

SENATE BILL REPORT

SB 5033

As of February 14, 2017

Title: An act relating to financing essential public infrastructure.

Brief Description: Concerning financing essential public infrastructure.

Sponsors: Senators Keiser, Honeyford, Frockt, Warnick, Conway and Palumbo.

Brief History:

Committee Activity: Ways & Means: 2/09/17.

Brief Summary of Bill

- Permits the state to issue bonds for local infrastructure projects pooled by the Public Works Board.
- Permits the state to guarantee local government borrowing for infrastructure projects.
- Authorizes this debt to enjoy the full faith and credit of the state but it is not subject to the state Constitutional debt limit if the Constitutional amendment SJR 8201 is adopted.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Richard Ramsey (786-7412)

Background: Debt Limit. The state Constitution limits state debt through a formula that prohibits the State Treasurer from issuing any general obligation (G.O.) bonds if the resulting debt service payments for those bonds would cause total debt service payments for G.O. bonds to exceed a certain percentage of average general state revenue in the prior six years. That percentage is currently 8.25 percent; it will become 8.0 percent on July 1, 2034.

G.O. bonds are issued with a promise to bondholders that the full faith and credit of the state will be used to pay what is owed to the bondholders. There are a number of exceptions to the debt limit on bonds backed by the full faith and credit of the state, including state G.O. bonds for transportation projects that are first reimbursed by the gas tax, and bonds issued by local school districts for school construction projects.

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.

State Finance Committee (Committee). The Committee authorizes the issuance of all bonds and other state debt obligations, including financing leases that finance capital projects authorized in the capital and transportation budgets. The Committee also acts to refinance state debt when appropriate to reduce interest costs. The Committee is composed of the Governor, the Lieutenant Governor, and State Treasurer.

State Support for Local Government Infrastructure. The state support local government infrastructure through a variety of programs using state and federal funds. The three largest programs historically have been as follows:

- the Public Works Board (Board) subsidized loan program, funded with state taxes;
- the Clean Water State Revolving Fund, funded with 75 percent federal money and 25 percent state funds; and
- the Safe Drinking Water State Revolving Fund, funded with 75 percent federal money and 25 percent state funds.

The two federally funded programs must operate within federal law and regulations. The programs provide low-interest loans and some grants for projects that improve water quality and provide safe drinking water.

The Legislature established the Public Works Assistance Account and the Board in 1985 to provide low-interest loans for public works projects, which include sewer, drinking water, stormwater, road and bridge improvements, and solid waste facility projects. Approximately three-quarters of the loans have funded water and sewer projects.

The interest subsidy provided through these programs produces a greater benefit for smaller jurisdictions with poor access to the competitive, investment-rated, municipal bond market.

Summary of Bill: Local governments may seek two kinds of state help in financing their public works projects:

- a certificate that provides a state full faith and credit guarantee to pay bondholders for debt issued for the project; and
- along with such a certificate, the State Treasurer may aggregate and issue bonds for the benefit of such projects.

In addition to the projects funded from the PWAA, under the borrowing authority eligible projects include recreation, flood control and floodplain management, water basin management, culvert replacement, city and county criminal justice facilities, and public libraries.

Local government applicants must first apply for this assistance to the Board. The Board must adopt criteria to determine which jurisdictions are eligible and what projects are necessary. The Board must work with the State Treasurer's Office to determine timing and amount of total financial assistance that can be provided annually. The Board must prioritize and approve projects within the estimated annual amount of assistance in order to assist jurisdictions that can most benefit from the assistance for projects that achieve the greatest community benefit.

The State Treasurer's Office, under policies adopted by the State Finance Committee, must review projects approved by the Public Works Board to determine eligibility and credit worthiness of the jurisdiction and the project.

The State Treasurer is authorized to enforce collection of the debt from the local government through several avenues.

Money in the PWAA may be used for the administration of the program and to defer fees the State Treasurer is authorized to charge jurisdictions in the case of financial hardship.

Appropriation: None.

Fiscal Note: Not requested.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: The bill takes effect only after voters ratify the proposed constitutional amendment in SJR 8201.

Staff Summary of Public Testimony: PRO: We have been lukewarm in the past but recognize this is part of the solution. It makes a lot of sense to move a portion of the state's commitment to financing local government infrastructure. There is risk that the Constitutional Amendment will not pass and we are okay with the WA State Housing Finance Corporation (WSHFC) program. We support both approaches—WA State Treasurer and the WSHFC—to pooled bonding authority. We recognize the Treasurer may offer a better interest rate.

Persons Testifying: PRO: Carl Schroeder, Association of Washington Cities; Charlie Brown, Cascade Natural Gas; Axel Swanson, Washington State Association of Counties; Bill Clarke, WA PUD Assn.

Persons Signed In To Testify But Not Testifying: No one.