7154) and Kristen Fraser (786-7148).

Background:

Public Works Assistance Account.

The Public Works Assistance Account (PWAA), also known as the Public Works Trust Fund, was created in 1985 to encourage local government self-reliance in meeting public works needs and to assist in financing critical infrastructure projects.

Local governments and special purpose districts, except port and school districts, are eligible to apply to the Public Works Board (PWB) for low-interest loans made from the PWAA to finance the acquisition, construction, repair, replacement, or improvement of bridges, streets, and roads; water systems; storm and sanitary sewage systems; and solid waste facilities, including recycling. The PWB may also make loans from the PWAA for pre-construction activities, emergencies, and capital facilities planning. Monies in the PWAA may also be appropriated to provide state matching funds for the federal safe drinking water and clean water state revolving funds.

Between 1985 and 2013 the PWAA was used to make loans totaling \$2.84 billion for approximately 1,975 local government public works projects. Sewer and drinking water system projects have accounted for 79 percent of the total loan value and 75 percent of the number of projects. Cities have sponsored nearly two-thirds of the projects in terms of both loan value and number.

PWAA Revenue Deposits, Redirections, and Transfers.

Historically, the PWAA has received deposits of loan repayments and revenues from the following three taxes: (1) 6.1 percent of the Real Estate Excise Tax (REET) imposed on the sale of real property; (2) 20 percent of the Public Utility Tax (PUT) revenues from water utilities and 60 percent of the PUT revenues from sewer utilities; and (3) 100 percent of the Solid Waste Collection Tax (SWCT) imposed on garbage utilities.

In recent years the Legislature has transferred cash and redirected tax revenues from the PWAA to the State General Fund and the Education Legacy Trust Account (ELTA). For the 2013-15 biennium, the Legislature: (1) transferred \$277 million in PWAA loan repayments to the ELTA; (2) redirected 4.1 percent of the REET revenues into the ELTA, leaving 2 percent in the PWAA; (3) redirected the PUT revenues into the ELTA; and, (4) redirected the

SWCT revenues into the State General Fund. The taxes will be redirected statutorily from the PWAA through June 30, 2019.

These transfers and redirections total an estimated \$439 million in decreased revenue to the PWAA for the 2013-15 biennium. As a result, the Legislature did not approve any new PWAA loan projects. To meet projected local government draw downs on existing PWAA loan contracts during the 2013-15 biennium, the Legislature backfilled \$158 million of the cash transfer with state general obligation bonds.

Education Construction Fund.

Under Initiative 601, approved by voters in 1993, the Education Construction Fund (ECF) was established to provide state assistance for K-12 and higher education construction projects. In 2000 Washington voters approved Initiative 728 (I-728), which redirected state lottery revenue from the State General Fund to several education funds, including the ECF, beginning July 1, 2001. From July 1, 2004, to July 1, 2009, all net lottery revenues allocated for education were deposited in the ECF. In 2010 legislation was enacted that created the Washington Opportunity Pathways Account (Account) and redirected the deposit of state lottery revenue from the ECF into the Account. The 2010 legislation also required the State Treasurer to transfer \$102 million each year from the State General Fund into the ECF. Legislation enacted in 2013 removed the \$102 million annual transfer requirement.

Four-Year Balanced Budget and Outlook.

State operating budgets are subject to a four-year balance requirement. In addition to balancing in the current biennium, the budget enacted by the Legislature must also balance for the next ensuing biennium. Specifically, the maintenance costs of the current budget in the ensuing biennium must not exceed the estimated resources for the ensuing biennium. This balance requirement applies to expenditures and revenues from the General Fund and certain related funds. To facilitate compliance with the four-year balanced budget requirement, the Economic and Revenue Forecast Council prepares a multi-year budget outlook.

Summary of Substitute Bill:

Beginning on July 1, 2015, rather than on July 1, 2019, the following tax revenues must be deposited into the PWAA: (1) 6.1 percent of the REET; (2) 20 percent of the PUT collected on water distribution businesses and 60 percent of the PUT collected on sewer collection businesses; and (3) 100 percent of the state SWCT.

After July 1, 2015, the State Treasurer must transfer \$102 million annually from the State General Fund to the ECF. Monies may be appropriated from the ECF exclusively for common school construction of facility improvements or additions consistent with the construction objectives of I-728, as well as for higher education construction.

For purposes of complying with the balanced budget requirement and preparing the budget outlook during the 2013-15 biennium, resources available in the 2015-17 biennium include the revenues redirected to the Public Works Assistance Account and transferred to the Education Construction Fund under the bill.

Appropriation: None.

Fiscal Note: Available.

Effective Date: This bill takes effect 90 days after adjournment of the session in which the bill is passed, except for sections 5 and 6, relating to the four-year balanced budget and the budget outlook, which take effect immediately.

Staff Summary of Public Testimony (Capital Budget):

(In support) After the legislative session ended in 2013, we heard from local governments and businesses that community projects were swept away with the transfers and redirections of resources from the PWAA. This bill restores those resources without impacting the current biennial budget. It will allow partnerships between the state and local governments, and will create jobs. Historically, the PWAA has enabled communities to undertake critical public works projects and has fueled economic growth. With no new projects funded for this biennium, cities have had to go to the bond market. For some towns, bonding is not an option. Even small differences in interest rates can make a project go forward, stall, or be scuttled. A \$2.5 million project that would have cost \$2.8 million through the PWAA costs \$4.3 million through the bond market. We lost a \$9.75 million federal transportation grant that we planned to match with a \$2.5 million PWAA loan. Higher bond market rates mean higher debt service and result in increased utility rates. Although the state budget issues are understandable, erosion of a key program can irreparably damage public works systems. The cycle makes sense: public utility district customers pay a tax, revenues are deposited in the PWAA, and the funds are awarded to public works projects that enable customers to build houses and businesses. This will help put building and trades people to work. Seventy thousand construction workers have not returned to work since 2008.

(Opposed) None.

Staff Summary of Public Testimony (Appropriations):

(In support) None.

(Opposed) None.

Persons Testifying (Capital Budget): Bob Goedde, City of Chelan; Matt Welborn, City of Everett; Jim Haggerton, City of Tukwila; Pete Capell and Lloyd Halverson, City of Camas; Dave Scott, City of Washougal; Amy Walen, City of Kirkland; Jerry Vanderwood and Butch Brooks, Associated General Contractors; Terry Tilton, Northwest Carpenters; Randy Lewis, City of Westport; Bill Clarke, Washington Public Utility Districts Association; Dan O'Neal, Puget Sound Partnership; Blair Burrows, Washington Association of Sewer and Water Districts; and Neil Hartman, Washington State Building and Construction Trades Council.

Persons Testifying (Appropriations): None.

Persons Signed In To Testify But Not Testifying (Capital Budget): None.

Persons Signed In To Testify But Not Testifying (Appropriations): None.