CERTIFICATION OF ENROLLMENT

**ENGROSSED SUBSTITUTE HOUSE BILL 1677**

Chapter 10, Laws of 2017

(partial veto)

65th Legislature

2017 3rd Special Session

PUBLIC WORKS ASSISTANCE ACCOUNT AND PUBLIC WORKS BOARD--VARIOUS CHANGES

EFFECTIVE DATE: October 19, 2017

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| Passed by the House June 29, 2017Yeas 94 Nays 0FRANK CHOPP**Speaker of the House of Representatives**Passed by the Senate June 30, 2017Yeas 46 Nays 3CYRUS HABIB**President of the Senate** | CERTIFICATEI, Bernard Dean, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **ENGROSSED SUBSTITUTE HOUSE BILL 1677** as passed by House of Representatives and the Senate on the dates hereon set forth.BERNARD DEAN**Chief Clerk** |
| Approved July 6, 2017 1:54 PM with the exception of Section 3, which is vetoed. | July 7, 2017 |
| JAY INSLEE**Governor of the State of Washington** | **Secretary of State** **State of Washington** |

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**ENGROSSED SUBSTITUTE HOUSE BILL 1677**

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Passed Legislature - 2017 3rd Special Session

**State of Washington 65th Legislature 2017 Regular Session**

**By** House Capital Budget (originally sponsored by Representatives Peterson, Pike, Senn, McBride, DeBolt, Macri, Stonier, Riccelli, and Fey)

AN ACT Relating to local government infrastructure funding; amending RCW 43.155.010, 43.155.020, 43.155.030, 43.155.040, 43.155.060, 43.155.065, 43.155.068, 43.155.070, 43.155.075, 82.45.060, 82.16.020, and 82.18.040; reenacting and amending RCW 43.155.050; creating new sections; and providing an expiration date.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

**Sec.**  RCW 43.155.010 and 1996 c 168 s 1 are each amended to read as follows:

The legislature finds that there exists in the state of Washington over four billion dollars worth of critical projects for the planning, acquisition, construction, repair, replacement, rehabilitation, or improvement of streets and roads, bridges, water systems, and storm and sanitary sewage systems. The December, 1983 Washington state public works report prepared by the planning and community affairs agency documented that local governments expect to be capable of financing over two billion dollars worth of the costs of those critical projects but will not be able to fund nearly half of the documented needs.

The legislature further finds that Washington's local governments have unmet financial needs for solid waste disposal, including recycling, and encourages the board to make an equitable geographic distribution of the funds.

It is the policy of the state of Washington to encourage self-reliance by local governments in meeting their public works needs and to assist in the financing of critical public works projects by making loans, grants, financing guarantees, and technical assistance available to local governments for these projects.

**Sec.**  RCW 43.155.020 and 2009 c 565 s 33 are each amended to read as follows:

((~~Unless the context clearly requires otherwise,~~)) The definitions in this section ((~~shall~~)) apply throughout this chapter unless the context clearly requires otherwise.

(1) "Board" means the public works board created in RCW 43.155.030.

(2) "Capital facility plan" means a capital facility plan required by the growth management act under chapter 36.70A RCW or, for local governments not fully planning under the growth management act, a plan required by the public works board.

(3) "Department" means the department of commerce.

(4) "Financing guarantees" means the pledge of money in the public works assistance account, or money to be received by the public works assistance account, to the repayment of all or a portion of the principal of or interest on obligations issued by local governments to finance public works projects.

(5) "Local governments" means cities, towns, counties, special purpose districts, and any other municipal corporations or quasi-municipal corporations in the state excluding school districts and port districts.

(6) "Public works project" means a project of a local government for the planning, acquisition, construction, repair, reconstruction, replacement, rehabilitation, or improvement of streets and roads, bridges, water systems, or storm and sanitary sewage systems, lead remediation of drinking water systems, and solid waste facilities, including recycling facilities. A planning project may include the compilation of biological, hydrological, or other data on a county, drainage basin, or region necessary to develop a base of information for a capital facility plan.

(7) "Solid waste or recycling project" means remedial actions necessary to bring abandoned or closed landfills into compliance with regulatory requirements and the repair, restoration, and replacement of existing solid waste transfer, recycling facilities, and landfill projects limited to the opening of landfill cells that are in existing and permitted landfills.

