February 19, 1999

BILL ANALYSIS

TO: Members, Committee on Trade and Economic Development

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

RE: HB 1307 - Allocating taxes for community revitalization.

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.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is

Brief Summary of Bill

- Authorizes any city or town to create an apportionment district for the purpose of financing community revitalization projects.
- Allows the use of the incremental increase in B&O taxes and sales/use taxes generated in the apportionment district to finance projects that encourage public and private reinvestment in the district.
- Limits the amount of excise taxes that can be used for an individual project to $5 million annually or a statewide maximum of 0.2 percent of the state general fund budget.

levied on the gross proceeds of sale or the gross income of a business, without any deductions for the cost of doing business. Businesses are taxable according to the activities they engage in and therefore may be subject to more than one tax rate.
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 state and local sales or use tax rate is between 7 percent and 8.6 percent, depending on the location.

SUMMARY:

The community revitalization program is created. Any city or town is authorized 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 must be 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 community revitalization program is as follows:

- A city or town which is termed the sponsor– proposes by ordinance a plan for an community revitalization project, describing the project, the estimated costs, time lines and the proposed boundaries of the apportionment 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 appropriation district and authorizing the project.

- No revenue may be apportioned for a community revitalization 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 appropriation district 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 community revitalization 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 for an individual project is limited to $5 million annually. The total amount available statewide for all community revitalization projects can not exceed 0.2 percent of the state general fund budget. 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 community revitalization project against the following criteria: (i) the project is consistent with the local comprehensive plan; (ii) the project results in reuse of existing unused or underutilized buildings; (iii) the project will eliminate blight or reduce public safety expenditures within the area; (iv) the project must be reasonably expected to cause private investment within the area; (v) the project will result in a net increase in employment in the area; and (vi) the revenue appropriated to the project is likely to be sufficient to finance the public portion.

The Department of Revenue must evaluate the proposed community revitalization 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 February 10, 1999.

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