HOUSE BILL ANALYSIS
HB 2852

Title: An act relating to community revitalization financing.

Brief Description: Providing for community revitalization financing.

Sponsors: Representatives Reardon, Dunn, McMorris, Gombosky, Pennington, Wood, Lovick, Stensen, O'Brien, Linville, Benson, Kenney, Conway, Ogden, Edmonds, Veloria, Santos, Kastama and Lantz.

BRIEF SUMMARY OF BILL

- Authorizes a system of sales and use tax increment financing where apportionment districts may be designated by certain cities and towns within which a portion of the receipts from existing sales and use taxes are diverted from the state, county, and city or town imposing these taxes and given to the cities and towns to finance community revitalization programs within the apportionment districts.

- Authorizes certain cities and towns to impose additional sales and use taxes that are deducted from the state's sales and use taxes and the city or town must use these tax receipts to finance community revitalization.

- Authorizes a new system of property tax increment financing where tax increment areas may be designated by certain cities and towns within which a portion of the receipts from regular property tax levies are diverted from the local governments imposing the property taxes and given to the cities and towns to finance community revitalization programs within the tax increment area.

- Revises the relative status of liens arising from assessments, imposed by a county, city, or town, to pay the costs of removing or repairing unfit dwellings, to a first priority that are paid prior to payment of liens for unpaid taxes.

- Authorizes counties, cities, and towns to provide for community revitalization associated with urban renewal and the removal and improvement of blighted buildings by: (1) Negotiating with the owners of substandard buildings for the government to acquire these buildings and the land on which they are located; (2) expending public and other moneys to improve these properties; or (3) allowing the property owner to make installment payments to the county, city, or town for the costs of these improvements, if the property owner does not

have sufficient finances to pay for the cost of improvements to substandard buildings.

HOUSE ECONOMIC DEVELOPMENT, HOUSING & TRADE COMMITTEE

Staff: Steve Lundin (786-7127)

Background:

A number of programs have been established for community revitalization in counties, cities, and towns. Among other programs, counties, cities, and towns were authorized in 1957 and 1959 to remove or improve unfit or blighted buildings, impose assessments on property owners to pay for these costs, condemn blighted property, and to engage in various urban renewal programs.

State voters defeated proposed constitutional amendments in 1973, 1982, and 1985 authorizing counties and cities to engage in tax increment financing or community redevelopment financing. Tax increment financing or community redevelopment financing is a method of redistributing tax collections within designated areas to finance infrastructure improvements within these designated areas. Enabling legislation was enacted in 1982, along with the constitutional amendment that year, but this enabling legislation was not made contingent on the approval of the constitutional amendment that was defeated that year. The city of Spokane attempted to use this enabling legislation but the supreme court found the statute to be defective in 1995.

Summary of Bill:

Additional mechanisms are provided for certain cities and towns to finance community redevelopment. Only one of these three different mechanisms may be established by a city or town. The status of liens on assessments to finance urban renewal is increased. Counties, cities, and towns are given increased flexibility to engage in urban renewal.

1. <u>Sales and use tax increment financing.</u>

Cities and towns located in a county with population densities greater than 101 persons per square mile are authorized to create apportionment districts within their boundaries where community revitalization within the apportionment district is financed by diverting a portion of the state's sales and use tax collections, and a portion of the county's and city's or town's general sales tax collections, within the apportionment district. The amount of diverted sales and use tax collections only applies to any increase in collections from the sales or use of articles of tangible

personal property in the apportionment district from the collections in the year prior to the creation of the apportionment district. Sales and use tax collections for other purposes are not diverted. Sales and use tax collections on other taxable events are not diverted.

Community revitalization projects include: (a) Infrastructure improvements, including street and road construction and maintenance, water and sewer systems, sidewalks and streetlights, parking, terminal and dock facilities, public transportation improvements, park and recreation facilities; (b) health and safety improvements authorized under the 1957 and 1959 urban renewal laws and in blighted area laws; (c) publicly owned or leased facilities; and (d) expenditures for environmental analysis, professional management, maintenance and security of common or public areas, and historic preservation activities.

A city or town may pledge and use the diverted sales and use tax collections to pay principal and interest on general obligation issued to finance the community revitalization projects.

a. Process to create an apportionment district.

The creation of an apportionment district involves a number of steps.

The initiating city or town adopts an ordinance establishing a plan for community revitalization, with a estimate of the cost, the proposed boundaries of the apportionment district, estimated period for the diversion of a portion of the sales and use tax collections arising within the district, and how the diverted tax collections will finance the project.

Notice of the proposal is sent to the Department of Community, Trade, and Economic Development (DCTED), which reviews a feasibility study of the project paid for by the city or town sponsor based upon six criteria, including consistency with the local comprehensive plan, whether the project will be reasonably expected to cause private development, whether the project will result in a net increase in employment, and whether the apportioned or diverted tax collections will be sufficient to finance the public expenditures. The apportionment district may only be created if the DCTED approves the feasibility study. The DCTED notifies the sponsoring city or town, and the county in which it is located, about its evaluation.

Notice of the proposal is also sent to the Department of Revenue (DOR) which determines if sufficient revenues exist under the appointment cap and notifies the sponsoring city or town, and the county in which it is located, about its evaluation.