(8) "Technical assistance" means training and other services provided to local governments to: (a) Help such local governments plan, apply, and qualify for loans, grants, and financing guarantees from the board, and (b) help local governments improve their ability to plan for, finance, acquire, construct, repair, replace, rehabilitate, and maintain public facilities.

(9) "Value planning" means a uniform approach to assist in decision making through systematic evaluation of potential alternatives to solving an identified problem.

**Sec.**  RCW 43.155.030 and 1999 c 153 s 58 are each amended to read as follows:

(1) The public works board is hereby created.

(2) The board shall be composed of seventeen members as provided in this subsection:

(a) Thirteen members appointed by the governor for terms of four years, except that five members initially shall be appointed for terms of two years. ((~~The board~~)) These members shall include: ((~~(a) Three~~)) (i) Two members, ((~~two~~)) one of whom shall be an elected official((~~s~~)) and one shall be a public works manager or a finance director, appointed from a list of at least six persons nominated by ((~~the~~)) a state association of ((~~Washington~~)) cities or its successor; ((~~(b) three~~)) (ii) two members, ((~~two~~)) one of whom shall be an elected official((~~s~~)) and one shall be a public works manager or a finance director, appointed from a list of at least six persons nominated by ((~~the Washington~~)) a state association of counties or its successor; ((~~(c) three~~)) (iii) one member((~~s~~)) appointed from a list of at least ((~~six~~)) three persons nominated ((~~jointly~~)) by ((~~the Washington~~)) a state association of public utility districts ((~~association and~~)) or its successor; (iv) one member appointed from a list of at least three persons nominated by a state association of water-sewer districts((~~,~~)) or ((~~their~~)) its successor((~~s~~)); and ((~~(d) four~~)) (v) seven members appointed from the general public with expertise in relevant fields. In appointing the ((~~four~~)) seven general public members, the governor shall ((~~endeavor to~~)) balance the geographical composition of the board and ((~~to~~)) include members with special expertise in relevant fields such as public finance, architecture and civil engineering, and public works construction. The governor shall appoint one of the general public members of the board as chair. The term of the chair shall coincide with the term of the governor.

(b) Four members from the legislature appointed for terms of four years. The speaker of the house of representatives shall appoint one member from each of the two major caucuses of the house of representatives and the president of the senate shall appoint one member from each of the two major caucuses of the senate. Additionally, the speaker of the house of representatives may designate one member from each of the two major caucuses of the house of representatives and the president of the senate may appoint one member from each of the two major caucuses of the senate as alternate members to take the place of the appointed member on the board for meetings at which the member will be absent. The alternate member shall have all powers to vote and participate in board deliberations as the other board members.

(3) Staff support to the board shall be provided by the department.

(4) Nonlegislative members of the board shall receive no compensation but shall be reimbursed for travel expenses under RCW 43.03.050 and 43.03.060. Legislative members of the board shall be reimbursed for travel in accordance with RCW 44.04.120.

(5) If a vacancy on the board occurs by death, resignation, or otherwise, the governor shall fill the vacant position for the unexpired term. Each vacancy in a position appointed from lists provided by the associations under subsection (2) of this section shall be filled from a list of at least three persons nominated by the relevant association or associations. Any members of the board, appointive or otherwise, may be removed by the governor for cause in accordance with RCW 43.06.070 and 43.06.080.

**Sec.**  RCW 43.155.040 and 1985 c 446 s 10 are each amended to read as follows:

The board may:

(1) Accept from any state or federal agency, loans or grants for the planning or financing of any public works project and enter into agreements with any such agency concerning the loans or grants;

(2) Provide technical assistance to local governments;

(3) Accept any gifts, grants, or loans of funds, property, or financial or other aid in any form from any other source on any terms and conditions which are not in conflict with this chapter;

(4) Develop a program that provides grants and additional assistance to leverage federal programs, and other opportunities to target deeper financial assistance to communities with economic distress or projects that would result in rate increases to residential utility rates that exceed a determined percentage of median household income;

(5) Adopt rules under chapter 34.05 RCW as necessary to carry out the purposes of this chapter;

((~~(5)~~)) (6) Do all acts and things necessary or convenient to carry out the powers expressly granted or implied under this chapter.

