

# Oklahoma Community Economic Development Pooled Finance Act

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## **HB 2067 by Rep Skye McNeil, Bristow and Sen Todd Lamb, Edmond**

- Creates the Oklahoma Community Economic Development Pooled Finance Act that will capitalize up to \$200 million of taxable bond proceeds for investments in economic development projects.
- The economic development projects will be designed to attract private investment, job creation, and public infrastructure to aid development such as roads, bridges, water treatment, water storage, water delivery facilities, surface water management assets, sanitary sewer facilities and related assets that are essential to a safe and productive environment for the residents of the Oklahoma.
- The projects will serve to create jobs, economic activity and rebuild basic infrastructure and business networks in our state.
- Encouraging local governments to cooperate to develop regional infrastructure and economic development projects will most economically and efficiently serve the needs of the state's citizens.
- Using the methods of public finance provided for in the Oklahoma Community Economic Development Pooled Finance Act are in furtherance of an essential public and state governmental function.

## **Key aspects of HB 2067:**

- Oklahoma Community Economic Development Pooled Finance Act slightly impacts current law, but simply allows for inter-local cooperation to save taxpayers money and get economy of scale on infrastructure and economic development projects. It also allows and encourages regional economic development that should help rural areas compete better with urban areas by aggregating workforce, tax base, education and infrastructure.
- Economic stimulus and revitalization would be the top criteria for selection of the projects: revenue potential, short and long-term job creation, investment level, quality of life, local match, cost-benefit of project similar to Quality Jobs.
- The focus of the program would be to address the weakness identified in the McCallum Sweeney site location report that has been provided to the Oklahoma Department of Commerce. Two specific weaknesses that were identified in the report were the lack of availability of "shovel-ready" sites for location and lack of infrastructure relative to secondary roads.

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## **Details of HB 2067** - Oklahoma Community Economic Development Pooled Finance Act (the “Act”)

- Under current law, cities, towns and counties (Local Government Entities or “LGEs”) levy sales taxes for capital projects located within their respective geographies. Further, there is not a specific authorization for cities, towns or counties to cooperate in order to finance capital projects
- HB 2067 creates a method by which cities, towns, counties, or some combination of those jurisdictions could combine their revenue raising capacities and use the Oklahoma Development Finance Authority (ODFA) as a conduit issuer of bonds.
- The ODFA will act as a “conduit” issuer: an issuer of bonds that sells obligations on behalf of some other entity because it has a better credit rating, lower interest costs or other advantages.
- There will be two bond pools: an Infrastructure Pool and an Economic Development Pool
  - **Infrastructure Pool**
    - ODFA would be able to issue bonds to provide \$100MM in proceeds for infrastructure projects using the Infrastructure Pool to provide financing for government assets: infrastructure such roads, streets, bridges, buildings, water projects, sewer projects.
    - The Department of Commerce will develop a scoring system similar to the one used in the Community Development Block Grant (CDBG) Program.
    - Infrastructure Bonds could be repaid from local government revenue sources such as a locally imposed sales tax.
  - **Economic Development Pool**
    - ODFA would be able to issue bonds to provide \$100MM in proceeds for economic development projects using the Economic Development Pool to provide financing for business development and corporate site location projects: these bonds can qualify for tax exempt treatment under certain conditions prescribed by the Internal Revenue Code.
    - The Department of Commerce will also have some type of scoring system so that ODFA can prioritize or allocate bond proceeds from the pool.
    - The Economic Development Bonds could be repaid from a combination of sources such as revenues generated from business activity, captured withholding tax revenues linked to new direct jobs created by the for profit business activity, private guarantee or locally imposed sales or other taxes or a combination of these sources.
  - ODFA would be required to use each of the two pools for the benefit of primarily rural areas of the state through the use of the “65/35” rule in which areas other than the major metropolitan areas would have access to \$65M in bond proceeds while all areas of the state would have equal access to the balance of \$35M.
- Local Government Entities (LGE’s) will make application to ODFA in order to obtain proceeds from one or both bond pools
- There is no limit on the “geography” for participation in the program: any two or more LGEs can engage in a pooled financing regardless of whether the two LGEs are adjacent to or contiguous to one another
- The Act allows LGEs to provide for captured withholding taxes from private business activity if necessary to access proceeds from the Economic Development Pool
- It allows the use of the Credit Enhancement Reserve Fund (CERF) for pooled financings, but requires local revenue sources to be used as the primary means of repayment
- It disallows participation in pooled financings for a specified period if an LGE defaults on any required payments
- The Act provides flexibility for the LGEs to structure their projects based on capital requirements and the ability to provide revenue sources to pay the debt
- All tax levies or changes in the use of an existing levy would be subject to the approval by a simple majority of the voters of each LGE that participated in a pooled financing
- The Act allows the LGEs to submit proposed tax levies or the modification of existing tax levies to their respective voters for approval
- The Act modifies the existing Interlocal Cooperation Act to take advantage of existing law that already allows agreements among and between LGEs
- It creates a dedicated fund for ODFA to use to track incoming local revenues either from LGEs or a private business entity so that ODFA can ensure payment of obligations issued as part of a pooled financing
- No state revenue sources are used to provide debt service payments for the ODFA bond.