A public hearing is held on the proposal. If the county notifies the sponsoring city or town that it does not want to participate, county sales and use tax collections in the

apportionment district will not be diverted.

The sponsoring city or town adopts an ordinance establishing the apportionment district within 120 days after the public hearing. The ordinance must describe the proposed community revitalization project, boundaries of the apportionment district, estimated cost of the project, portion of its costs to be paid from the diversion of the excise tax receipts within the district, and estimated duration of the diversion of the tax receipts.

b. <u>Limitations on apportionment districts.</u>

Caps are placed on the diversion of sales and use taxes. The total of all diverted state sales and use tax collections in all apportionment districts in a city or town may not exceed $5 million per year. In addition, the aggregate total diverted state sales and use tax collections in any year may not exceed two-tenths of one percent (.2%) of the state general fund annual budget. An area may not be included in two apportionment districts that have outstanding bonds.

The authority to provide for sale and use tax increment financing expires July 1, 2007.

2. <u>Additional sales and use taxes.</u>

Certain cities are authorized to impose additional sales and use taxes that are deducted from the state's sales and use taxes within the city if a feasibility study has been approved by the DCTED. Receipts from these sales and use taxes must be used to finance community revitalization within the city.

The maximum rates of sales and use taxes are as follows:

- Any city located within a county with population densities between 100 and 399 per square mile may impose such a sales and use tax of not exceeding 0.033 percent of the selling price in the case of a sales tax or value of the article in the case of a use tax.

- Any city located within a county with population densities between 400 and 699 per square mile may impose such a sales and use tax of not exceeding 0.025 percent of the selling price in the case of a sales tax or value of the article in the case of a use tax.

- Any city located within a county with population densities of greater than 700 per square mile may impose such a sales and use tax of not exceeding 0.017 percent of the selling price in the case of a sales tax or value of the article in the case of a use tax.

3. Property tax increment financing.

Cities and towns located in a county with population densities greater than 101 persons per square mile are authorized to create tax increment areas within their boundaries where community revitalization is financed by diverting a portion of the regular property taxes imposed within the tax increment area. Community revitalization projects include the same projects that may be financed by sale and use tax increment financing.

A city or town may pledge and use the diverted regular property tax collections to pay principal and interest on general obligation issued to finance the community revitalization projects.

The property taxes that are diverted to finance the projects are the regular property taxes imposed within the tax increment area on 50 percent of any increase in assessed valuation that occurs in the tax increment area after it is created. Regular property taxes imposed by local governments on all of the remaining value (the assessed valuation in the year before the tax increment area was created plus 50 percent of any increase in assessed valuation in the tax increment area) are distributed as if the tax increment are had not been created. The state's property taxes are not affected. Property taxes imposed by port districts and public utility districts specifically for bond retirement purposes are not affected. The city or town creating the tax increment finance area may agree to reduce the amount of property taxes that are diverted.

Each taxing district authorized to impose regular property taxes is granted the express authority to provide the public improvements financed by a property tax increment financing, but if the taxing district is not otherwise granted this authority, the additional authority is only provided to the extent the taxing district agrees to participate in the tax increment financing.

The projects financed by property tax increment financing must be expected to encourage private development within the tax increment area and increase the fair market value of real property within the tax increment area. Private development that is anticipated to occur within the tax increment area, as a result of the public improvements, must be consistent with the countywide planning policy adopted by the county under the Growth Management Act and the city's or town's comprehensive plan and development regulations adopted under the Growth Management Act.

Various laws are amended to allow property tax increment financing, including statutes authorizing the state to impose property taxes to finance common schools, the diversion of road district taxes for such purposes without penalizing the distribution of state highway moneys to the county.

a. Process to create a tax increment area.

The creation of an tax increment area involves a number of steps.

The city or town adopts an ordinance designating the tax increment area within its boundaries and specifies the public improvements to be financed. Each taxing district that imposes regular property taxes must sign a written agreement approving the tax increment financing, with the director of financial management signing for the state. A public hearing on the proposal is held. The city or town adopts an ordinance establishing the tax increment finance area.

b. Limitations on property tax increment financing.

The combined amount of tax increment value (50 percent of the increased value) in the tax increment area must constitute less than 2 percent of the assessed valuation of any taxing district within which the tax increment area is located.

Limitations under what is called the 106 percent limitation continue whether or not a tax increment area has been created.

The authority to provide for property tax increment financing expires July 1, 2005.

4. Increased lien priority.

The priority of liens arising from assessments imposed by a county, city, or town, under their existing authority to remove and rehabilitate unfit buildings, is increased to first priority and is paid prior to paying liens arising from unpaid state and local taxes, whenever tax payments are made or proceeds are obtained from the sale of the property through foreclosure or other sale by the county.

5. Expanded authority for agreements with property owners.

Counties, cities, and towns are given expanded authority to provide for community revitalization by: (1) Negotiating with the owners of substandard buildings for the government to acquire these buildings and the land on which they are located; (2) expending public and other moneys to improve these properties; and (3) allowing property owners to make installment payments to the county, city, or town for the costs of these improvements, if the property owners do not have sufficient finances to pay for the cost of improvements to their substandard buildings.

6. Report on use of community redevelopment financing

The DCTED makes annual reports to appropriate legislative committees on the use of community redevelopment financing.

Appropriation: None.

Fiscal Note: Requested January 26, 2000.

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