**Sec.**  RCW 43.155.050 and 2015 3rd sp.s. c 4 s 959 and 2015 3rd sp.s. c 3 s 7032 are each reenacted and amended to read as follows:

The public works assistance account is hereby established in the state treasury. Money may be placed in the public works assistance account from the proceeds of bonds when authorized by the legislature or from any other lawful source. Money in the public works assistance account shall be used to make loans and grants and to give financial guarantees to local governments for public works projects. Moneys in the account may also be appropriated or transferred to the water pollution control revolving account and the drinking water assistance account to provide for state match requirements under federal law ((~~for projects and activities conducted and financed by the board under the drinking water assistance account~~)). Not more than ((~~fifteen~~)) twenty percent of the biennial capital budget appropriation to the public works board from this account may be expended or obligated for preconstruction loans and grants, emergency loans and grants, or loans and grants for capital facility planning under this chapter((~~; of this amount, not more than ten percent of the biennial capital budget appropriation may be expended for emergency loans and not more than one percent of the biennial capital budget appropriation may be expended for capital facility planning loans~~)). Not more than ten percent of the biennial capital budget appropriation to the public works board from this account may be expended or obligated as grants for preconstruction, emergency, capital facility planning, and construction projects. During the 2015-2017 fiscal biennium, the legislature may transfer from the public works assistance account to the general fund, the water pollution control revolving account, and the drinking water assistance account such amounts as reflect the excess fund balance of the account. ((~~During the 2013-2015 fiscal biennium, the legislature may transfer from the public works assistance account to the education legacy trust account such amounts as specified by the legislature.~~)) During the 2015-2017 fiscal biennium, the legislature may appropriate moneys from the account for activities related to the growth management act and the voluntary stewardship program. During the 2015-2017 fiscal biennium, the legislature may transfer from the public works assistance account to the state general fund such amounts as specified by the legislature. ((~~In the 2017-2019 fiscal biennium the legislature intends to allocate seventy-three million dollars of future loan repayments paid into the public works assistance account to support basic education.~~))

**Sec.**  RCW 43.155.060 and 1988 c 93 s 2 are each amended to read as follows:

(1) In order to aid the financing of public works projects, the board may:

((~~(1)~~)) (a) Make ((~~low-interest or interest-free~~)) loans or grants to local governments from the public works assistance account or other funds and accounts for the purpose of assisting local governments in financing public works projects. ((~~The board may require such terms and conditions and may charge such rates of interest on its loans as it deems necessary or convenient to carry out the purposes of this chapter.~~)) Money received from local governments in repayment of loans made under this section shall be paid into the public works assistance account for uses consistent with this chapter.

((~~(2)~~)) (b) Pledge money in the public works assistance account, or money to be received by the public works assistance account, to the repayment of all or a portion of the principal of or interest on obligations issued by local governments to finance public works projects. The board shall not pledge any amount greater than the sum of money in the public works assistance account plus money to be received from the payment of the debt service on loans made from that account, nor shall the board pledge the faith and credit or the taxing power of the state or any agency or subdivision thereof to the repayment of obligations issued by any local government.

((~~(3)~~)) (c) Create such subaccounts in the public works assistance account as the board deems necessary to carry out the purposes of this chapter.

((~~(4)~~)) (d) Provide a method for the allocation of loans, grants, and financing guarantees and the provision of technical assistance under this chapter.

(2) When establishing interest rates for loan programs authorized in this chapter for projects which are supported by a rate base of at least fifty thousand equivalent residential units, the board must base interest rates on the average daily market interest rate for tax-exempt municipal bonds as published in the bond buyer's index for the period from sixty to thirty days before the start of the application cycle.

(a) For projects with a repayment period between five and twenty years, the rate must be fifty percent of the market rate.

(b) For projects with a repayment period under five years, the rate must be twenty-five percent of the market rate.

(c) For any year in which the average daily market interest rate for tax-exempt municipal bonds for the period from sixty to thirty days before the start of an application cycle is nine percent or greater, the board may cap interest rates at four percent for projects with a repayment period between five and twenty years and at two percent for projects with a repayment period under five years.

(d) The board may also provide reduced interest rates, extended repayment periods, or grants for projects that meet financial hardship criteria as measured by the affordability index or similar standard measure of financial hardship. The board may provide reduced interest rates, extended repayment periods, or grants for projects that are supported by a rate base of less than fifty thousand equivalent residential units.

