

January 21, 1998

BILL ANALYSIS

TO: Members, Committee on Trade and Economic Development

FROM: Kenny Pittman, Research Analyst (786-7392)

RE: **HB 2379 - Providing for urban stabilization.**

BACKGROUND:

Washington's economy has experienced significant growth during the last decade. However, there are portions of the state's urban areas that have not experienced this growth and, in some instances have encountered economic decline. Officials at the state and federal level have explored a variety of techniques designed to encourage targeted public and private investment in designated areas.

Business and Occupation Taxes. Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. Businesses are taxable according to the activities they engage in and therefore may be subject to more than one tax rate.

Retail Sales and Use Taxes. A sales tax is imposed on retail sales of most items of tangible personal property and some services. The state rate is 6.5 percent and is applied to the selling price of the article or service. In addition, local governments may impose a sales tax. A use tax is imposed on the use of an item in this state, when the acquisition of the item has not been subject to the sales tax. Use tax is equal to the sales tax rate multiplied by the value of the property used. The total sales or use tax rate is between 7 percent and 8.6 percent, depending on the location.

SUMMARY:

The urban stabilization program is created. The program authorizes any city or town to retain a portion of state and local retail sales and use taxes, and business and occupation (B&O) taxes generated within the specified area. The tax revenue is used to assist the city or town in the financing of needed health, safety, and general public improvements within the designated areas and to encourage private development.

The local government process for participation in the urban stabilization program is as follows:

- . A city or town which is termed the sponsor— proposes by ordinance a plan for an urban stabilization project, describing the project, estimated costs, time lines and the proposed boundaries of the urban stabilization district.
- . The sponsoring city or towns holds a public hearing for review and comment.
- . Within 120 days after the hearing, the sponsor passes an ordinance establishing the urban stabilization district and authorizing the project.
- . No revenue may be apportioned for a urban stabilization project no sooner than the first day of the calendar year following the passage of the ordinance by the city or town.

The revenue which may be allocated by the city or town to the project within the specified area is limited to the increase in tax revenue generated the year proceeding the formation of the allocation district. The revenue must be used to pay part or all of project costs, pay into bond funds to pay the principal and interest on general obligation bonds issued to finance a project, or a combination of the two.

The permitted costs under the urban stabilization program include design, environmental analysis, planning, acquisition, site preparation, construction, reconstruction, rehabilitation, relocation, maintenance and operation, security, costs of financing, and administrative costs.

The allocation of taxes under the program is limited to \$5 million annually and 0.2 percent of the state general fund annual budget for all projects statewide. The apportionment of revenue must cease when the revenue is no longer needed to pay project costs or to pay principal and interest on bonds issued to finance the project.

The Department of Community, Trade, and Economic Development must evaluate any proposed urban stabilization project against the following five of the following six criteria: (1) the project is consistent with the local comprehensive plan; (2) the project results in reuse of existing unused or underutilized buildings; (3) the project will eliminate blight or reduce public safety expenditures within the area; (4) the project must be reasonably expected to cause private investment within the area; (5) the project will result in a net increase in employment in the area; and (6) the revenue appropriated to the project is likely to be sufficient to finance the public portion.

The Department of Revenue must evaluate the proposed urban stabilization project to determine if there is sufficient revenue under the project or statewide revenue cap to accommodate the project.

The authority of a city or town to establish new apportionment districts terminates on July 1,

2007.

A city or town is authorized to acquire by negotiation a substandard building, structure, or premises and the associated land. Public or other funds may be used to improve the substandard property. A city or town may acquire property that is adjacent to the substandard property that is acquired as part of the urban stabilization program. The city or town may make repairs to substandard property and place a lien against the property for repayment of repair costs.

Appropriation: None.

Fiscal Note: Requested January 14, 1998.

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