

SENATE BILL REPORT

SB 5211

As Reported By Senate Committee On:
Government Operations, February 22, 1995

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: Senators Winsley, Haugen, McCaslin, Sheldon, Drew and C. Anderson.

Brief History:

Committee Activity: Government Operations: 1/31/95, 2/22/95 [DPS, DNP].

SENATE COMMITTEE ON GOVERNMENT OPERATIONS

Majority Report: That Substitute Senate Bill No. 5211 be substituted therefor, and the substitute bill do pass.

Signed by Senators Haugen, Chair; Sheldon, Vice Chair; Drew, Hale, McCaslin and Winsley.

Minority Report: Do not pass.

Signed by Senator Heavey.

Staff: Rod McAulay (786-7754)

Background: The federal government, acting through the Department of Housing and Urban Development, provides financial support for local economic development through a variety of programs. These programs include block grants, the issuance of securities, and loan guarantees and generally involve participation by local government.

The State Constitution expressly prohibits counties, cities, towns or other municipal corporations from giving or lending money, or extending credit, for the benefit of private individuals or entities, except for the necessary support of the poor and infirm. (Art. XIII Sec. 7.) This prohibition restricts the ability of counties, cities, towns and public corporations to participate in federal programs in which federal credit and funds are available to finance, or to enable the financing, of economic development projects of benefit to the community. Authority is desired to enable communities to take advantage of federal economic development programs, by establishing procedures that assure there is no violation of the constitutional prohibition on the lending of credit.

Summary of Substitute Bill: Counties, cities, towns and public corporations are authorized to engage in federally guaranteed "conduit financings". More specifically, these entities may:

* issue federally guaranteed notes under Section 108 of the Housing and Community Development Act of 1974;

* enter agreements with the federal government under which they may cause to be received and expended by a custodian or trustee, federal or private funds for any lawful purpose;

* issue bonds, notes, or other evidences of indebtedness that are guaranteed by the federal government;

* pledge federal grants, private funds, or other revenue derived from any project financed under this act as security for any bonds or notes issued pursuant to this act;

* establish special funds from federal or private sources to make payments on bonds or notes issued under this act.

"Lawful public purpose" is defined to include projects authorized under federal law and regulations.

The financing arrangements authorized by this act are not obligations of any city, town, or county and are payable only from a special fund as authorized by this act.

Substitute Bill Compared to Original Bill: The original bill did not include phrasing which clarifies that the authority granted by this act does not enable local governments to duplicate programs of the State Housing Finance Commission.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: This legislation allows HUD money to flow through local government to an economic development project without involving the credit of the local government. It avoids constitutional prohibition on lending of credit and provides statutory authority for local government.

Seattle will use this program to rehabilitate the now vacant Frederick & Nelson store building. It can eliminate need to set up Public Development Authority as conduit.

Testimony Against: None.

Testified: Hugh Spitzer, attorney (pro); Carol Dickinson, City of Seattle (pro); Stan Finkelstein, AWC (pro); John Finke, NDC (pro).