(3) All local public works projects aided in whole or in part under the provisions of this chapter shall be put out for competitive bids, except for emergency public works under RCW 43.155.065 for which the recipient jurisdiction shall comply with this requirement to the extent feasible and practicable. The competitive bids called for shall be administered in the same manner as all other public works projects put out for competitive bidding by the local governmental entity aided under this chapter.

**Sec.**  RCW 43.155.065 and 2001 c 131 s 3 are each amended to read as follows:

The board may make low-interest or interest-free loans or grants to local governments for emergency public works projects. Emergency public works projects shall include the construction, repair, reconstruction, replacement, rehabilitation, or improvement of a public water system that is in violation of health and safety standards and is being operated by a local government on a temporary basis. The loans or grants may be used to help fund all or part of an emergency public works project less any reimbursement from any of the following sources: (1) Federal disaster or emergency funds, including funds from the federal emergency management agency; (2) state disaster or emergency funds; (3) insurance settlements; or (4) litigation.

**Sec.**  RCW 43.155.068 and 2001 c 131 s 4 are each amended to read as follows:

(1) The board may make ((~~low-interest or interest-free~~)) loans or grants to local governments for preconstruction activities on public works projects before the legislature approves the construction phase of the project. Preconstruction activities include design, engineering, bid-document preparation, environmental studies, right-of-way acquisition, value planning, and other preliminary phases of public works projects as determined by the board. The purpose of the loans and grants authorized in this section is to accelerate the completion of public works projects by allowing preconstruction activities to be performed before the ((~~approval of~~)) appropriation for the construction phase of the project by the legislature.

(2) Projects receiving loans or grants for preconstruction activities under this section must be evaluated using the priority process and factors in RCW 43.155.070((~~(2)~~)). The receipt of a loan or grant for preconstruction activities does not ensure the receipt of a construction loan or grant for the project under this chapter. Construction loans or grants for projects receiving a loan or grant for preconstruction activities under this section are subject to legislative ((~~approval~~)) appropriation under RCW 43.155.070 ((~~(4) and (5)~~)) (7). The board shall adopt a single application process for local governments seeking both a loan or grant for preconstruction activities under this section and a construction loan for the project.

**Sec.**  RCW 43.155.070 and 2015 3rd sp.s. c 3 s 7033 are each amended to read as follows:

(1) To qualify for financial assistance under this chapter the board must determine that a local government meets all of the following conditions:

(a) The city or county must be imposing a tax under chapter 82.46 RCW at a rate of at least one-quarter of one percent;

(b) The local government must have developed a capital facility plan; and

(c) The local government must be using all local revenue sources which are reasonably available for funding public works, taking into consideration local employment and economic factors.

(2) Except where necessary to address a public health need or substantial environmental degradation, a county, city, or town planning under RCW 36.70A.040 may not receive financial assistance under this chapter unless it has adopted a comprehensive plan, including a capital facilities plan element, and development regulations as required by RCW 36.70A.040. This subsection does not require any county, city, or town planning under RCW 36.70A.040 to adopt a comprehensive plan or development regulations before requesting or receiving financial assistance under this chapter if such request is made before the expiration of the time periods specified in RCW 36.70A.040. A county, city, or town planning under RCW 36.70A.040 that has not adopted a comprehensive plan and development regulations within the time periods specified in RCW 36.70A.040 may apply for and receive financial assistance under this chapter if the comprehensive plan and development regulations are adopted as required by RCW 36.70A.040 before executing a contractual agreement for financial assistance with the board.

(3) In considering awarding financial assistance for public facilities to special districts requesting funding for a proposed facility located in a county, city, or town planning under RCW 36.70A.040, the board must consider whether the county, city, or town planning under RCW 36.70A.040 in whose planning jurisdiction the proposed facility is located has adopted a comprehensive plan and development regulations as required by RCW 36.70A.040.

(4) ((~~The board must develop a priority process for public works projects as provided in this section. The intent of the priority process is to maximize the value of public works projects accomplished with assistance under this chapter. The board must attempt to assure a geographical balance in assigning priorities to projects. The board must consider at least the following factors in assigning a priority to a project:~~

~~(a) Whether the local government receiving assistance has experienced severe fiscal distress resulting from natural disaster or emergency public works needs;~~

~~(b) Except as otherwise conditioned by RCW 43.155.110, whether the entity receiving assistance is a Puget Sound partner, as defined in RCW 90.71.010;~~

~~(c) Whether the project is referenced in the action agenda developed by the Puget Sound partnership under RCW 90.71.310;~~

