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**Capital Budget Committee**

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**HB 1677**

**Brief Description:** Concerning local government infrastructure funding.

**Sponsors:** Representatives Peterson, Pike, Senn, McBride, DeBolt, Macri, Stonier, Riccelli and Fey.

**Brief Summary of Bill**

- Increases the Public Works Board membership, requires numeric ranking of project applications, and adds requirements related to determining loan interest rates.
- Authorizes the Public Works Board to provide grants, forgivable loans, and interest rate buy-downs for certain preconstruction, construction and emergency projects.
- Establishes a system improvement team and an infrastructure policy advisory group.

**Hearing Date:** 2/14/17

**Staff:** Melissa Palmer (786-7388).

**Background:**

Public Works Assistance Account.

The Public Works Assistance Account (PWAA) was established in 1985 to encourage local government self-reliance in meeting public works needs and to assist in financing critical infrastructure projects. Moneys in the PWAA must be used to make loans and give financial guarantees and may also be appropriated to provide state match for federal dollars. Loan repayments and revenues from three tax sources have historically been deposited into the PWAA. However, in recent years, there have not been loans funded with the PWAA. Repayments and tax revenues have been redirected to the State General Fund or Education Legacy Trust Account.

Public Works Board Membership.

The Public Works Board (Board) is staffed by the Department of Commerce and includes 13 voting members: two elected officials and one public works manager representing cities; two elected officials and one public works manager representing counties; three members

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representing public utility and water-sewer districts; and four members representing the general public.

#### The Board Responsibilities.

The Board may make low-interest or interest-free loans from the PWAA to finance the acquisition, construction, repair, replacement, or improvement of the following local public works: bridges, streets, and roads; water systems; storm and sanitary sewage systems; and solid waste facilities, including recycling. For up to a maximum of 15 percent of the biennial capital budget appropriation, the Board may make loans for preconstruction, emergency, and capital facilities planning. Local governments and special purpose districts, except port and school districts, are eligible to apply for loans from the PWAA. The Board may provide technical assistance. Existing debt or financial obligations may not be refinanced.

The Board must consider a number of factors in prioritizing projects: health and safety; unemployment rate; the Puget Sound Partnership Action Agenda; fiscal distress; permitting processes; relative project costs; number of communities served or funding the project; water system health and safety violations; Evergreen community recognition; and relative project benefits.

By the first of November of each even-numbered year, the Board must develop and submit to legislative fiscal committees a prioritized recommended funding list of public works construction projects. The Legislature may remove projects from the list, but may not change the priority order of the Board's recommendations. Funds cannot be obligated by the Board until the Legislature has appropriated funds for a specific list of projects.

In both the 2013-15 Capital Budget and the 2015-2017 Capital Budget, the Legislature required the Board to develop a process for numerically ranking applications for construction loans and to use an alternative list of consideration factors in order to assign that ranking. In addition, the Capital Budget required the Board to:

- base loan interest rates for construction projects on tax-exempt municipal bond interest rates as published in the Bond Buyer's Index and provide special rates and terms for projects that meet standardized hardship criteria;
- contractually require an investment-grade-efficiency audit for public facilities for which an audit is obtainable, and allow the audit costs to be financed as part of the loan; and
- implement policies and procedures to maximize local government use of federally funded drinking water and clean water state revolving funds, including those operated by the Department of Ecology (DOE) and the Department of Health (DOH).

The 2015-17 directive further specified that projects "eligible" for the DOE and DOH revolving funds are not eligible for the Board construction loans and defined what "eligible" means.

#### **Summary of Bill:**

##### The Board Membership.

The Board membership is increased from 13 to 17 by adding one member from each of the two major caucuses of the House of Representatives (House), appointed by the Speaker of the House, and one member from each of the two major caucuses of the Senate (Senate), appointed by the President of the Senate. Each appointed member may designate an alternate member from the

same caucus to attend meetings from which the appointed member will be absent, and the designee will have the same voting and participation powers as other Board members.

#### The Board Responsibilities.

The Board is authorized to develop a program that provides grants, forgivable loans, and interest rate buy-downs, additional assistance to leverage federal programs and other opportunities to target deeper financial assistance to communities with economic distress or projects that would result in increases in residential sewer rates that exceeded a determined percentage of the median household income. The authority to provide grants applies to preconstruction, emergency, and construction projects.

The Board must submit to the Governor and Legislature a numerically ranked project list before the first of November each year.

The Board must adopt policies and procedures to maximize local government use of federal funds to finance local infrastructure projects.

For preconstruction and construction loans or grants, the Board must contractually require an investment grade efficiency audit for public facilities for which an audit is obtainable, and may allow the audit costs to be financed as part of the loan.

When providing loans, the PWB may require local governments to have sustainable asset management best practices in place, provide long-term financial plan to demonstrate sound maintenance and repayment, and undergo value planning at the predesign stage.

For loans, the Board's general authority to make "low-interest or interest-free" loans to local governments for construction, emergency public works projects, and preconstruction activities is replaced by a requirement that the Board base interest rates on the average daily market interest rate for tax-exempt municipal bonds as published in the Bond Buyer's Index for 30 to 60 days prior to the start of the application cycle when the project is supported by a rate payer base of at least 50,000. For these projects with a repayment period of five to 20 years must receive an interest rate of at 50 percent of the average daily market interest rate. In these instances, projects with a repayment period under five years must receive an interest rate that is 25 percent of the average daily market interest rate. When average daily market interest rates reach 9 percent or greater, the Board may cap interest rates on loans with five to 20-year repayment periods at 4 percent and loans with less than five-year repayment periods at 2 percent.

In addition, the Board may allow for reduced interest rates, extended repayment periods or forgivable principal loans for projects that meet standardized hardship criteria or are supported by a rate base of less than 50,000.

The maximum amount the Board is authorized to provide for preconstruction and emergency loans is increased from 15 percent to 25 percent of the PWAA appropriation. Additionally, grants may be provided for preconstruction and emergency loans.

#### System Improvement.

An interagency, multijurisdictional system improvement team (Team) is established until June 30, 2019. The membership of the Team consists of representatives from state infrastructure

programs and other entities including the Association of Washington Cities, Washington State Association of Counties, Washington Public Utility District Associated, the Washington Water and Sewer District Association, the Associated General Contractors of Washington and the Washington Building Trades Council. The Team is tasked with identifying, implementing, and reporting on system improvements.

Additionally, an Infrastructure Policy Advisory Group is established until June 30, 2019 and consists of two members from the Senate, two members from the House and the director of the Office of Financial Management. This group will receive reports from the Team and must report to their respective caucuses and the Governor on the status of the system improvement effort.

**Appropriation:** None.

**Fiscal Note:** Available.

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