

# HOUSE BILL REPORT

## SSB 5211

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### As Reported By House Committee On:

Capital Budget

**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:** Senate Committee on Government Operations (originally sponsored by Senators Winsley, Haugen, McCaslin, Sheldon, Drew and C. Anderson).

### **Brief History:**

#### **Committee Activity:**

Capital Budget: 3/27/95, 3/30/95 [DP].

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## HOUSE COMMITTEE ON CAPITAL BUDGET

**Majority Report:** Do pass. Signed by 12 members: Representatives Sehlin, Vice Chairman; Honeyford, Vice Chairman; Ogden, Ranking Minority Member; Chopp, Assistant Ranking Minority Member; Hankins; McMorris; Mitchell; Pennington; Regala; Silver; L. Thomas and Valle.

**Staff:** Bill Robinson (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 purposes 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 guarantee for payment on the bonds. Private investors buy the bonds, the proceeds from the bonds are loaned for private economic development activities and the revenues from the private activity are used to repay the bonds. These types of debt arrangements are referred to as "conduit" financing. If the private activity is unable to repay the bonds the federal government will guarantee payment to the investors. The guarantee payments, however will result in reductions to future federal grants to the local governments. Even though local government funds are not involved in these financial transactions, they 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 guaranteed by section 108 of the Housing and Community Development Act of 1974. Local governments may 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 institution 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. Any debt financing, consistent with this authority issued by a local government prior to the effect date of this bill, shall be considered valid.

**Appropriation:** None.

**Fiscal Note:** Requested on March 27, 1995.

**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. No public money is involved in this type of financing and the State Supreme Court has ruled on similar types of conduit financing statutes that it is permissible under the state constitution.

**Testimony Against:** Cities want to use this legislation to illegally lend the credit of the state for private profit and to create an unfair competitive advantage for selected developers.

**Testified:** Jordan Brower, Committee to Save our Neighborhoods (con); Hugh Spitzer, Foster Pepper; Krista Eichler, Greater Seattle Chamber of Commerce; and Mike Doubleday, City of Seattle.