~~(d) Whether the project is critical in nature and would affect the health and safety of a great number of citizens;~~

~~(e) Whether the applicant's permitting process has been certified as streamlined by the office of regulatory assistance;~~

~~(f) Whether the applicant has developed and adhered to guidelines regarding its permitting process for those applying for development permits consistent with section 1(2), chapter 231, Laws of 2007;~~

~~(g) The cost of the project compared to the size of the local government and amount of loan money available;~~

~~(h) The number of communities served by or funding the project;~~

~~(i) Whether the project is located in an area of high unemployment, compared to the average state unemployment;~~

~~(j) Whether the project is the acquisition, expansion, improvement, or renovation by a local government of a public water system that is in violation of health and safety standards, including the cost of extending existing service to such a system;~~

~~(k) Except as otherwise conditioned by RCW 43.155.120, and effective one calendar year following the development of model evergreen community management plans and ordinances under RCW 35.105.050, whether the entity receiving assistance has been recognized, and what gradation of recognition was received, in the evergreen community recognition program created in RCW 35.105.030;~~

~~(l) The relative benefit of the project to the community, considering the present level of economic activity in the community and the existing local capacity to increase local economic activity in communities that have low economic growth; and~~

~~(m) Other criteria that the board considers advisable.~~

~~(5) For the 2015-2017 fiscal biennium, in place of the criteria, ranking, and submission processes for construction loan lists provided in subsections (4) and (7) of this section:~~))

(a) The board must develop a process ((~~for numerically ranking~~)) to prioritize applications ((~~for construction~~)) and funding of loans and grants for public works projects submitted by local governments. The board must consider, at a minimum and in any order, the following factors in ((~~assigning a numerical ranking to a~~)) prioritizing projects:

(i) Whether the project is critical in nature and would affect the health and safety of many people;

(ii) The extent to which the project leverages ((~~nonstate~~)) other funds;

(iii) The extent to which the project is ready to proceed to construction;

(iv) Whether the project is located in an area of high unemployment, compared to the average state unemployment;

(v) Whether the project promotes the sustainable use of resources and environmental quality, as applicable;

(vi) Whether the project consolidates or regionalizes systems;

(vii) Whether the project encourages economic development through mixed‑use and mixed income development consistent with chapter 36.70A RCW;

(viii) Whether the system is being well‑managed in the present and for long‑term sustainability;

(ix) Achieving equitable distribution of funds by geography and population;

(x) The extent to which the project meets the following state policy objectives:

(A) Efficient use of state resources;

(B) Preservation and enhancement of health and safety;

(C) Abatement of pollution and protection of the environment;

(D) Creation of new, family-wage jobs, and avoidance of shifting existing jobs from one Washington state community to another;

(E) Fostering economic development consistent with chapter 36.70A RCW;

(F) Efficiency in delivery of goods and services((~~, public transit,~~)) and transportation; and

(G) ((~~Avoidance of additional costs to state and local governments that adversely impact local residents and small businesses; and~~

~~(H)~~)) Reduction of the overall cost of public infrastructure; ((~~and~~))

(xi) Whether the applicant sought or is seeking funding for the project from other sources; and

(xii) Other criteria that the board considers necessary to achieve the purposes of this chapter.

(b) Before ((~~November~~)) September 1, ((~~2016~~)) 2018, and each year thereafter, the board must develop and submit a report regarding the construction loans and grants to the office of financial management and appropriate fiscal committees of the senate and house of representatives ((~~a ranked list of qualified public works projects which have been evaluated by the board and are recommended for funding by the legislature~~)). The report must include:

(i) The total number of applications and amount of funding requested for public works projects;

(ii) A list and description of projects approved in the preceding fiscal year with project scores against the board's prioritization criteria;

(iii) The total amount of loan and grants disbursements made from the public works assistance account in the preceding fiscal year;

(iv) The total amount of loan repayments in the preceding fiscal year for outstanding loans from the public works assistance account;

(v) The total amount of loan repayments due for outstanding loans for each fiscal year over the following ten-year period; and

(vi) The total amount of funds obligated and timing of when the funds were obligated in the preceding fiscal year.

