

HOUSE BILL REPORT

HB 1517

As Reported By House Committee On:

Title: An act relating to the receipt and expenditure of federal and private funds by local governments.

Brief Description: Revising guidelines for receipt and expenditure of federal and private funds by local governments.

Sponsors: Representatives L. Thomas, Rust, Horn, Sommers and Ballasiotes.

Brief History:

Committee Activity: 2/14/95, 2/24/95 DPS.

HOUSE COMMITTEE ON

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Sehlin, Chairman; Honeyford, Vice Chairman; Ogden, Ranking Minority Member; Chopp, Assistant Ranking Minority Member; Costa; Hankins; McMorris; Mitchell; Pennington; Regala; L. Thomas and Valle.

Staff: Bill Robinson, (360-786-7140)

Background: The federal government provides funding through a variety of programs to support local economic development activity. These federal programs generally involve block grants and loan guarantees to local governments that may be used to finance private business and real estate development. The Washington State Constitution prohibits state and local government resources from being used for private proposes under the "lending of credit" provisions, however these restrictions do not apply to federal money.

Virtually all the economic development lending and financing programs working in Washington state are funded from federal resources where state and local government is acting as the pass through or "conduit" to private development.

Local governments have expressed an interest in leveraging the federal money for economic development purposes by issuing bonds or notes and pledging future federal grants as payment on the bonds. These types of debt arrangements are referred to as

"conduit" financing. Even though local government funds are not involved in these financial transactions, local governments need specific statutory authority to take advantage of conduit financing.

Summary of Bill: Counties, cities, towns and public corporations are authorized to engage in federally guaranteed "conduit financing." Specifically, local governments may issue bonds or other instruments of debt and pledge future federal and private grants, payments or property to repay the debt.

The local government may establish special accounts for the receipt and payment of bonds and may contract with a financial institutions to act as trustee for the account.

Conduit financing may be used to finance any public or private purpose authorized by an agency of the federal government. Any obligation for repayment of bonds or loans is only payable from the special accounts or other security pledges and is not the obligation of the local government. Conduit financing is not counted toward any local government debt limits and any debt financing, consistent with this authority issued by a local government prior to the effective date of this bill, shall be considered valid.

Substitute Bill Compared to Original Bill: Local government conduit financing is limited to federal guaranteed loans authorized by section 108 of the Housing and Community Development Act of 1974.

Appropriation: None

Fiscal Note: Not requested

Effective Date of Bill: The bill contains an emergency clause and takes effect immediately.

Testimony For: Conduit financing is another tool available to local governments to encourage economic development. This tool is already available to Public Development Authorities (PDA) but it would simplify the process by allowing cities and counties to do this type of financing rather than creating separate PDA specifically for that purpose.

Testimony Against: The broad authority for this type of financing would duplicate the bonding programs of the Washington State Housing Financing Commission and the Washington State Health Care Facilities Authority and would dramatically increase the number of debt issuing entities in this state. The bill should be amended to limit conduit financing to federal guarantees authorized in section 108 of the Housing and Community Development Act and to prevent duplication of state programs.

Testified: Representative Les Thomas; Hugh Spitzer, Foster Pepper; Carol Dickinson, City of Seattle; John Finke, National Development Council; Kim Herman, Washington State Housing Finance Commission.