

HOUSE BILL REPORT

HB 1441

As Passed House:
March 13, 2019

Title: An act relating to financing local infrastructure.

Brief Description: Concerning the financing of local infrastructure.

Sponsors: Representatives Tharinger, Doglio and Ormsby; by request of Housing Finance Commission.

Brief History:

Committee Activity:

Capital Budget: 2/19/19, 2/26/19 [DP].

Floor Activity:

Passed House: 3/13/19, 64-31.

Brief Summary of Bill

- Creates a new program within the Housing Finance Commission to provide financing for local government infrastructure projects through the issuances of bonds and loans.

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: Do pass. Signed by 16 members: Representatives Tharinger, Chair; Doglio, Vice Chair; Peterson, Vice Chair; Smith, Assistant Ranking Minority Member; Steele, Assistant Ranking Minority Member; Callan, Davis, Eslick, Leavitt, Lekanoff, Maycumber, Morgan, Riccelli, Santos, Sells and Stonier.

Minority Report: Do not pass. Signed by 6 members: Representatives Corry, Dye, Gildon, Irwin, Jenkin and Walsh.

Minority Report: Without recommendation. Signed by 1 member: Representative DeBolt, Ranking Minority Member.

Staff: Melissa Palmer (786-7388).

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.

Background:

Housing Finance Commission.

The Housing Finance Commission (Commission) is a finance authority that was established in statute by the Legislature to act as a financial conduit to make additional funds available at affordable rates to help provide housing throughout the state. The Commission is financially self-supported and does not receive funding from the state.

The Commission, in cooperation with the Department of Commerce, developed and implemented a housing finance program, limited to qualified first-time home buyers, and with priority given to low-income households. The housing finance program provides subsidized and unsubsidized mortgage financing for single-family home ownership and, when possible, provides down payment or closing costs assistance to eligible households.

The Commission was also given the authority to develop, and has developed, additional financing programs such as the veteran homeownership down payment assistance program, sustainable energy trust program, aviation biofuel facilities and production bond program, and beginning farmer financing program.

To provide financing, the Commission may:

- issue bonds;
- make loans to or deposits with mortgage lenders for the purpose of making mortgage loans;
- make loans for down payment assistance to home buyers; and
- participate in federal and other government programs to carry out its purpose.

The Commission can also issue nonrecourse bonds for capital projects, which are bonds that are not obligations of the state. Repayment of these bonds is payable solely from the funds received as repayment of loans for which the bonds were issued.

Indebtedness Limit.

There is both a constitutional and statutory limit on general obligation debt that local governments may issue or incur. Debt limits are expressed as a percent of total assessed valuation of taxable properties within the jurisdiction. Loan agreements entered into between a local government and the state or federal government do not constitute indebtedness under the statutory limits. Additionally, there is an \$8 billion statutory limit to the total outstanding indebtedness of the Commission.

Summary of Bill:

Housing Finance Commission—Local Infrastructure Financing Program.

The Commission is authorized to develop and implement a new program to provide financing to local governments for infrastructure projects. Infrastructure projects may include the planning, acquisition, construction, repair, reconstruction, replacement, rehabilitation, or improvement of streets, roads, bridges, water systems, storm and sanitary systems, solid waste and recycling facilities, and other municipal projects, facilities, and utilities. Local governments include cities, towns, counties, special purpose districts, port

districts, school districts, and any other municipal corporation or quasi-municipal corporation.

In establishing this program, the Commission must develop eligibility criteria that will enable the Commission to choose applicants who are likely to repay the loans.

Under this program, the Commission has the authority to:

- issue revenue bonds;
- make or purchase loans to local governments for financing all, or part, of the costs of infrastructure projects;
- enter into financing agreements regarding the repayment of the loans;
- exempt interest on its bonds from federal income tax on bonds that are tax-exempt; and
- participate in government programs for the purpose of securing financing for infrastructure projects.

The Commission may not use its general funds to implement the program, but may use its general funds to administer the program.

Proceeds and Revenues from Bonds.

The proceeds from the sale of bonds by the Commission must be deposited in a segregated special fund established for the purpose the bond was issued. Any revenues that the Commission receives, including contributions, grants, or payment on the principal or interest on bonds, must be deposited in a segregated special trust fund. Bond proceeds and revenues from bonds are not considered state funds.

Financing Agreements.

Any local government may enter into a financing agreement with the Commission setting out the terms and conditions of a loan from the Commission. The agreement may state that the local government will repay the loan solely from revenues set aside into a special fund for repayment. In addition, for local governments authorized to levy taxes and borrow money payable from taxes, the agreement may state that repayment of the loan is a general obligation of the local government, or both a general obligation and an obligation payable from revenues set aside into a special fund. The Commission has rights of recovery for any breach of the agreement or default in payment.

Indebtedness Limit.

Bonds issued by the Commission under this program are excluded from the Commission's statutory indebtedness limit of \$8 billion. The loans provided under this program are not included in the computation of indebtedness limits set by statute, but may not exceed constitutional limits.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) The issue of local government infrastructure is part of a larger conversation. This program would not be a replacement for the Public Works Board or the Public Works Assistance Account; it can operate independently of their work. The financing would not be as inexpensive as the Public Works Board, with rates around 4 to 6 percent. Any financing through this program would not be state debt nor rely on a state allocation. Any debt would not pledge the full-faith and credit of the state. Any eligible project would be financed, as long as the project shows that it was planned and there are funds to pay back the debt. This program provides access to the market and the expertise that we have at the Commission. The program can be used in tandem with other programs. The Commission could structure the financing to pool projects together and issue one bond. This could allow for a higher rating in the market. Unrated communities cannot do this on their own. This would benefit medium and smaller entities. The Commission could implement the program within 6 to 12 months.

(Opposed) None.

Persons Testifying: Representative Tharinger, prime sponsor; Kim Herman, Washington State Housing Finance Commission; and Scott Hazlegrove, Washington Association of Sewer and Water Districts.

Persons Signed In To Testify But Not Testifying: None.