(c) The maximum amount of funding that the board may ((~~recommend~~)) provide for any jurisdiction is ten million dollars per biennium. ((~~For each project on the ranked list, as well as for eligible projects not recommended for funding, the board must document the numerical ranking that was assigned.~~

~~(6)~~)) (5) Existing debt or financial obligations of local governments may not be refinanced under this chapter. Each local government applicant must provide documentation of attempts to secure additional local or other sources of funding for each public works project for which financial assistance is sought under this chapter.

((~~(7)~~)) (6) Before ((~~November~~)) September 1st of each ((~~even-numbered~~)) year, the board must develop and submit to the appropriate fiscal committees of the senate and house of representatives a description of the loans and grants made under RCW 43.155.065((~~,~~)) and 43.155.068((~~, and subsection (10) of this section during the preceding fiscal year and a prioritized list of projects which are recommended for funding by the legislature, including one copy to the staff of each of the committees. The list must include, but not be limited to, a description of each project and recommended financing, the terms and conditions of the loan or financial guarantee, the local government jurisdiction and unemployment rate, demonstration of the jurisdiction's critical need for the project and documentation of local funds being used to finance the public works project. The list must also include measures of fiscal capacity for each jurisdiction recommended for financial assistance, compared to authorized limits and state averages, including local government sales taxes; real estate excise taxes; property taxes; and charges for or taxes on sewerage, water, garbage, and other utilities~~)).

((~~(8)~~)) (7) The board may not sign contracts or otherwise financially obligate funds from the public works assistance account before the legislature has appropriated funds to the board for ((~~a specific list of~~)) the purpose of funding public works projects under this chapter. ((~~The legislature may remove projects from the list recommended by the board. The legislature may not change the order of the priorities recommended for funding by the board.~~

~~(9) Subsection (8) of this section does not apply to loans made under RCW 43.155.065, 43.155.068, and subsection (10) of this section.~~

~~(10) Loans made for the purpose of capital facilities plans are exempted from subsection (8) of this section.~~

~~(11)~~)) (8) To qualify for loans, grants, or pledges for solid waste or recycling facilities under this chapter, a city or county must demonstrate that the solid waste or recycling facility is consistent with and necessary to implement the comprehensive solid waste management plan adopted by the city or county under chapter 70.95 RCW.

((~~(12)~~)) (9) After January 1, 2010, any project designed to address the effects of storm water or wastewater on Puget Sound may be funded under this section only if the project is not in conflict with the action agenda developed by the Puget Sound partnership under RCW 90.71.310.

((~~(13) During the 2015-2017 fiscal biennium,~~)) (10) For projects involving repair, replacement, or improvement of a wastewater treatment plant or other public works facility for which an investment grade efficiency audit is reasonably obtainable, the public works board must require as a contract condition that the project sponsor undertake an investment grade efficiency audit. The project sponsor may finance the costs of the audit as part of its public works assistance account program loan or grant.

((~~(14)(a) For public works assistance account application rounds conducted during the 2015-2017 fiscal biennium,~~)) (11) The board must implement policies and procedures designed to maximize local government ((~~use~~)) consideration of ((~~federal~~)) other funds to finance local infrastructure ((~~including, but not limited to, drinking water and clean water state revolving funds operated by the state departments of health and ecology. Projects that are eligible for the drinking water and clean water state revolving funds may receive public works board preconstruction loans. Projects that are eligible for the drinking water and clean water state revolving funds are not eligible for public works board construction loans. For purposes of this subsection "eligible for drinking water and clean water state revolving funds" means:~~

~~(i) Projects that have applied to the state revolving funds and are awaiting a funding decision;~~

~~(ii) Projects that have been rejected for funding solely due to not meeting readiness requirements; and~~

~~(iii) Projects that have not applied, but would likely be eligible if the project applied and met the project readiness requirements.~~

~~(b) For all construction loan projects proposed to the legislature for funding during the 2015-2017 fiscal biennium, the board must base interest rates on the average daily market interest rate for tax~~‑~~exempt municipal bonds as published in the bond buyer's index for the period from sixty to thirty days before the start of the application cycle. For projects with a repayment period between five and twenty years, the rate must be sixty percent of the market rate. For projects with a repayment period under five years, the rate must be thirty percent of the market rate. The board must also provide reduced interest rates, extended repayment periods, or forgivable principal loans for projects that meet financial hardship criteria as measured by the affordability index or similar standard measure of financial hardship~~)).

