SENATE BILL REPORT
SB 5304

As Reported by Senate Committee On:
Housing Stability & Affordability, February 6, 2019

Title: An act relating to financing local infrastructure.

Brief Description: Concerning the financing of local infrastructure.

Sponsors: Senator Mullet; by request of Washington State Housing Finance Commission.

Brief History:
Committee Activity: Housing Stability & Affordability: 2/04/19, 2/06/19 [DP].

Brief Summary of Bill

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

SENATE COMMITTEE ON HOUSING STABILITY & AFFORDABILITY

Majority Report: Do pass.
Signed by Senators Kuderer, Chair; Das, Vice Chair; Zeiger, Ranking Member; Darneille, Fortunato, Saldaña and Warnick.

Staff: Brandon Popovac (786-7465)

Background: The Housing Finance Commission (Commission) is a finance authority established to act as a 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.

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.

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.

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.

Summary of Bill: The Commission may develop and implement a new program to provide financing to local governments for infrastructure projects. Infrastructure projects may include projects of a local government for planning, acquisition, construction, repair, reconstruction, replacement, rehabilitation, or improvement to 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.

The Commission must establish eligibility criteria for financing to enable the Commission to choose applicants who are likely to repay the loans. Under the program, the Commission may:

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

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.

Any local government may enter into a financing agreement with the Commission containing the terms and conditions of a loan from the Commission. The agreement may state the local government will repay the loan solely from revenues set aside into a special fund for loan repayment. 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. Bonds issued by the Commission under this program are excluded from the Commission's statutory indebtedness limit of $8 billion.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: The bill allows the Commission to focus on something new, which is the infrastructure investments that local municipalities often need to make. Small water and sewer districts do no often have council on staff and are forced to spend a lot of money hiring appropriate staff that the Commission already has under contract. A lot of smaller municipalities, specifically water-sewer districts, do not get rated on their bonds. The Commission brings a guaranteed A-rating to the bonds to save on interest expenses. There is zero impact on the $8 million indebtedness limit just raised last legislative session.

The bill is not a replacement of or in competition with the public works board or the public works trust fund. The new program can be combined with this resource and other resources or be used independently. Although the public works trust fund can provide awards at 1 or 2 percent interest, the new program would allow public entities in Washington State to be able to access the tax exempt market. The likely interest rate under the new program would probably be 4.5 or 6 percent depending on the projects. Bonds would be issued by the Commission without pledging the good faith or credit of Washington State. The program is also not a competitive resource or gatekeeper between projects. However, to qualify for financing, the governmental borrower would have to demonstrate that they have the ability to plan for, carry out, and repay the financing for this project.

The program provides an option that is currently unavailable to public entities that do not have an independent rating to finance their communities infrastructure needs. The Commission could pool projects from several jurisdictions together into one 20-year bond issue, providing the ability to set up a reserve fund to meet the A-rating requirement. The Commission could also help facilitate private placements of a bond with a local committee or community bank. Eligible entities under the program include many types of local governments, plus special districts, assessment districts, and joint power authorities. The program would particularly benefit medium and small-sized cities who have not obtained an individual credit rating. Another role of the Commission would be to develop risk criteria to ensure the financial feasibility of the projects and evaluate them using clear underwriting standards, provide technical assistance to the borrowers structure in issuing bonds, and oversee the collection of the debt through a qualified trustee. The Commission could implement the new program within six to twelve months. The new program would include a small administrative charge and cost for issuing the bonds, which is the same process for other programs administered by the Commission.

Persons Testifying: PRO: Senator Mark Mullet, Prime Sponsor; Carl Schroeder, Association of Washington Cities; Kim Herman, Washington State Housing Finance Commission; Lisa Vatske, Washington State Housing Finance Commission.

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