

# HOUSE BILL REPORT

## ESHB 1418

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### As Amended by the Senate

**Title:** An act relating to community revitalization financing.

**Brief Description:** Promoting community revitalization.

**Sponsors:** By House Committee on Finance (originally sponsored by Representatives Gombosky, McMorris, Mulliken, Pennington, Ahern, Wood, Ogden, Benson, Reardon, Linville, Haigh, Miloscia, Simpson, McIntire, Santos, Rockefeller and Kessler).

**Brief History:**

**Committee Activity:**

Trade & Economic Development: 2/13/01, 2/22/01 [DPA];

Finance: 3/7/01, 3/8/01 [DPS(FIN)].

**Floor Activity:**

Passed House: 3/14/01, 77-20.

Senate Amended.

Passed Senate: 4/9/01, 35-10.

**Brief Summary of Engrossed Substitute Bill**

- Authorizes a new system of **property tax increment financing** where tax increment areas may be designated by a county, city, town, metropolitan park district or port district within which a portion of the receipts from regular property tax levies are diverted away from local governments imposing the property taxes and distributed to the county, city, town, metropolitan park district or port district to finance facilities and programs within the tax increment area.

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### HOUSE COMMITTEE ON TRADE & ECONOMIC DEVELOPMENT

**Majority Report:** Do pass as amended. Signed by 11 members: Representatives Van Loven, Republican Co-Chair; Veloria, Democratic Co-Chair; Dunn, Republican Vice Chair; Eickmeyer, Democratic 1st Vice Chair; Fromhold, Democratic 2nd Vice Chair; Ahern, Gombosky, Jackley, Mulliken, O'Brien and Woods.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Pflug.

**Staff:** Steve Lundin (786-7127).

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## HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill by Committee on Finance be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Cairnes, Republican Co-Chair; Morris, Democratic Co-Chair; Berkey, Democratic Vice Chair; Roach, Republican Vice Chair; Carrell, Conway, Pennington, Santos, Van Luven and Veloria.

**Staff:** Steve Lundin (786-7127).

### **Background:**

State voters defeated proposed constitutional amendments in 1973, 1982, and 1985 authorizing counties, cities, and towns to engage in tax increment financing or community redevelopment financing. Tax increment financing or community redevelopment financing is a method of redistributing property 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 the enabling legislation was **not** made contingent on the approval of the constitutional amendment that was defeated later 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:**

Counties, cities, towns, metropolitan park districts, and port districts are authorized to create tax increment areas within their boundaries where community revitalization projects and programs are financed by diverting a portion of the regular property taxes imposed by local governments within the tax increment area.

Community revitalization projects and programs include:

- Traditional infrastructure improvements, such as: (1) Street and road construction and maintenance; (2) water and sewer system construction; (3) sidewalks and streetlights; (4) parking, terminal, and dock facilities; (5) public transportation facilities; and (5) park and recreation facilities.
- Any other publicly owned or leased facilities that the city, town, metropolitan park district, or port district has the authority to provide.

- Environmental analysis, professional management, planning, and promotion, management and promotion of retail trade activities, maintenance and security for common areas, and historic preservation.

A county, city, town, metropolitan park district, or port district may pledge and use the diverted regular property tax collections to pay principal and interest on general obligations issued to finance the community revitalization projects and programs. A nonpublic participant may be required to provide security to protect the public investment in the tax increment area.

Regular property taxes imposed by all local governments within the tax increment area on **75 percent** of any increase in assessed valuation occurring in that area after its creation are diverted to finance the projects. Regular property taxes imposed by any local government on all of the remaining value (the assessed valuation in the year before the tax increment area was created plus 25 percent of any increase in assessed valuation in the tax increment area) are distributed to the local governments as if the tax increment area had not been created. The state's property taxes are not affected. Most regular property taxes imposed by port districts and public utility districts are subject to this potential diversion, but port district and public utility district regular property tax levies that are allowed specifically for bond retirement purposes are not affected. The county, city, town, metropolitan park district, or port district creating the tax increment finance area may agree to reduce the amount of property taxes that is diverted.

Each local government 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 county's, city's or town's comprehensive plan and development regulations adopted under the Growth Management Act.

Any diversion of county road district regular property tax levies for such purposes is allowed without penalizing the distribution of state highway moneys to the county.

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

A direct or collateral attack on a tax increment area must be commenced within 30 days

of the date the county, city, town, metropolitan park district, or port district publishes a notice that the tax increment area has been created.

The creation of an tax increment area involves a number of steps, as follows:

- The county, city, town, metropolitan park district, or port district adopts an ordinance designating the tax increment area within its boundaries and specifies the public improvements to be financed.
- The tax increment area may not be established unless the taxing districts (including the state) imposing at least **60 percent** of the regular property taxes within this area sign written agreements approving the tax increment financing.
- A public hearing on the proposal is held.
- Any fire protection district with territory located in the increment area must approve the creation of the increment area.
- The county, city, town, metropolitan park district, or port district adopts an ordinance establishing the tax increment finance area.
- Voters of the county, city, town, metropolitan park district, or port district creating the increment area must approve a ballot proposition authorizing the increment area.

#### **EFFECT OF SENATE AMENDMENT(S):**

1) Metropolitan park districts are not allowed to create increment areas.

2) The types of improvements that may be financed using tax increment financing is altered. Only infrastructure improvements, rather than both infrastructure improvements and any other facility that the sponsoring local government has the authority to provide, may be financed by tax increment financing. The types of infrastructure that may be financed is altered to no longer include public transportation facilities, but to include park and ride facilities of a transit authority and storm water and drainage management systems.

3) A technical change is made to the definition of tax allocation value--.

4) The agreement by taxing districts necessary to authorize the tax increment financing is expanded from those taxing districts imposing at least 60%, to those imposing at least 75%, of the regular property taxes on property in the increment area.

5) A ballot proposition authorizing tax increment financing is no longer submitted to voters of the local government creating the increment area.

6) The diversion of regular property tax collections under tax increment financing commences in the year after the ordinance providing for tax increment financing, rather than that date or another date specified in the ordinance providing for tax increment financing.

**Appropriation:** None.

**Fiscal Note:** Not Requested.

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

**Testimony For:** (Trade & Economic Development) This will finance infrastructure and encourage development. This is creative financing. We have lost some economic development to Idaho which uses tax increment financing.

**Testimony For:** (Finance) (In support) Generally the same as in the policy committee.

(Concerns with original bill) Fire districts should have their levies protected from diversion to non-fire protection purposes. Property taxes are the only source of revenue for fire protection districts. Metropolitan park districts should participate in these economic development programs. County's need protection too from diversion of their property tax levies.

**Testimony Against:** (Trade & Economic Development) **Testimony With Concerns:** We have some concerns about only having governments imposing 60 percent (rather than 100 percent) of the taxes having to approve the tax increment financing project.

**Testimony Against:** None

**Testimony Against:** (Finance) None.

**Testified:** (Trade & Economic Development) (In favor) Scott Taylor, Washington Public Ports Association; Perry "Mike" Taylor, Spokane Area Economic Development Council; Todd Milke, Spokane Regional Chamber of Commerce; and Dave Arbaugh, city of Richland.

**Testified:** (Finance) Todd Mielke, Spokane Regional Chamber of Commerce; Roger Ferris, Washington Fire Commission Association; T.K. Bentler, Metro Parks Tacoma; and George Walk, Pierce County.