**Sec.**  RCW 43.155.075 and 2001 c 227 s 10 are each amended to read as follows:

In providing loans and grants for public works projects, the board shall require recipients to incorporate the environmental benefits of the project into their applications, and the board shall utilize the statement of environmental benefits in its prioritization and selection process, when applicable. For projects funded under this chapter, the board may require a local government to have sustainable asset management best practices in place; provide a long-term financial plan to demonstrate a sound maintenance program; have a long-term financial plan for loan repayments in place; and undergo value planning at the predesign project stage, where the greatest productivity gains and cost savings can be found. The board shall also develop appropriate outcome-focused performance measures to be used both for management and performance assessment of the loan and grant program. To the extent possible, the department should coordinate its performance measure system with other natural resource-related agencies as defined in RCW 43.41.270. The board shall consult with affected interest groups in implementing this section.

NEW SECTION. **Sec.**  (1) An interagency, multijurisdictional system improvement team must identify, implement, and report on system improvements that achieve the designated outcomes, including:

(a) Projects that maximize value, minimize overall costs and disturbance to the community, and ensure long-term durability and resilience;

(b) Projects that are designed to meet the unique needs of each community, rather than the needs of particular funding programs;

(c) Project designs that maximize long-term value by fully considering and responding to anticipated long-term environmental, technological, economic and population changes;

(d) The flexibility to innovate, including utilizing natural systems, addressing multiple regulatory drivers, and forming regional partnerships;

(e) The ability to plan and collaborate across programs and jurisdictions so that different investments are packaged to be complementary, timely, and responsive to economic and community opportunities;

(f) The needed capacity for communities, appropriate to their unique financial, planning, and management capacities, so they can design, finance, and build projects that best meet their long-term needs and minimize costs;

(g) Optimal use and leveraging of federal and private infrastructure dollars; and

(h) Mechanisms to ensure periodic, system-wide review and ongoing achievement of the designated outcomes.

(2) The system improvement team must consist of representatives of state infrastructure programs that provide funding for drinking water, wastewater, and storm water programs, including but not limited to representatives from the public works board, department of ecology, department of health, and the department of commerce. The system improvement team may invite representatives of other infrastructure programs, such as transportation and energy, as needed in order to achieve efficiency, minimize costs, and maximize value across infrastructure programs. The system improvement team shall also consist of representatives of users of those programs, representatives of infrastructure project builders, and other parties the system improvement team determines would contribute to achieving the desired outcomes, including but not limited to representatives from a state association of cities, a state association of counties, a state association of public utility districts, a state association of water and sewer districts, a state association of general contractors, and a state organization representing building trades. The public works board, a representative from the department of ecology, department of health, and department of commerce shall facilitate the work of the system improvement team.

(3) The system improvement team must focus on achieving the designated outcomes within existing program structures and authorities. The system improvement team shall use lean practices to achieve the designated outcomes.

(4) The system improvement team shall provide briefings as requested to the public works board on the current state of infrastructure programs to build an understanding of the infrastructure investment program landscape and the interplay of its component parts.

(5) If the system improvement team encounters statutory or regulatory barriers to system improvements, the system improvement team must inform the public works board and consult on possible solutions. When achieving the designated outcomes would be best served through changes in program structures or authorities, the system improvement team must report those findings to the public works board.

(6) This section expires June 30, 2021.

NEW SECTION. **Sec.**  The public works board, in consultation with stakeholders, including the system improvement team and financing experts, must evaluate and report on other financing approaches that could be established to provide access to financing for local governments who have trouble accessing the existing private credit market at reasonable rates for infrastructure. The public works board must submit the report to the appropriate fiscal committees of the senate and house of representatives and the office of financial management by December 1, 2018.

**Sec.**  RCW 82.45.060 and 2013 2nd sp.s. c 9 s 6 are each amended to read as follows:

There is imposed an excise tax upon each sale of real property at the rate of one and twenty-eight one-hundredths percent of the selling price. Beginning July 1, 2013, and ending June 30, ((~~2019~~)) 2023, an amount equal to two percent of the proceeds of this tax must be deposited in the public works assistance account created in RCW 43.155.050, and an amount equal to four and one‑tenth percent must be deposited in the education legacy trust account created in RCW 83.100.230. Thereafter, an amount equal to six and one-tenth percent of the proceeds of this tax to the state treasurer must be deposited in the public works assistance account created in RCW 43.155.050. Except as otherwise provided in this section, an amount equal to one and six-tenths percent of the proceeds of this tax to the state treasurer must be deposited in the city-county assistance account created in RCW 43.08.290.

**Sec.**  RCW 82.16.020 and 2015 3rd sp.s. c 6 s 703 are each amended to read as follows:

(1) There is levied and collected from every person a tax for the act or privilege of engaging within this state in any one or more of the businesses herein mentioned. The tax is equal to the gross income of the business, multiplied by the rate set out after the business, as follows:

(a) Express, sewerage collection, and telegraph businesses: Three and six-tenths percent;

(b) Light and power business: Three and sixty-two one-hundredths percent;

(c) Gas distribution business: Three and six-tenths percent;

(d) Urban transportation business: Six-tenths of one percent;

(e) Vessels under sixty-five feet in length, except tugboats, operating upon the waters within the state: Six-tenths of one percent;

(f) Motor transportation, railroad, railroad car, and tugboat businesses, and all public service businesses other than ones mentioned above: One and eight-tenths of one percent;

(g) Water distribution business: Four and seven-tenths percent;

(h) Log transportation business: One and twenty-eight one- hundredths percent. The reduced rate established in this subsection (1)(h) is not subject to the ten-year expiration provision in RCW 82.32.805(1)(a).

(2) An additional tax is imposed equal to the rate specified in RCW 82.02.030 multiplied by the tax payable under subsection (1) of this section.

(3) Twenty percent of the moneys collected under subsection (1) of this section on water distribution businesses and sixty percent of the moneys collected under subsection (1) of this section on sewerage collection businesses must be deposited in the education legacy trust account created in RCW 83.100.230 from July 1, 2013, through June 30, ((~~2019~~)) 2023, and thereafter in the public works assistance account created in RCW 43.155.050.

**Sec.**  RCW 82.18.040 and 2013 2nd sp.s. c 9 s 8 are each amended to read as follows:

(1) Taxes collected under this chapter must be held in trust until paid to the state. Except as otherwise provided in this subsection (1), taxes received by the state must be deposited in the public works assistance account created in RCW 43.155.050. For the period beginning July 1, 2011, and ending June 30, 2015, taxes received by the state under this chapter must be deposited in the general fund for general purpose expenditures. For fiscal years 2016, 2017, and 2018, one-half of the taxes received by the state under this chapter must be deposited in the general fund for general purpose expenditures and the remainder deposited in the education legacy trust account created in RCW 83.100.230. For fiscal years 2019 through 2023, taxes received by the state under this chapter must be deposited in the education legacy trust account created in RCW 83.100.230. Any person collecting the tax who appropriates or converts the tax collected is guilty of a gross misdemeanor if the money required to be collected is not available for payment on the date payment is due. If a taxpayer fails to pay the tax imposed by this chapter to the person charged with collection of the tax and the person charged with collection fails to pay the tax to the department, the department may, in its discretion, proceed directly against the taxpayer for collection of the tax.

(2) The tax is due from the taxpayer within twenty-five days from the date the taxpayer is billed by the person collecting the tax.

(3) The tax is due from the person collecting the tax at the end of the tax period in which the tax is received from the taxpayer. If the taxpayer remits only a portion of the total amount billed for taxes, consideration, and related charges, the amount remitted must be applied first to payment of the solid waste collection tax and this tax has priority over all other claims to the amount remitted.

**--- END ---**

Passed by the House June 29, 2017.

Passed by the Senate June 30, 2017.

Approved by the Governor July 6, 2017, with the exception of certain items that were vetoed.

Filed in Office of Secretary of State July 7, 2017.

Note: Governor's explanation of partial veto is as follows:

"I am returning herewith, without my approval as to Section 3, Engrossed Substitute House Bill No. 1677 entitled:

"AN ACT Relating to local government infrastructure funding."

This bill provides targeted reforms to the Public Works Assistance Account and directs the Public Works Board (Board) to study new and innovative financing tools. This bill will help local governments in need of financial support and provide additional tools to pay for basic infrastructure needs.

I am, however, vetoing Section 3, which modifies the composition of the Board. Section 3 adds four legislators. Changes to the Board's composition should be based on a member's skill set, rather than organizational representation. I would support the addition of legislators to the Board as ex-offico and non-voting members.

For these reasons I have vetoed Section 3 of Engrossed Substitute House Bill No. 1677.

With the exception of Section 3, Engrossed Substitute House Bill No. 1677 is approved."